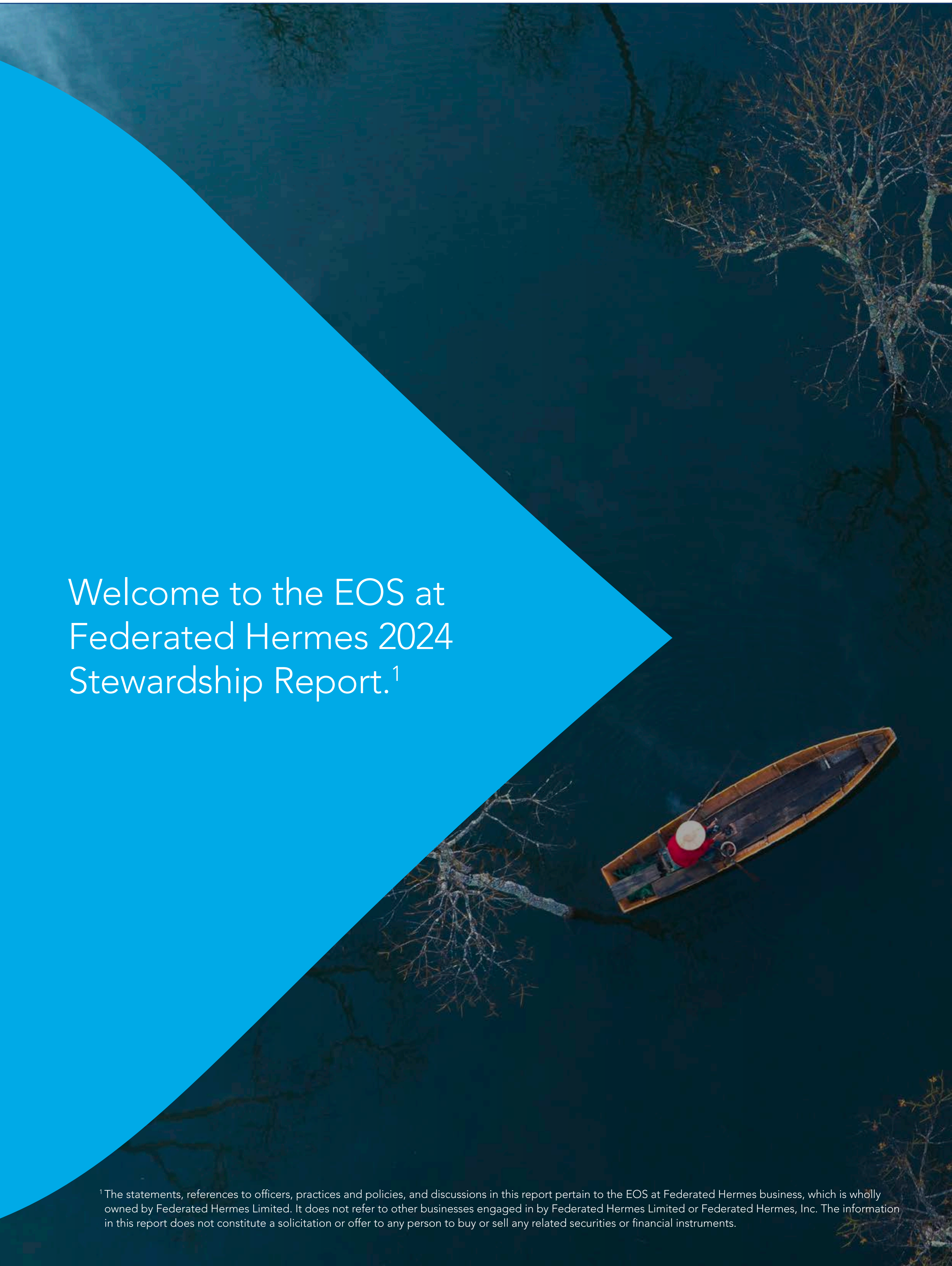
Stewardship Report 2024

EOS at Federated Hermes

April 2025

Federated Hermes
EOS

www.hermes-investment.com
For professional investors only



Welcome to the EOS at Federated Hermes 2024 Stewardship Report.[1]

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

The investment industry can play a powerful role in creating wealth responsibly for investors and in building a better world – and at EOS at Federated Hermes Limited ("EOS"), we believe active stewardship is the best way to achieve this.

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

In 2024, EOS celebrated its 20th anniversary, and we were honoured to win the International Corporate Governance Network's Excellence in Stewardship Award. This was given in recognition of our pioneering systemic engagement approach to reducing methane emissions – work led by Diana Glassman, with support from engagers across the EOS regional teams.

2024 was another turbulent year for the global economy. With the ongoing conflicts between Russia and Ukraine, and in the Middle East, geopolitical instability continued. Despite some relief from inflationary pressures, the economic landscape remained challenging, with the continued stagnation in real wage growth doing little to alleviate the rising "cost of living" faced by many.

The world also experienced its warmest calendar year on record, with average global temperature exceeding 1.5°C above its pre-industrial level for the first time in 2024.[2] This milestone year also saw a series of extreme weather events, including record-breaking heatwaves, droughts, wildfires, and hurricanes in the US, and storms and flash flooding in Europe, Brazil, and Asia, causing billions of dollars in damage. These events underscored the urgent need to limit climate change to 1.5°C.

At the same time, Artificial Intelligence (AI) became a prominent business tool, offering significant productivity gains. However, it also increased energy consumption, posed threats to individual jobs, and introduced new business risks such as unintended bias.

These intertwined environmental and macroeconomic challenges have emphasised the critical importance of our advocacy and stewardship efforts throughout 2024.

Amidst these challenges, 2024 was a remarkable year for elections as voters in more than 60 countries went to the polls.[3] The year concluded with a number of notable losses for incumbents around the world, which is likely to bring new approaches to tackling mega-trends such as climate change, the risks to nature and biodiversity, digitisation and AI, and new policy responses to ease the cost of living and reduce geopolitical conflict. Consequently, in 2024 we maintained our efforts to engage companies and their boards to address these and other sustainability-related trends, ensuring alignment with their fiduciary responsibilities and those of our clients.

The political transitions in key jurisdictions during 2024 marked a change in the regulatory landscape. Following a flurry of sustainability-related regulations in recent years, the new dynamics in the European Parliament helped to shift focus towards competitiveness and simplification of existing regulation in the EU.

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

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

[2] Copernicus, 'Copernicus: 2024 is the first year to exceed 1.5°C above pre-industrial level' (January 2025)
[3] Pew Research Centre, 'Global Elections in 2024: What We Learned in a Year of Political Disruption' (December 2024)

Executive summary

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

— UK Stewardship Code 2020, Financial Reporting Council

Following on from our 2023 Stewardship Report,[4] this report describes our stewardship work in 2024 and the outcomes of these activities. We have followed the structure of the UK Stewardship Code, reporting principle by principle to communicate our policies, processes, activities and outcomes to clients and wider stakeholders. We outline our engagement, voting recommendations, public policy, screening and advisory work carried out on behalf of our clients.

Building on last year's reporting, we have provided insights into our engagement approach on human rights in high-risk regions; highlights of our public policy work in 2024; a detailed update on our collaborative engagement activities with Climate Action 100+; and reflections on our participation at the COP16 Biodiversity summit. Examples and case studies are also provided throughout to demonstrate how our approach works in practice.

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

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

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

Monitoring engagement outcomes is crucial, to ensure that our approach is effective and achieving the desired results. This enables us to demonstrate to our clients that we are maintaining high standards and that stewardship has a tangible impact. We strive continuously to reflect on our efficiency and the outcomes we are delivering in order to identify further ways in which we can improve. Throughout the report we highlight the enhancements made to our approach during 2024, as well as the areas identified for further improvement in 2025.

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

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

[4] EOS Stewardship Report 2023

Principle 1

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

What is EOS and what is our purpose?

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

EOS provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. The team works on behalf of long-term global investors who entrust us with the stewardship of approximately £1.7tn /€2tn /$2.2tn (as at 31 December 2024) invested in over 25,000 listed equity, corporate debt and money market holdings worldwide, working in support of shared goals. This pooling of assets increases the influence we can have with companies, which means we can have a more meaningful impact on the issues of most importance to our clients, whilst also making it efficient for companies to engage with their investors.

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

Our origins, culture and values

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

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

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

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

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

Creation of three platforms

The business has created three distinct platforms to facilitate the expansion of the private market offering and to drive responsible investing and ownership. These are:

- The Public Markets platform – incorporating FHL's Equities and Fixed Income & Multi Asset products and solutions.
- The Private Markets platform – incorporating Private Equity, Private Debt, Real Estate and Infrastructure.
- The Responsibility platform – which includes EOS at Federated Hermes Limited, plus FHL's advocacy team, research, ESG integration and some client advisory activities.

These are supported by all the existing functions necessary to deliver a great client experience – Audit, the Client Group, Compliance, Corporate Communications, Facilities, Finance, HR, Legal, Marketing, Product, Risk, Sales, Sales Support, Tax and Technology.

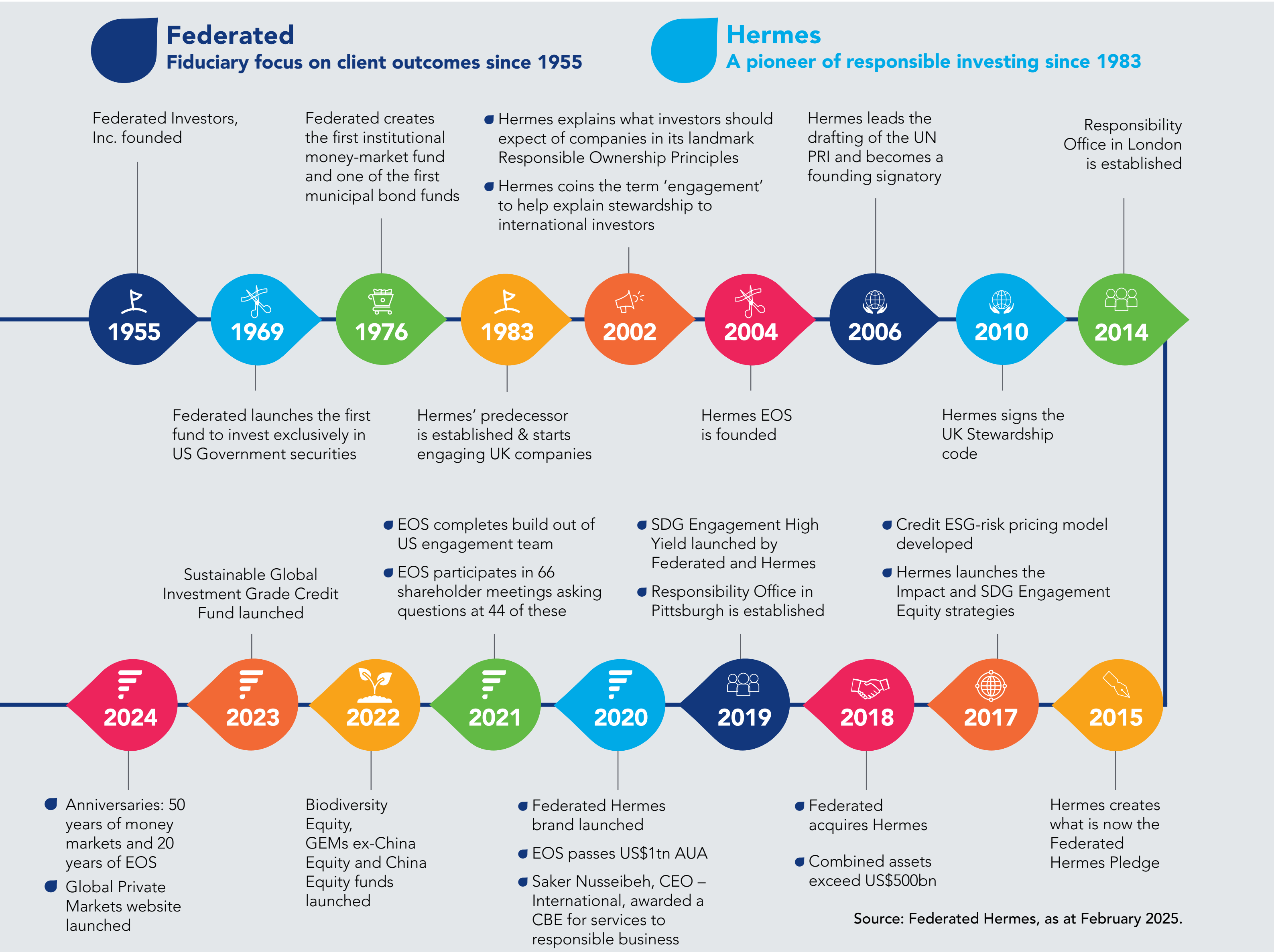
In 2025, FHL will continue to put in place a plan for the sustainable development and growth of this three-platform franchise, placing clients firmly at the heart of what we do.

Purpose and strategy

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

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

At a time of great change, both technological and geopolitical, it is important for our stewardship team to engage with companies to help them navigate the best pathway to create enduring wealth, responsibly. This is particularly important in the face of concerns about the integration of sustainability-related issues into corporate and investment strategies. Having long pioneered a responsible investment and ownership approach, we have demonstrated the value of engaging with companies on their strategy, including material sustainability-related topics, to release value for shareholders and stakeholders alike and create wealth responsibly over the long term.



Source: Federated Hermes, as at February 2025.

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

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

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

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

Our business model

We offer a shared service model that provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. We work on behalf of long-term global investors who entrust us with the stewardship of over US$2.2tn of assets invested in over 25,000 companies worldwide, working in support of shared goals. Pooling of our clients' assets increases the influence we can have with companies and this increased leverage means we can have a more meaningful impact on the issues that are most important to our clients. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

EOS engagement strategy

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

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

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

We aim to strategically engage on the most financially material risks and opportunities. We select approximately 315 companies for our Engagement Plan to focus our proactive engagement efforts by screening our clients' aggregate holdings. We look at the holding size, the materiality of risks/issues we identify through our screening, and the feasibility of engagement. This may be in response to a client request, on voting or ad hoc issues, or for companies violating, or at risk of violating, international norms, as identified by our screening tool. We also cover this in more detail under Principle 2.

Our services

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

[5] EOS library | Federated Hermes Limited

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

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

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

In an industry where greater focus and awareness at the asset owner and beneficiary level has prompted a push for more transparency around engagements, clients of EOS are able to use the Plan to demonstrate that the engagement we carry out on their behalf is with companies and on themes that have been chosen in a systematic way. This is paramount in demonstrating how we contribute to asset managers and asset owners fulfilling their duties under the Code.

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

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

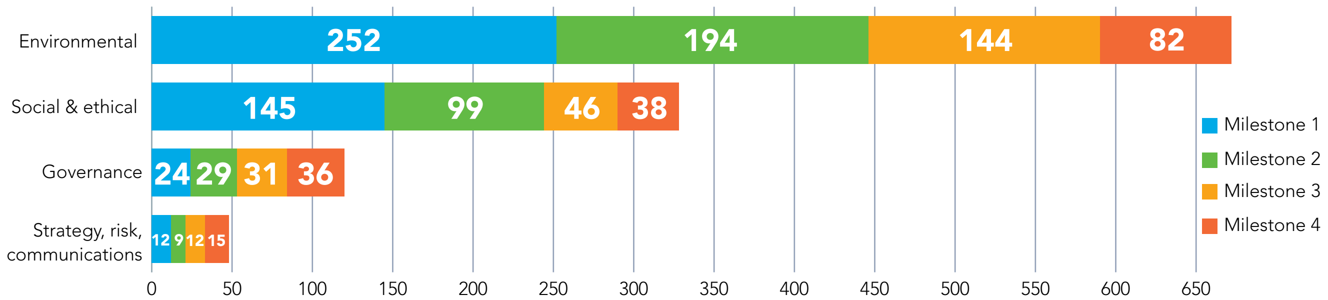
An assessment of how effective we have been in serving the best interests of our clients

Overview of our service for clients during 2024

Throughout this report, we seek to demonstrate that the outcomes of our stewardship are in the best interests of our clients. We believe that as an integral part of investing for the long term, this delivers enduring, long-term growth responsibly and helps to build a better world. The table and graphic below demonstrate that during 2024, we engaged with 994 companies, covering 4,267 identified objectives or issues, and 839 objectives advanced by at least one milestone within our engagement programme, on behalf of our clients.

Our engagement activity in 2024 reflects a similar number to 2023 with reference to the number of issues and objectives that we discussed with companies. Some 67% of assets under advice were engaged in 2024 versus 68% in 2023. Our engagement with companies equates to 63% of the value of the MSCI ACWI All Cap index.

	# of companies engaged	# of issues and objectives engaged	# of objectives engaged	# of objectives completed
Engagement Programme (core)	312	2,155	864	98
Other companies	682	2,112	676	73
Grand total	**994**	**4,267**	**1,540**	**171**



Source: EOS data

6 EOS library | Federated Hermes Limited

Over the course of 2024, FHL and EOS responded to 56 consultations or proactive equivalents from regulators, policymakers and industry initiatives. We have a number of governance structures and processes in place that help us in the assessment of serving the best interests of our clients, which we explain in more detail under Principle 2.

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

Under Principle 5, we outline the range of qualitative and quantitative reporting we provide for our clients. This includes company case studies of our engagements, some of which we publish on the Insights[7] page of our firm's website. In 2024, we produced 81 standalone case studies and additional summary versions in our other reporting.

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

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

CASE STUDY: ENVIRONMENTAL

National Grid – Greenhouse Gas Emissions Reduction

National Grid is a British utility company.

We have been engaging with National Grid on the robustness of its climate strategy. We expect National Grid to effectively manage climate risks and embrace climate opportunities from the energy transition – by demonstrating alignment of its emissions reduction targets to a 1.5°C scenario. Since 2022, we have been communicating our aspiration for the company to expand its targets to comprehensively cover its material emissions. In particular, we emphasised the importance of the targets fully addressing Scope 3 emissions, especially considering commercial uncertainty over the shape of the transition. We also emphasised the need to include fossil-fuelled power stations in the coverage of such targets.

We highlighted the importance of external validation of the target to provide greater levels of assurance to investors on the company's commitment. We met with the company in 2022 and questioned why it had not moved as quickly as peers on target validation, but we obtained reassurance that the company was working with the Science Based Targets initiative (SBTi) on establishing an approach for a gas utility.

We continued to encourage comprehensive and externally-validated 1.5°C-aligned targets at the group level through collaborative meetings as part of the Climate Action 100+ and individually in 2022 and 2023.

In 2024, we met with the chief sustainability officer and were pleased to see that SBTi had validated the company's group-level near-term targets as being aligned to 1.5°C. This provided reassurance that the targets had captured all fossil-fuelled power stations and downstream Scope 3 emissions from the US gas business. This high-level ambition is supported by a significant capital expenditure plan, focused on energy transition opportunities and overwhelmingly aligned to the EU taxonomy. We showed support for this advancement by recommending supporting for the say-on-climate proposal at the 2024 AGM.

We encouraged the company to go one step further on its transition planning, including breaking down its decarbonisation levers for the US gas business, which remains an area of some uncertainty. Nonetheless, in line with best practices, the company cited policy dependencies for its transition towards these targets in line with its commercial and fiduciary goals, which we were pleased to see were communicated clearly and should inform effective advocacy efforts. We will continue to engage the company on the implementation of its transition plan.

(Published October 2024)

[7] EOS Insights | www.hermes-investment.com
[8] EOS Library | www.hermes-investment.com

CASE STUDY: SOCIAL

Roche Artificial intelligence

Roche is a Swiss healthcare company.

Our aim for Roche was to develop and publish principles on how it uses artificial intelligence (AI). We began engaging with the company on this issue in 2020, discussing its management of ethical risks associated with the use of AI. We shared a copy of our paper setting out investors' aspirations on responsible AI and data governance to outline what we would expect.[9]

In subsequent engagements in 2022 to 2024, Roche showed its advanced thinking on this topic. For example, it explained that the collection of millions of patients' data reduced bias but that fair demographic representation remained an issue in the industry. The company was working with ethicists to ensure that datasets used in algorithms were representative of the entire population.

In 2023, we continued to challenge the company on the development and disclosure of its AI policy. In July that year, we asked for a further update. Whilst the company had recently published its data ethics principles,[10] this document excluded concepts relating to AI as the company considers that this complex topic is worthy of a separate future guidance document.

In a 2024 engagement meeting, we welcomed the publication of a new document[11] with a set of principles to guide the ethical use of AI as this is something we had been requesting for several years. We noted the CEO's letter in the latest annual report indicating the increased use of AI at all stages of the drug development process.

Following our last engagement with the company, we agreed to discuss AI in greater depth at our next meeting

(Published September 2024)

CASE STUDY: GOVERNANCE

KH NeoChem Co. Number of female directors on the board

KH Neochem is a Japanese chemicals company.

As of 2022, the KH Neochem only had one female director and we engaged with the company to increase its board gender diversity. We began our engagement on this issue in 2022 where we provided the company with our voting guidelines, detailing our aspiration for it to increase gender diversity on the board in the short term and encourage the company to achieve 30% gender diversity on the board by 2030.

We followed up with an engagement with the CFO in 2023, asking the company what its plans were to raise board gender diversity. The company acknowledged our aspirations and noted that although it aims to increase female directors, its candidate pool is limited. We also encouraged the company to set a target for female directors and at executive level, implement unconscious bias training for employees, including male colleagues, and strengthen paternity leave uptake to support female progression within the company.

We had a follow-up meeting with the CFO later in 2023 and we continued to engage with the company, noting that our voting policy for 2024 looks for at least 15% board gender diversity. We also encouraged the company to increase the childcare leave figure for male employees to 100%.

Following our engagement, the company acknowledged our encouragement for the company to increase gender diversity on the board. In 2024, the company announced that it would be transitioning the board structure from a traditional two-tier board with statutory auditors to a board with an audit committee, increasing the ratio of female directors on the board to 22%. We welcomed the transition but also communicated our aspiration for the company to adopt a board with three committees, detailing our desire for effective board and 30% gender diversity on the board by 2030.

(Published September 2024)

[9] EOS, "Investors' Expectations on Responsible Artificial Intelligence and Data Governance" (April 2019)
[10] Roche, "Roche Data Ethics Principles" (March 2023)
[11] Roche, "Roche Artifical Intelligence (AI) Ethics Principles (December 2023)

CASE STUDY

AstraZeneca

AstraZeneca is one of Europe's leading pharmaceutical companies. In 2014, as part of its defence against the Pfizer takeover bid, it announced an ambitious revenue target. We engaged on the robustness of succession planning and compensation alignment.

Our engagement

In 2014, we initiated engagement on the company's long-term revenue target, which was the basis of its defence against Pfizer's takeover bid. We signalled the importance of shareholders holding the board to account on this commitment, and heard of the chair's intention to tie management incentives to long-term targets.

We held regular meetings with the company between 2015 and 2024, including with the chair, to ensure that progress was made. We were given assurances over the commitment to tie remuneration to the long-term strategy. We encouraged the company to disclose performance against confidential metrics in the long-term incentive plan (LTIP), noting that this would provide transparency and accountability while protecting commercial interests.

By 2019, the company had made notable improvements, including the simplification of the bonus structure and greater disclosure on targets, thresholds, performance and outcomes. We also discussed succession planning for the CEO. With the chair also likely to reach the end of his tenure, we raised concerns about the senior independent director's capacity to effectively support the CEO succession, given his additional roles as remuneration committee chair, and CEO of another company.

We believed that robust succession planning at the CEO and board level was essential to ensure strategy consistency. While the CEO's departure was still a few years away, we highlighted our concerns, but heard that the company was confident in its internal talent pool, and that the CEO was focused on ensuring business performance post-departure.

We met the outgoing chair in 2021 and reviewed the progress on CEO succession planning, again hearing that the company was confident in its internal pipeline given that the CEO had retained a strong executive team. In 2023, we requested greater clarity over the progress made, including how far the company had gone to identify and develop internal candidates, especially with the CEO's 11-year tenure coming under the media spotlight.

Changes at the company

In April 2023, we welcomed the appointment of one of the existing board directors as chair. We were also pleased to learn that the company had achieved its ambitious target, announcing annual revenues of US$45.8bn. In April 2024, AstraZeneca became the UK's largest public company by market capitalisation.

Early in 2024, we met the new chair to gain an understanding of the strength of the internal pipeline for the CEO succession. We were pleased to hear that the chair was working to ensure that candidates for the role had gained experience across the business ahead of the formal selection process. We obtained reassurance over the diversity of this pipeline and that the company was also looking at external candidates.

Throughout our engagement on CEO succession planning, we raised concerns about the high level of variable pay, which increased significantly as recently as the 2024 AGM. The company had consistently justified such pay levels to retain a high-performing incumbent in a competitive global environment. We recognised the global competition for talent, but were not convinced that delivering such significant pay increases was warranted, especially if a robust internal CEO pipeline was available, as the company claimed.

This led us to recommend voting against the proposed remuneration policy at the 2024 AGM. Afterwards, we met the chair and obtained reassurance that a future CEO would not necessarily be remunerated under such a generous performance plan.

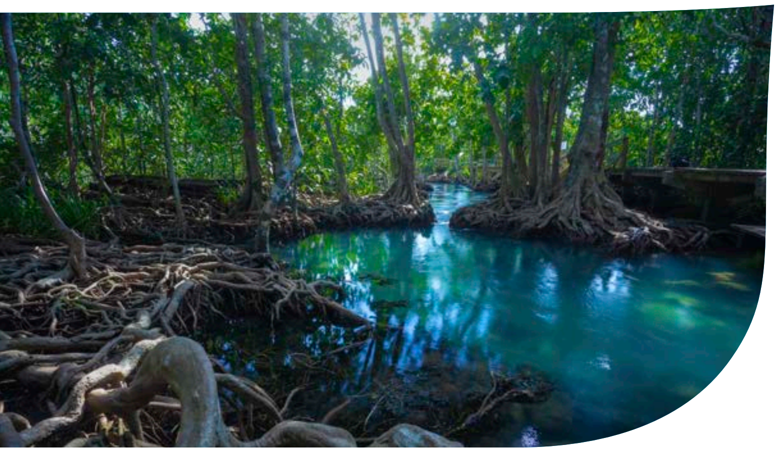
We also asked how the company would approach its next phase of growth. The chair espoused a strong continuity message, which was followed by the setting of another stretching revenue target of $80bn for 2030.

(Published December 2024)

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

In 2023 and 2024, we collaborated with clients to deliver added value including momentum indicators, an improved screening service, enhanced features on the client portal and easier access to publicly available external information sources.

We believe in the value of in person and onsite engagement to build a strong understanding of companies. In 2024, we engaged in-person in countries including the UK, United States, Japan, China, Hong Kong, Australia and across Europe. On our priority themes, we saw good progress against our Engagement Plan's objectives, with some notable highlights detailed later in the report.



Client focus themes

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

Central to this is updating our Engagement Plan on an annual basis, which outlines our objectives for a three-year period to be carried out on behalf of clients. The Plan incorporates our clients' common and specific objectives, building on their feedback and input, plus changes in the market and the regulatory environments in different countries and sectors. Based on this, over 2025 we will continue our focus on the same four priority themes as in 2024:

Climate change: Subject to local laws and applicable requirements, the emphasis of our engagement remains focused on companies having a strategy and greenhouse gas emissions reduction targets aligned to the Paris Agreement, to limit climate change to 2°C and pursue efforts towards 1.5°C and take advantage of the opportunities where commercially feasible. Specific areas of focus will also include engagement with high methane emitting sectors and standard setters to ensure best practices in methane management; the technology sector to take action to mitigate emissions associated with the high energy demand for AI-related services; all relevant sectors to build resilience to physical climate risks; and work towards a 'just transition' for employees and communities. We will continue to support best practice standards via the Institutional Investor Group on Climate Change (IIGCC).

Human and labour rights: We encourage companies to acknowledge the likelihood that human rights impacts are present within some operations and supply chains and to demonstrate appropriate board- and executive-level governance in order to minimise operational disruption, potential legal disputes and maintain their brand value and social license to operate. We will further focus on protecting indigenous and community rights and human rights in high-risk regions such as disputed territories or areas of conflict. We are also increasing the focus on the protection of digital rights in the virtual world, such as challenges to the right to data privacy and the right to freedom of expression and protection from unfair biases, which the use of AI may amplify.

Human capital: Subject to local laws and applicable requirements, we are intensifying our engagement on upskilling and reskilling workers, and we will maintain our focus on inclusion and representation, asking companies to develop a performance value adding approach and action plan to close the ethnic pay gap, ensuring equal pay for equal work and achieve merit-based proportionate ethnic and gender representation at all levels. We will also challenge companies to consider an expanded range of inclusion metrics beyond representation and extend our engagement on health and safety to mitigation of climate-related risks in the workplace.

Board effectiveness and ethical culture: In 2025 to enhance the quality of board performance, which is foundational to good corporate decision-making, we will look to boards to set their risk appetite to be aligned with the company's strategic goals. Additionally, we will continue to seek merit based and performance driven improvements to ethnic diversity building on the progress of gender diversity, with the goal to achieve representation reflective of the full spectrum of the stakeholders it aspires to serve.

For the past three years, the results from our annual survey and feedback for the future of the Engagement Plan have seen our clients shift towards a preference for higher intensity engagement, i.e. depth versus breadth, to which we have responded by reducing the number of companies engaged by approximately 20% while maintaining the same level of actions across all companies, resulting in more actions per company.

In 2024, we undertook an updated survey that focused on client service, but also incorporated questions on our reporting and communications. All respondents said that they were either very satisfied or satisfied with their overall relationship with EOS.

External evaluation

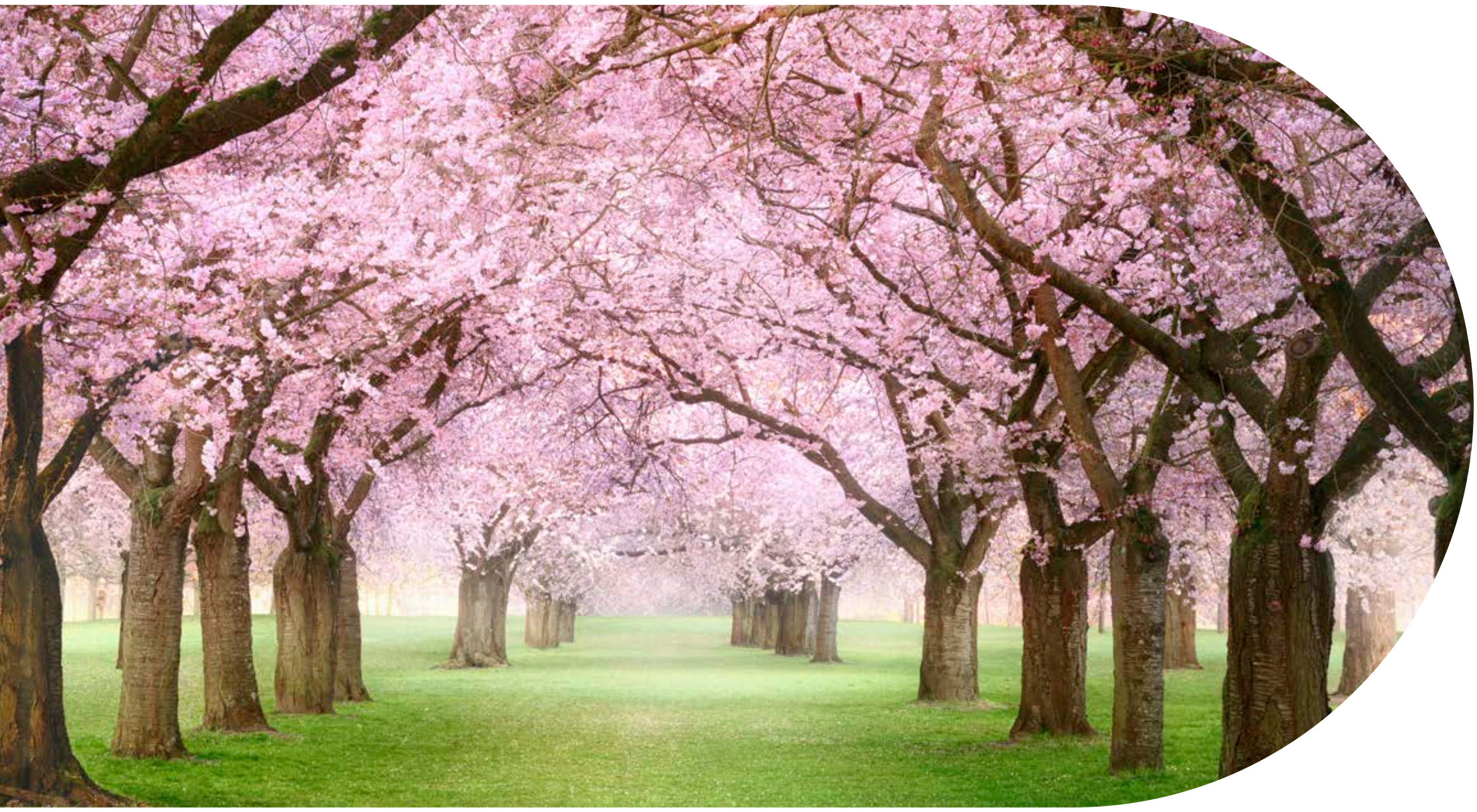
EOS did not report under the PRI Reporting Framework in 2024 as reporting for all service providers has been paused since 2021. However, our stewardship work was partly reflected within the FHL results. As FHL had already met the minimum requirement for reporting in 2023 and previous years, PRI reporting was not completed in 2024. In 2023, FHL received five stars in the Policy Governance and Strategy, Fixed Income Corporate, Fixed Income Securitised, Fixed Income Private Debt, Real Estate and Infrastructure modules.[12]

Studies conducted by teams over the past years at FHL show strong correlations between corporate responsibility and shareholder returns. Using the FHL global equities team's QESG score, which combines quantitative ESG research from a range of data providers with engagement insights from EOS, a 2019 study found that instruments from issuers with higher ESG scores had narrower credit default swap spreads, indicating a lower credit risk.[13] Prior FHL studies showed that companies with poor governance practices underperform their peers and that companies with good or improving social characteristics tends to outperform their lower-ranked competitors.[14]

In an award-winning study conducted by Professor Andreas Hoepner et al in 2023, which uses EOS data, the authors found that engagement on ESG issues reduces companies' downside risk.[15] To disentangle this relationship, the researchers compared a treatment group of engaged companies with a control group of companies comparable in key characteristics to the treatment group, except that they had not been targeted by EOS.

Hoepner and his co-authors also found that engagements around environmental topics, primarily climate change, offered the largest potential for risk reduction. Taking this a step further, the findings of the study indicated that firms exposed to engagement experience an actual reduction in exposure to risks from environmental incidents. The number of incidents for those companies targeted by engagement falls by 26% post-engagement.[16]

Reinforcing EOS's approach of prioritising personal meetings with senior company executives and board members, the 2017 independent study *Talk is not Cheap* found that engagement with chairs was the most important factor when seeking to promote change at companies.[17] The study further showed that, on average, for each additional personal meeting, the chance of progress in engagement increases by about 5%.[18]



[12] As FHL had already met the minimum requirement for reporting in 2023 and previous years, we did not complete the PRI reporting in 2024.
[13] 7 - pricing-esg-in-sovereign-credit-q3-2019.pdf
[14] Hermes: ESG investing - It still makes you feel good, it still makes you money; 4 - hermes-esg-investing-2018.pdf
[15] ESG shareholder engagement and downside risk | Review of Finance | Oxford Academic
[16] ESG shareholder engagement and downside risk | Review of Finance | Oxford Academic
[17] Hermes EOS - Research Report - Sep 17
[18] Hermes EOS - Research Report - Sep 17

Principle 2

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

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

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

EOS is represented on the FHL Sustainability Regulations and Stewardship Oversight Committee (SRSOC), which is accountable to, and reports to, the CEO. This is a formal oversight committee responsible for overseeing the formulation and delivery of the Federated Hermes engagement and voting policy for all equity funds, as well as the services provided by EOS. The members include the Head of Responsibility (chair), Senior Public and Private Markets Investment Representatives, and representatives from each of our Risk, Compliance and Legal teams.

Day-to-day operations

Day-to-day operations are managed by the EOS leadership team. This consists of the following senior members of the EOS team: FHL's Head of Responsibility & EOS, the Head of Stewardship, the Global Head of Institutional Clients, the Head of EOS Client Service and Business Development, the Director of Business Management, FHL's Managing Legal Counsel and the regional team leads for stewardship in each of North America, Europe, and Asia and Emerging Markets.

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

Client-integrated governance

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

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

Ensuring quality and accuracy for effective stewardship

Quality engagement through trusted relationships at the most senior levels

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

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

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

This approach to promote effective stewardship is also supported by literature on stewardship suggesting that engagement is most effective if it occurs at the right level and with the appropriate resources. Under Principle 1, we highlighted how, using EOS' engagement data, academics found that engagement on governance, environmental and social issues reduces companies' downside risk, with engagement on environmental topics offering the largest potential for risk reduction. We also evidenced another study

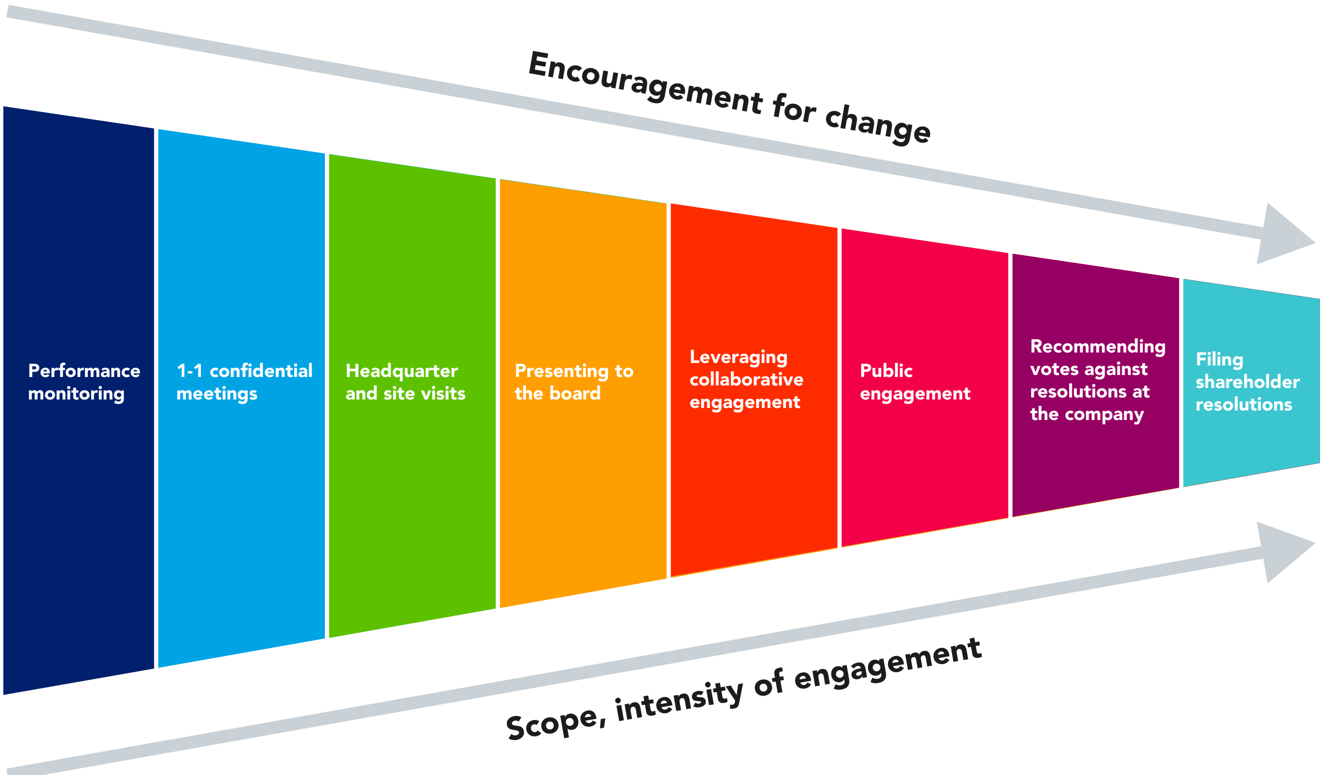
from 2017, which found that: chair meetings are especially important for successful governance engagements; and for each personal meeting, the changes of progress in engagement increases by about 5%.[19]

Escalating our engagement at the appropriate time

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

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

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



[19] Hermes EOS - Research Report - Sep 17

CASE STUDY

Engagement escalation

The company is an Australian oil and gas company that engages in the exploration, evaluation, development, and production of hydrocarbon and oil and gas properties.

We met with the company three times between the 2022 and 2024 AGMs, providing suggestions and highlighting gaps in the company's climate plan, notably the overreliance on the use of offsets, the relatively limited ambition on emissions reduction targets, the absence of actions to address Scope 3 emissions, and limited evidence of the economic resilience of its hydrocarbon strategy.

Unfortunately, the release of the company's updated 2024 climate transition action plan did not demonstrate material progress in addressing these concerns

After our AGM recommendations, we wrote to the chair to explain our recommendation and highlight the remaining gaps in the energy transition strategy, focussing in particular on plans for how the company is positioning itself for long-term cost and emissions competitiveness. We explained that it remains challenging to assess business resilience and pipeline outlook without transparent, quantitative investment guardrails, such as maximum break-even prices, cost disclosures, and pre-final investment decision stress testing assumptions.

In 2025, we met the chair and he thanked us for a constructive letter raising concerns on the company's management of climate-related financial risks and opportunities. We continued to reiterate our concerns that investors find it challenging to ascertain unit economics and the resilience of the business through different energy transition scenarios, especially considering the scale of expansion.

Resourcing our stewardship service

Our organisation and team

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

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

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

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

The EOS team has strong gender diversity (56% female / 44% male for permanent staff as at 31 December 2024) and draws on a wide range of skills and backgrounds.

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

- **Banking**
- **Corporate governance**
- **Law**
- **Corporate strategy**
- **Sciences**
- **NGOs**
- **Academia**
- **Human rights**
- **Climate change**

Our ability to engage with company representatives in the local language, and an understanding of local culture and business practice, are critical to the success of our engagement work. Within our team we have nationals from a range of countries, and fluency in 17 different languages. The team's skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards. Intervention at senior management and board director level should be carried out by individuals with the right skills, experience and credibility.

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

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

Within the EOS team, we have delivered a training programme of educational sessions, some of which were also offered to the wider FHL/FHI teams. These sessions are offered with the intention of sharing knowledge across different sectors and themes to facilitate a cross-pollination of expertise. Examples of this included sessions on physical climate change risk, and nature and biodiversity. The training also provides exposure to areas of the business that the team would not necessarily have otherwise.

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

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

1. **Induction** – these training modules introduce members of the EOS team, either recent joiners or longer-tenured employees, to activities undertaken by different departments within EOS. These include areas such as client relationship management, communications and marketing, the Engagement Plan and Programme, the engagement process and research.
2. **Sectoral** – members of the EOS team offer educational sessions covering different sectors, including banks, energy and pharmaceuticals. In 2024, EOS ran 39 of these sessions, which were also attended by investment analysts. These sessions covered 15 different industry working groups consisting of investment professionals and engagers, in which the format is to discuss two companies from a fundamental and an engagement perspective.
3. **Thematic webinars** – we hosted five thematic webinars exclusively for the EOS team. These covered topics such as biodiversity, digital rights/AI and the supply chain.
4. **Deep-dive thematic** – EOS team members delved into detail on climate change, covering areas such as Scope 4 and avoided emissions, carbon credits, and offsetting.

Diversity and inclusion across the wider firm

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

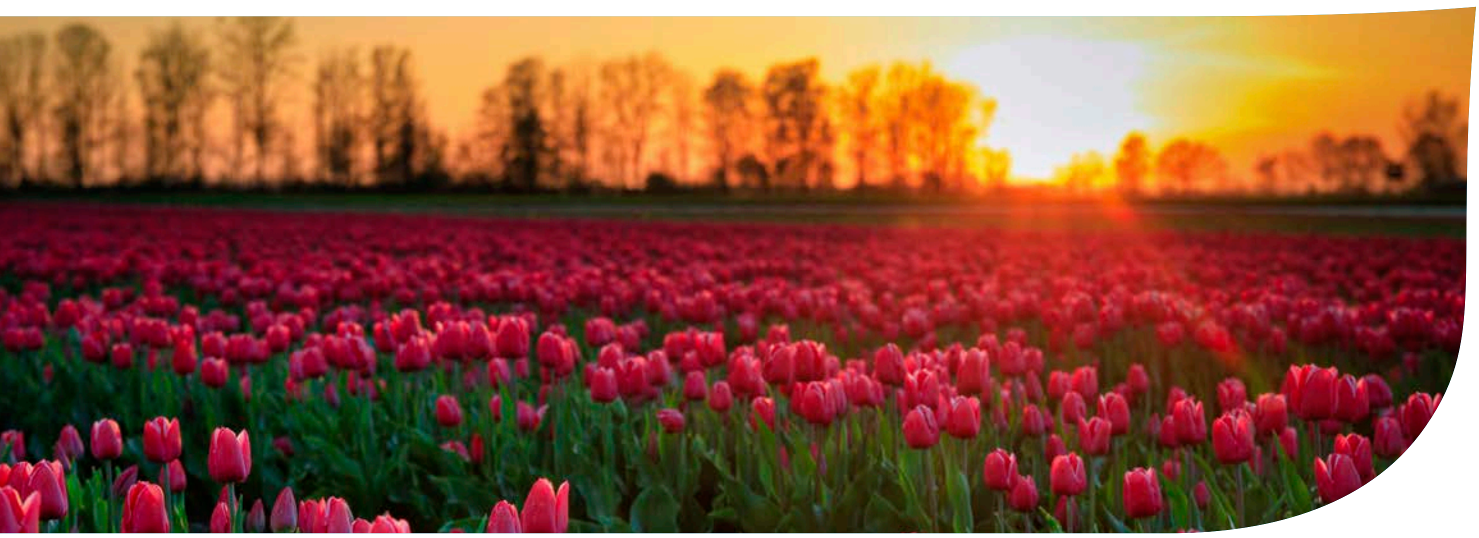
In 2024, the SMT continued to focus on the D&I Strategy's six core objectives (see below), led by the D&I Office with the support of the seven Community for All employee resource groups. We maintained our mission to foster and promote a culture of inclusion which celebrates all forms of diversity. We aim to appeal to, and retain, a diverse workforce. The D&I Strategy's six core objectives:

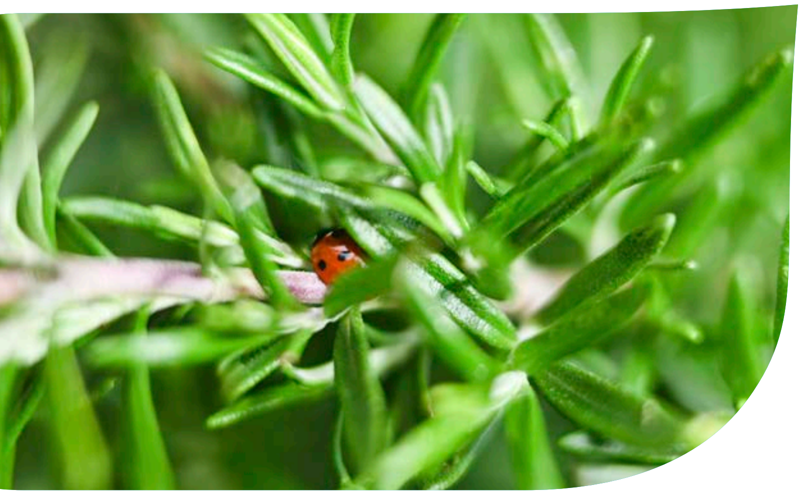
- Employee Engagement Project
- Mental Wellness Project
- Baseline Demographic Project
- External Charters Project
- Disability Project
- Menopause Project Team

In support of promoting an inclusive environment FHL launched several initiatives, in addition to other previously established programs and initiatives. In 2024, these included:

- Running several workshops and masterclasses on topics such as Managing Burnout; Thriving with Neurodiversity; Managing your Gut; Financial Wellbeing; Female Empowerment; and a Making Your Pension Work For You workshop facilitated by our pension provider Aviva.
- Organising an 'Our Story' event where three colleagues shared their personal family experience of Alzheimer's. This was in recognition of National Carers week and in conjunction with our charity of the year Alzheimer's Research UK.
- Celebrating International Women's Week with a panel event and also celebrating several other international and cultural events throughout the year.
- Holding Mental Health First Aider (MHFA) training and MHFA refresher training.
- Launching the Fertility and Miscarriage toolkit.

FHL have continued to collaborate with specialist organisations – including Beyond Education, 10,000 Black Interns, GAIN, and Change 100 – to provide internship opportunities for individuals from underrepresented communities. In the summer of 2024, we launched our intern programme for university undergraduates to gain work experience and exposure of the industry, with a long-term view of building up an early career talent pipeline. Ten colleagues participated as mentors in





Envision, an external mentoring programme of structured activity for students aged 16-18 who are often under-represented in the world of work to develop the essential skills and confidence they need to succeed.

EOS also has a "Women @ EOS & RO" group, an informal but well-attended collaborative space for women to support each other on issues relating to women inside and outside the workplace.

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

We are committed to having the best talent. This means attracting, developing, and retaining individuals from all backgrounds. Initiatives conducted in 2024 include: the launch of our Women in Leadership series; continued rollout of inclusive recruitment training for managers; running monthly Introduction to Culture workshops for all new employees; providing secondment opportunities; promoting internal and external mentoring schemes; and continuing to run the management development programme.

The firm continues to commit to voluntary UK charters and pledges including the Women in Finance Charter (WIFC); BITC Race Charter; Change the Race Ratio; Menopause Workplace Pledge and Accreditation; and being a Disability Confident Level 2 employer. In 2024, FHL achieved the Menopause Friendly Accreditation.

FHL remain fully committed to supporting the Women in Finance Charter and its objective of attaining gender balance across all levels of financial services. FHL has seen increases in the proportion of women at firm-wide and senior management level (by 2% respectively in 2024). In 2024, FHL also maintained our 40% Board level representation achieved in 2023.

Looking forward, we are working to the following goals on the basis of merit by end of June 2030:

- Increase our senior management female representation to within a 40-50% range
- Increase or maintain our board female representation within a 40-50% range
- Increase or maintain our overall firm-wide representation within a 40-50% range

We feel that these new goals better align with the market and societal conditions in which we operate and the flows of talent into and across our industry. We continue to work with our external partnerships to address these shared challenges and opportunities.

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

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

Systems

We have invested in systems and processes to ensure effective stewardship. EOS has an online Engagement Management System, allowing us to accurately record, track and report on our engagement work. It also ensures that the history of our engagement is available for any member of the team who may be new to leading a company engagement.

Engagement process

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

To understand financial connectivity, company research is necessary. We must have a clear idea about the case for engagement and what the engagement objectives and other issues we will want to address with the company should be. Resources for research could include records from previous calls/meetings with the company, information from research providers, sector/country/theme team consultations, or information from our proxy adviser, for example.

How do we prioritise and seek change?

Our process for prioritising our engagement intensity is based on materiality of identified risks. We categorise our Engagement Plan companies using a tier system, which defines the minimum number of interactions we expect to have with a company during a year. This allows us to set objectives that are SMART (specific, measurable, achievable, realistic, timebound) – defining the measurable change that we want the company to achieve. An objective is regularly reviewed until the company has implemented the change requested or it is discontinued. An objective may be discontinued if, for example, it is no longer feasible, material, the company has not responded or it has disagreed. We may engage with a company on multiple objectives at any one time. Each objective relates to a single theme and sub-theme.

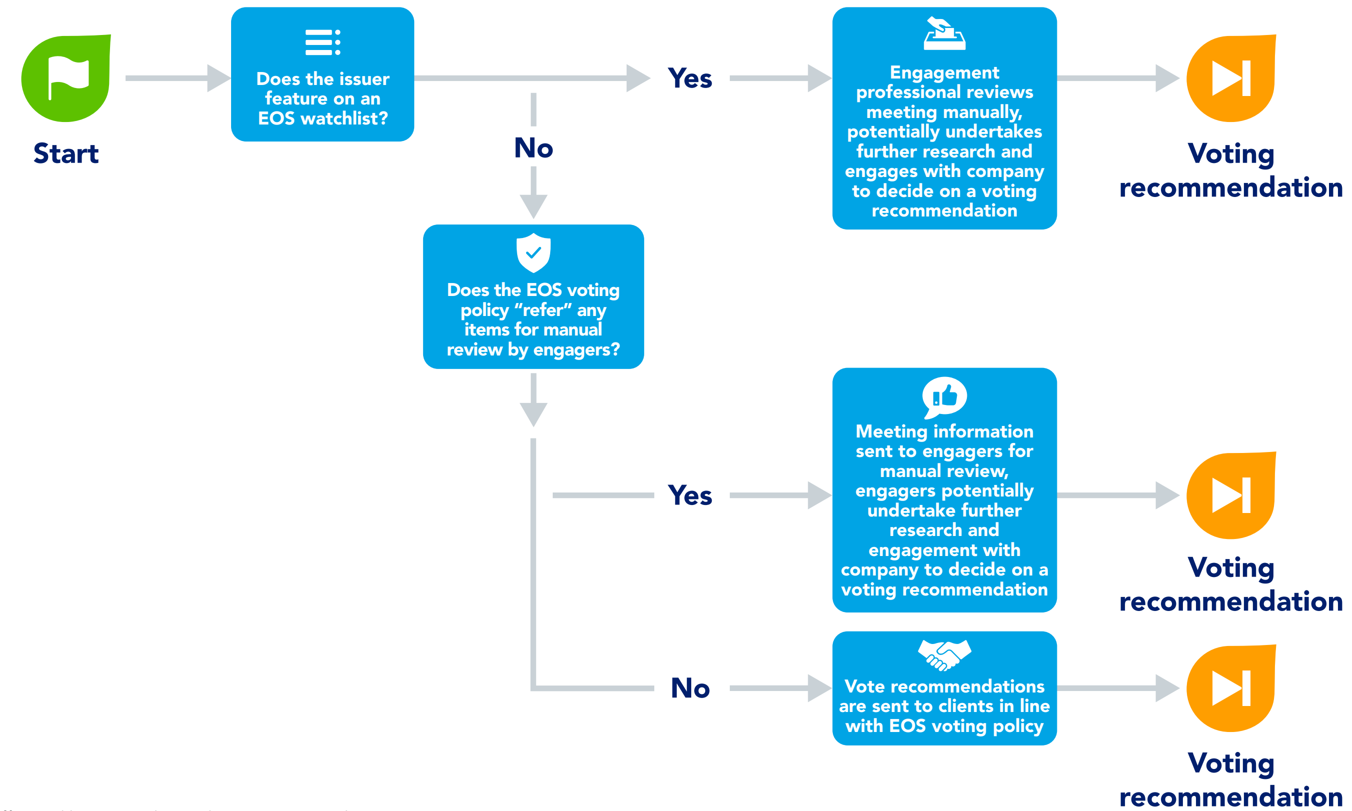
Our four-stage milestone system, outlined in the graphic, allows us to track the progress of the changes we are seeking. Progress is assessed regularly and evaluated against the original engagement proposal. This system was developed in response to client feedback, as clients wanted us to demonstrate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

Voting recommendations

EOS offers voting recommendations for company meetings on behalf of its proxy voting clients. Our Global Voting Guidelines[20] inform our recommendations. The Guidelines reference Governance, Environmental and Social factors and aim to harness voting rights as an asset to be deployed in support of achieving engagement outcomes.

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

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



[20] EOS library | Federated Hermes Limited

Our voting recommendation services are provided in collaboration with Institutional Shareholder Services Inc (ISS). This allows us to provide a complete, end-to-end solution, using the ISS ProxyExchange voting platform and to offer research on all companies for which we provide voting recommendations. In 2024, we made voting recommendations at 14,701 meetings, covering 143,075 proposed resolutions. EOS can access ISS and customised EOS research and vote recommendations, perform proxy voting actions, and generate reports on key voting activity, all from this single integrated platform.

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

EOS adheres to local legal requirements and the regulatory requirements for proxy advisers. More information on our code of conduct and how we have followed this can be found in our Best Practice Principles for Providers of Shareholder Voting Research & Analysis – Compliance Statement.[21]

Public policy work

We engage on public policy and market best practice with the aim of protecting and enhancing value for our clients by improving shareholder rights and shaping the wider regulatory framework in which investment and stewardship take place. This is achieved through engagements and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties. It also includes participating in public consultations. This work may be on a country-specific basis or regulations and codes with a global remit.

Our engagers work with the public policy and advocacy sub-team within the FHL Responsibility Office to ensure our public policy work is well-informed, relevant and impactful.

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

Screening service

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

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

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

Advisory

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

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

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

[21] EOS library | Federated Hermes Limited

Incentivisation

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

Ensuring that our fees are appropriate for the services provided

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

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

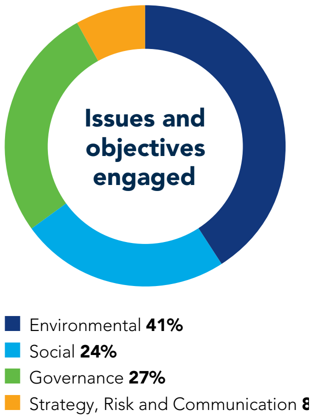
Our governance structures and processes, as outlined earlier, are a result of how they have worked in practice and their evolution over time. We believe we have a good balance of internal governance structures and processes, as well as structures to integrate external client input to support effective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

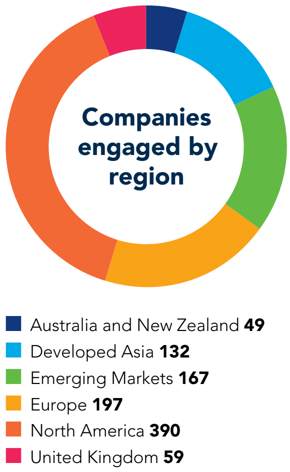
Number of engagements

Principle 1 outlined our headline engagement process during 2024. In addition, the following charts demonstrate that our structures and approach are considerate of our global client base with differing priorities, outlining a breakdown of our engagement according to theme and region during 2024.

Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously. A summary of some the key issues on which we engaged in 2024 is shown across these two pages.

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





Number of engagements:

Companies
994

Issues and objectives
4,267

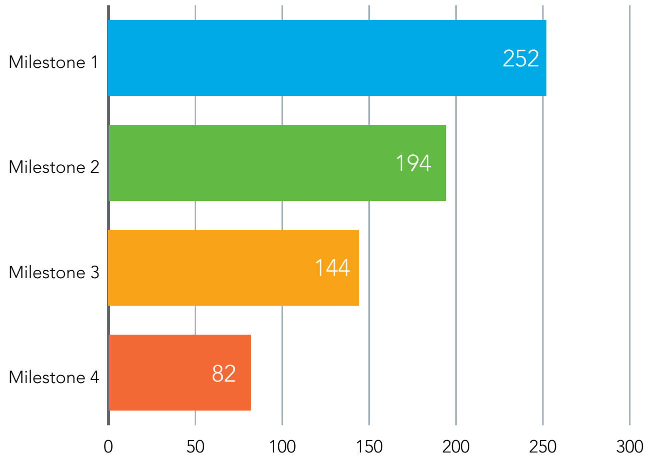
Objectives engaged
1,540

Completed objectives
171

Environmental topics comprised 41.4% of our engagements in 2024.

- Circular Economy & Zero Pollution **13.9%**
- Climate Change **67.8%**
- Natural Resource Stewardship **18.4%**

Progress against environmental objectives

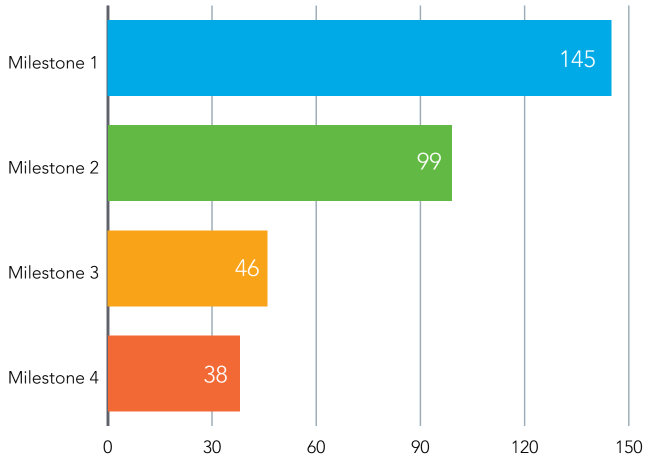


Source: EOS data

Social topics comprised 24.0% of our engagements in 2024.

- Human & Labour Rights **41.5%**
- Human Capital **46.9%**
- Wider Societal Impacts **11.5%**

Progress against social objectives

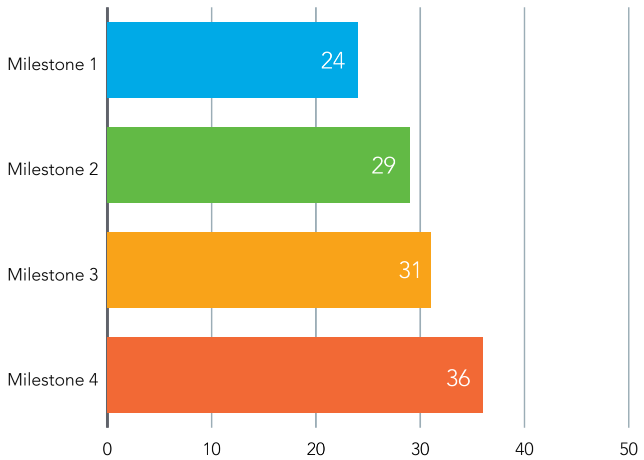


Source: EOS data

Governance topics comprised 26.6% of our engagements in 2024.

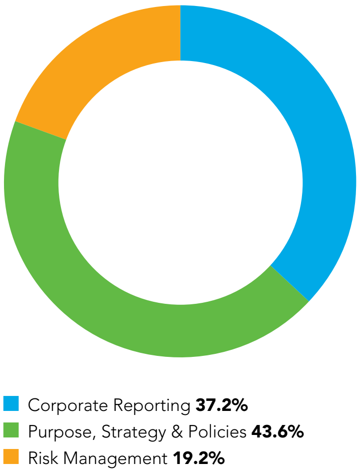
- Board Effectiveness **45.8%**
- Executive Remuneration **41.1%**
- Investor Protection & Rights **13.1%**

Progress against governance objectives

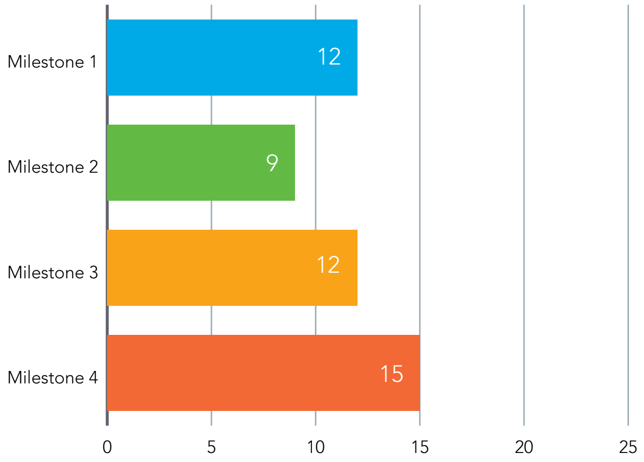


Source: EOS data

Strategy, risk and communication topics comprised 8.1% of our engagements in 2024.



Progress against strategy, risk and communication objectives



Source: EOS data

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

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

> **EOS recognises that timely communication is key for our clients to help them manage their own responsible investment activities, and to communicate the effectiveness of our stewardship service with their beneficiaries and stakeholders.**

CASE STUDY

Diageo

Diageo is a major drinks producer operating across nearly 180 countries with over 200 brands, including Guinness, Smirnoff, and Johnnie Walker. Early in our engagements on nature and biodiversity, as nature-related risks were becoming more apparent for investors, we focussed on food and beverage companies due to their dependence on biodiversity and ecosystem services to support supply chain resilience. In 2020, when we began our engagement, Diageo had identified climate-related resource scarcity issues as a key financial risk in its annual report.[23] However, the company had not articulated how it would manage natural capital to mitigate this risk.

Details of engagement

In 2020 we began engaging Diageo on the role that regenerative agricultural practices could play in building resilience to the worsening effects of climate change and nature loss in its supply chain. We noted that issues such as water scarcity, poor soil health and the loss of ecosystem services could erode yields and impact profitability. With relatively concentrated commodity supply chains, we believed Diageo was well-placed to explore opportunities to bolster supply chain resilience through a review of impacts on natural capital.

In a meeting with the sustainability director in 2020, we encouraged the company to develop its approach to regenerative agricultural solutions as part of its 2030 sustainability strategy. We also outlined suggested expectations for future reporting on the outcomes of any regenerative agriculture strategy. We requested that the 2030 strategy sets targets in line with the UN 2050 goals for biodiversity and the supporting 2030 action targets. Recognising that regenerative agriculture is in its nascency, we advised that the company should maintain flexibility over their approach as the financial return of different regenerative agriculture investments was as yet unknown.

In 2021, the company set a target to develop regenerative agriculture pilot programmes in five key sourcing landscapes. Given the early stage of work on regenerative agriculture, we continued to engage on the topic over 2021-23. In 2023, we met the executive committee member heading up global supply chains and acting as chief sustainability officer (CSO). We requested the company to demonstrate the progress it claimed it was making towards its regenerative agriculture target on pilot projects, including how it would quantify biodiversity improvements and the associated financial advantages.

Changes at the company

Meeting the Chief Sustainability Officer (CSO) again in 2024, we noted the annual report's disclosure that the company was successfully delivering regenerative agriculture pilots in three of its key sourcing landscapes: barley, wheat, and agave in Scotland, Ireland, and Mexico, respectively. The CSO also confirmed that the company was making progress towards its target to develop regenerative agriculture pilot programmes in five key sourcing landscapes by 2030.

The company disclosed improvements to its nature- and climate-related financial modelling capabilities, including value-at-risk and annual expected losses. We questioned how the board reviews these investments and obtained reassurance that the board acknowledges the 'real' risk of supply chain disruption and commodity price risk and is committed to deliver £1bn of capital expenditure on sustainability, including regenerative agriculture.

The company states that it has reaped productivity returns through its supply chain sustainability initiatives, highlighting water management and regenerative agriculture. We encouraged these efforts to recognise and quantify the sustainability strategy's contribution to achieving commercial goals, including whether this prompts further ambition on regenerative agriculture. The company pointed to its internal capacity-building exercises on quantifying the return on regenerative agriculture investments, including using satellite monitoring of soil carbon, biodiversity, and water to calculate costs and returns.

Potential outcomes and next steps[23]

As downward pressures on yields from climate change and nature loss intensify, the company's investments in regenerative agriculture should help enhance supply chain resilience, for example helping to reduce business interruptions and limit commodity price risk exposure.

We plan to continue to engage on the company's strategy to scale regenerative agriculture and its associated strategic benefits across all its supply chains.

(Published December 2024)

[22] 255_strategic-report.pdf

[23] Potential outcomes stated above are not intended to be a forecast of future performance, which will depend on a range of factors which cannot be guaranteed. These may include factors such as wider business performance in the context of dependencies such as developments in public policy, technology and market demand. Any quantified potential outcomes are based on the company's disclosed targets and other assumptions as referenced in this document.

CASE STUDY

Anhui Conch Cement

Since 2019, EOS have been engaging with Chinese cement manufacturer, Anhui Conch, on governance, decarbonisation strategy, and climate-related risks.

In a call with Anhui Conch in 2019, we communicated our aspiration for the company to have at least one female board director by the 2019 AGM and for the board to comprise at least 20% women by the 2020 AGM. As supporters of the 30% Club, we reiterated our corporate governance principles and encouraged Anhui Conch to improve its board gender diversity, aiming for 30% by 2030. The company acknowledged our concerns, while expressing the challenge of finding qualified female candidates within the industry, making suitable board appointments difficult. In 2021, we further clarified our aspirations via email. We subsequently recommended voting against the election of a director to emphasise our concerns. We reiterated the importance of having a diverse board, not only in terms of skills but also gender, in both an in-person meeting and in calls in 2024.

Outcomes and next steps

Following our initial engagement, the company appointed a new female independent director to the board at the 2019 AGM. By 2022, a second female independent director had been elected, resulting in 25% board gender diversity, meeting our aspirations ahead of the 2025 target. We welcomed the improvement during a face-to-face meeting with the ESG committee director at the company headquarters in China in April 2024. The company stated that gender diversity is a top priority for the board's future appointment. Moving forward, we will extend our engagement to promote diversity in the workforce and the long-term 30% by 2030 goal.

(Published December 2024)

How we can make improvements

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

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

In 2024, we continued the development of our client portal, adding PAI indicators against all relevant engagements to enable clients to more easily report against the key indicators that they need to under the European regulations. We also worked collaboratively with clients to enhance our reporting suite to capture 'real world outcomes'. There were three unique outputs identified through this collaborative process. One began being delivered in Q4 2024, with the other two due to be put into effect in 2025.

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

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

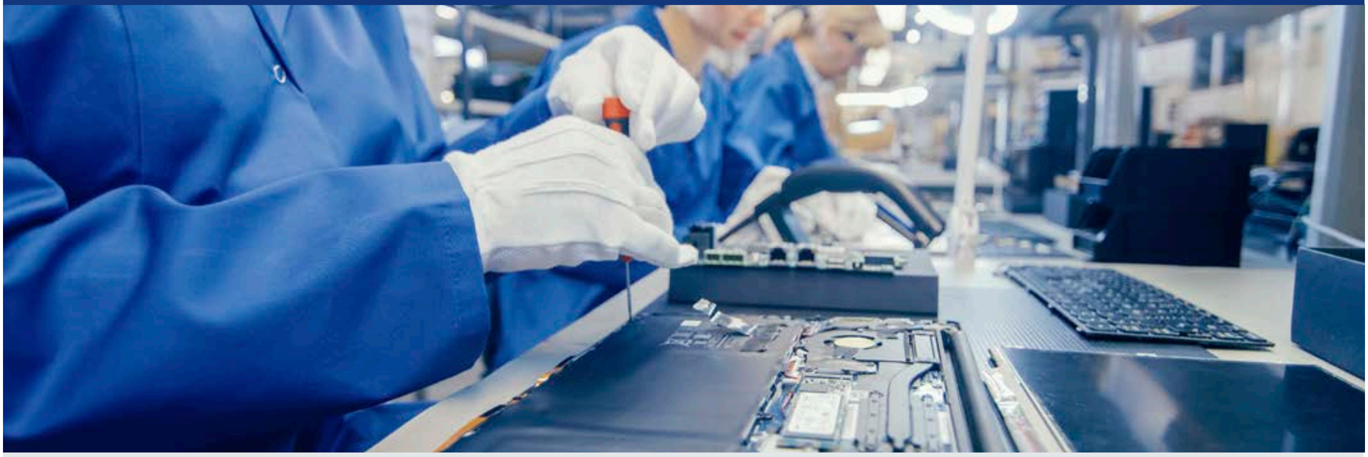
- **Company unresponsive:** the company has not been responsive to our engagement, and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- **Company disagreed:** the company has expressed its disagreement with our engagement proposals, and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.

- **No longer relevant/material:** the original objective is no longer considered sufficiently material or relevant. This could be due to a change in the company's business profile (such as divestment of a business unit of concern) or if engagement reveals that the original concern is of lower materiality than originally anticipated.
- **Restarted as new objective/issue:** engagement reveals that the original objective should be materially changed – for example, split into two separate and related objectives or combined with another objective.

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

CASE STUDY

Discontinued objective: Science-based carbon emissions reduction target



We have been engaging with this multinational appliance and consumer electronics company since 2018 on its climate change strategy, particularly the setting of science-based carbon emissions reduction targets. Over the course of our engagement with the company, both bilaterally and in collaboration with other investors, at management and board levels, there has been significant development in the company's climate change action plan.

The company's two main lines of business are different in terms of climate change strategy. The DX division, responsible for consumer electronics and household appliances, accounts for 5% of Scope 1 and 2 emissions. The company has committed to achieve net zero Scope 1 and 2 emissions by 2030, which is an ambitious target in this sector.

The company's DS division, responsible for semiconductor components manufacturing, accounts for 95% of the company's Scope 1 and 2 emissions. It has committed to achieve net-zero emissions by 2050, without interim targets yet. Although its main peers have interim targets, no one has had them verified, as the Science Based Targets initiative has not yet developed a methodology for the semiconductors sector. The company has a plan to achieve its net-zero targets, built around its most material impacts and supported by detailed sub-targets, such as renewable energy target, gas treatment efficiency tech development target, and power consumption improvement in key product categories target.

(Published October 2024)

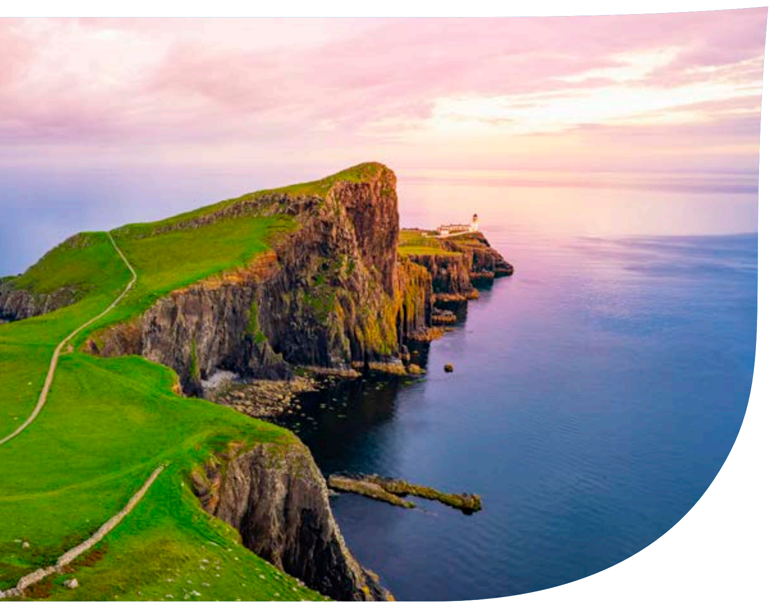
Principle 3

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

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

FHL's public Conflicts of Interest Policy[24] sets out our commitment to always act professionally. We commit to keeping the best interests of our clients and their beneficiaries in mind and to taking appropriate steps to identify circumstances that may give rise to conflicts of interest with a risk of damage to our clients' interests. It includes examples of conflicts of interest – such as the receipt of confidential information, conflicts of interest between clients, personal conflicts and conflicts between our business and clients – and the appropriate procedures we have established to manage any conflicts of interest identified and to prevent damage to client interests.

We also have a specific Stewardship Conflicts of Interest Policy.[25] We acknowledge our position as a fiduciary for our clients and their beneficiaries and seek always to act in their best interests. Accordingly, we take all reasonable steps to identify actual or potential conflicts of interest. We also maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients. We have summarised key aspects of our policy below. In addition, we have identified a set of conflicts of interest that may arise in connection with engagement activities. We put in place controls to manage such instances.



Potential conflicts of interest

Ownership

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

Clients and prospects

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

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

Individuals

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

[24] Policies & disclosures | Federated Hermes Limited
[25] Policies & disclosures | Federated Hermes Limited

Managing and monitoring potential conflicts: a singular focus

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

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

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

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

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

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

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

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

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

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

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

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

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

For the investment teams in FHL, the voting recommendation provided by EOS will inform their assessment. However, they will make their final judgement independently with a view to their fiduciary obligations to their clients. On the rare occasions that the investment team and EOS disagree on the appropriate voting action, the matter is logged and escalated for consensus to be reached at the Escalation Committee which is made up of the Head of Responsibility (chair Senior Public and Private Markets Investment Representatives, and representatives from each of our Risk, Compliance and Legal teams.

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

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

Review of conflicts of interest

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

Recording and escalation

We maintain a register of potential conflicts of interest and the controls to mitigate them. In those limited circumstances where a conflict arises over our approach to providing voting recommendations (aside from that directed by EOS third-party client-specific policies) or engagement that cannot be resolved in the manner set out above, the matter is referred to an escalation group whose composition is the same as our Sustainability Regulations and Stewardship Oversight Committee. This Committee is comprised of the Head of Responsibility (chair), Senior Public and Private Markets Investment Representatives, and representatives from each of our Risk, Compliance and Legal teams.

The group is guided by our mission to deliver enduring, responsible wealth creation, our published corporate governance principles, voting guidelines and policies, and other appropriate industry-endorsed guidance. If there is no majority view in the group, the CEO will make a final decision. All such instances would be documented and reported to the Risk, Compliance and Financial Crime Compliance Executive.

Annual review

We review our Stewardship Conflicts of Interest Policy annually to ensure it adequately reflects the types of conflicts that may arise so that we can ensure that they are appropriately managed and as far as possible mitigated. The Policy is publicly available on our website.[26]

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

Our policy on conflicts may be best understood by considering its impact in practice.

The EOS conflicts of interest register contains a description of the conflict, what mitigation procedure and controls have been put in place, whether it was then reported to the escalation group if necessary, along with any follow-up actions and conclusions. It is reviewed by senior management on a regular basis. The following are examples of potential stewardship conflicts which we identified and managed in 2024:

- EOS made a voting recommendation, and FHL voted, to support by exception to our renumeration policy. We agreed to support the compensation chair by exception to our policy as our concerns around succession were mitigated by an internal succession that was underway. Our initial concerns around the CEO shareholding requirement being below 600% of salary were mitigated as the outgoing CEO had greater than 20x of salary and the incoming CEO already holding 10x. Lastly, the concerns regarding the structure of the long term incentive plan had been raised during engagement. When comparing the quantum of pay over a 3-year period, it is reasonable compared to peers and, for these reasons, we recommended supporting the pay plan.
- A client of EOS had proposed a shareholder resolution at the company annual shareholder meeting on which EOS was providing voting recommendations. We concluded that support was in-line with the EOS Engagement Plan and decisions previously to support similar resolutions.

[26] Policies & disclosures | Federated Hermes Limited

Principle 4

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

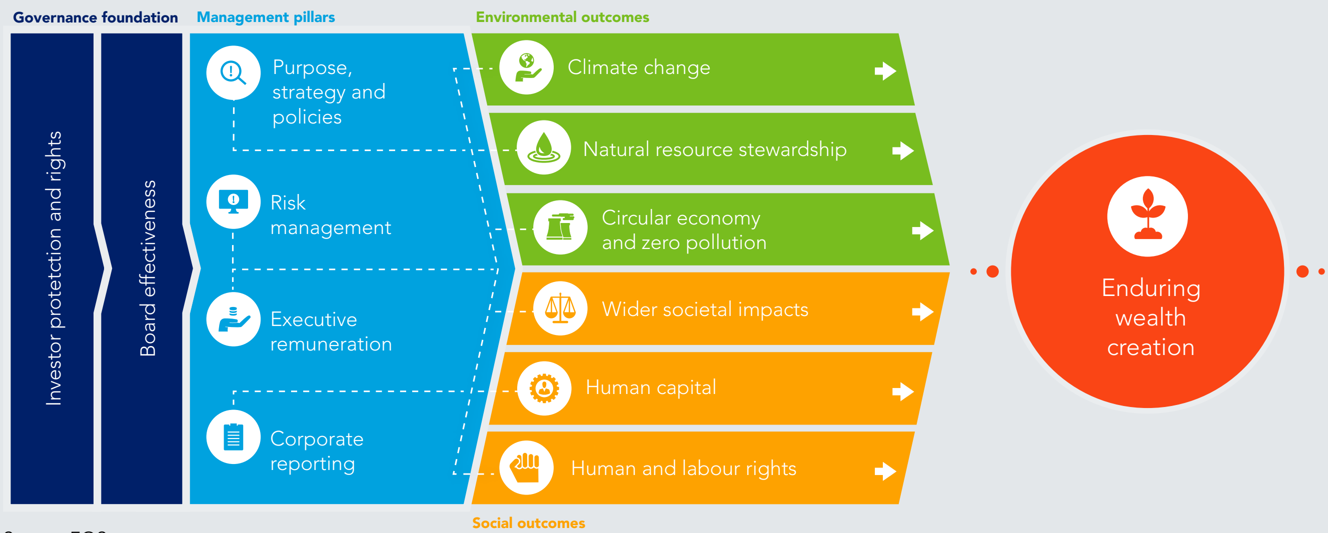
How we have identified and responded to market-wide and systemic risks

Selecting our engagement themes for 2025-27

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

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

Engagement themes for 2025-27



Source: EOS

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

Climate change: subject to local laws and applicable requirements, limiting greenhouse gas emissions, where possible, in line with the goals of the Paris Agreement to limit climate change to below 2°C and pursue efforts towards 1.5°C while building resilience to the future physical risks of climate change.

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

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

Human and labour rights: respecting all human and labour-related rights linked to a company's operations, products and supply chains.

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

Wider societal impacts: encouraging companies and governments to adhere to the highest ethical standards, with zero tolerance of bribery or corruption, responsible approaches to the payment of taxes and seeking positive impacts from products and services while reducing to the extent possible any associated harms.

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

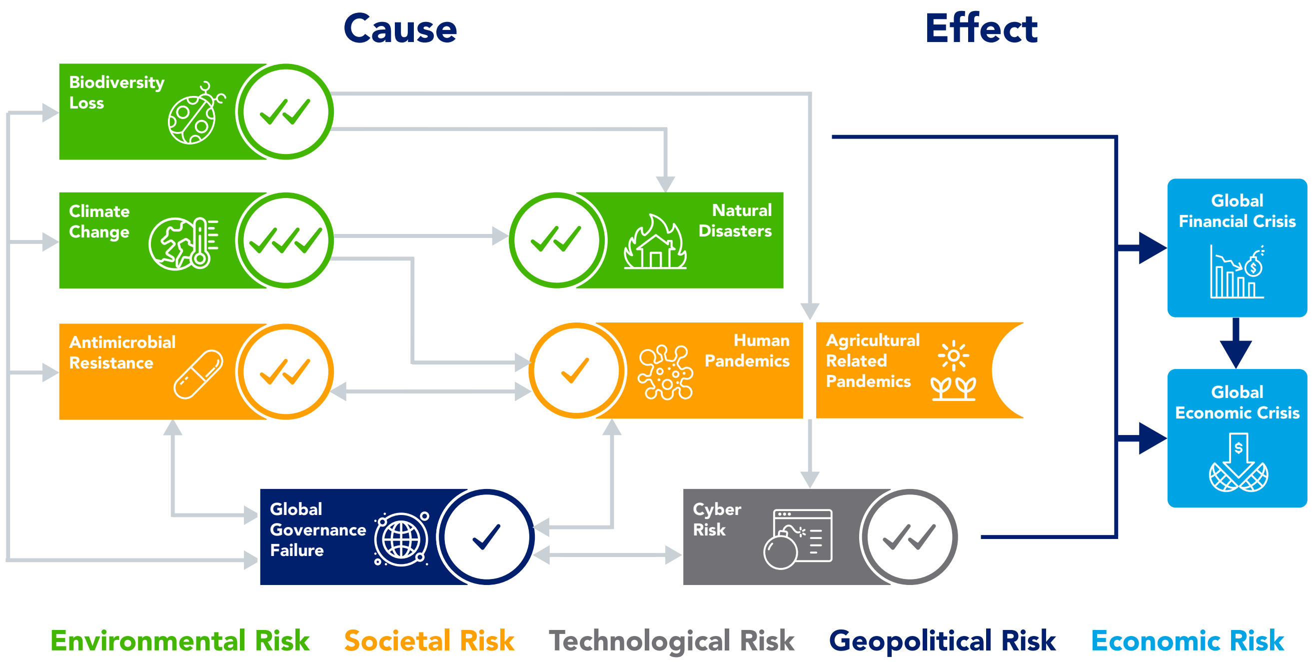
Corporate governance – effective boards overseeing strategy and management to deliver responsible long-term value creation, composed of primarily independent individuals and appropriately representing the full range of stakeholders the company serves; the alignment of executive remuneration with the creation of long-term value while paying no more than is necessary to attract and maintain talent; developing a corporate culture that puts customers first and treats its stakeholders including employees and its supply chain fairly; and the establishment and protection of all material minority investor rights.

Strategy, risk and communication – the clear articulation of a company's purpose to deliver long-term value to all stakeholders, supported by a sustainable business model and strategy that addresses the needs of its different stakeholders; robust risk management practices to protect long-term value; and transparent, timely disclosures of reliable information sufficient for investors and wider stakeholders to make informed decisions on long-term investment.

Addressing systemic risks through engagement

We carry out an horizon scanning exercise every year to look for emerging themes, with an in-depth review every three years. This year's review included recent academic reports such as the World Economic Forum Global Risks Report[27] and the Centre for Risk Studies at Cambridge University[28] to ascertain and update the key systemic risks to take into consideration across our engagement work. We looked at the most important systemic risks that were highlighted, examined how they were interlinked, and often have cascading effects, and overlaid these with the focus areas in our Engagement Plan. For example, the three big causal systemic risks illustrated in the diagram below – biodiversity loss, climate change and antimicrobial risk – which have cascading causal effects, are important themes in our Engagement Plan.

EOS focus of engagement



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

[27] Global Risks Report 2025 | World Economic Forum
[28] https://www.jbs.cam.ac.uk/faculty-research/centres/risk/publications/managing-multi-threat/systemic-risk-systemic-solutions-for-an-increasingly-interconnected-world/

Alignment with the SDGs

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

2,812

of the issues and objectives engaged in 2024 were linked to one or more of the SDGs

Source: EOS data

A spotlight on our approach to climate change

Climate change continues to be the biggest single issue of concern for long-term investors as a systemic risk, and we tailor our engagements accordingly. When in line with local law and applicable requirements, our engagement remains focused on companies having a strategy and greenhouse gas emissions reduction targets aligned with the goals of the Paris Agreement, pursuing efforts to limit global warming to 1.5°C. The importance of taking action was reinforced by the Alliance of CEO Climate Leaders ahead of COP29, highlighting the alliance's progress in reducing emissions by 10% while delivering aggregate growth revenue of 18% between 2019 and 2022.[29]

We will evaluate the credibility of company transition plans, including their acknowledgement of key policy, technology and market dependencies. Areas of focus will include engagement with high methane-emitting sectors and standard setters to ensure best practices in methane management. We will also engage with the technology sector, seeking action to mitigate emissions associated with the high energy demand for AI-related services.

For physical climate risks, all relevant sectors will be engaged to build resilience, and we will ask impacted companies to work towards a just transition for employees and communities. We will continue to support best practice standards via the Institutional Investors Group on Climate Change and net-zero initiatives such as the Net Zero Asset Managers initiative (NZAM) and the Net-Zero Asset Owner Alliance (NZAOA).

Climate-related risk and the 2024 voting season

In line with investor fiduciary duties, and when in line with local legal and applicable requirements, we consider recommending votes against directors at companies identified as falling behind peers in managing climate-related opportunities and

[29] Governments and business must double down on climate action | World Economic Forum

Number of issues and objectives engaged in 2024 linking to the SDGs

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

Source: EOS data.

risks, using various region and sector-specific climate risk indicators and team analysis. In 2024, we recommended voting against the re-election of directors or relevant proposals at 298 companies due to concerns about insufficient management of climate-related risks.

Climate-related and other environmental shareholder proposals

We also saw a range of climate-related shareholder proposals at financial services companies, addressing their role in financing different carbon-intensive sectors. EOS attended the annual shareholder meetings of Royal Bank of Canada, Bank of Montreal, Scotiabank, Toronto Dominion Bank and the Bank of Montreal virtually. We wanted to highlight the fact that according to the Transition Pathway Initiative's latest Net Zero Assessment Framework, these Canadian banks had scored zero points on the alignment between their net-zero commitments and their lobbying or trade association activity.

We asked a question related to these activities, querying if the banks had conducted a review of their trade associations and lobbying activities to ensure alignment between their own commitments and Canada's net zero by 2050 goal. No bank sufficiently addressed the question, relying on current disclosures as an answer. However, we see an opportunity to engage more deeply on this subject given our escalations during the 2024 proxy season and the importance of supportive public policies required for the banks to reach their ambitious climate goals.

In 2024, biodiversity made a strong showing via resolutions on plastic pollution, deep sea mining, deforestation, pesticide use, microfibre pollution, antimicrobial resistance (AMR) and animal welfare. There were shareholder resolutions on plastics and circular packaging at chemical company Dow and Tyson Foods, for which we recommended support for these on the grounds that pollution is one of the five drivers of biodiversity loss, and these are material risks for companies.

Human rights engagements in high-risk regions

A strong commitment to protecting human rights is crucial for responsible business development and long-term wealth creation. Without this, companies may lay themselves open to legal and financial penalties, operational disruption, and stakeholder backlash, harming their social licence to operate and ability to deliver value for their investors.

Certain geographies carry heightened human rights risks and therefore require enhanced due diligence and consideration from companies. EOS does not have a fixed definition of high-risk regions, but we consider factors such as the presence of conflict and the degree of legal protection in place for workers.

In 2020, EOS outlined our engagement approach for human rights in high-risk regions. Since then, we have seen the invasion of Ukraine by Russia in 2022, and an escalation of violence in the Middle East. Meanwhile, the proportion of global land mass impacted by conflict has increased by 65% since 2021.[30]

Our engagement remains apolitical and is guided by the expectation that all companies should operate in alignment with the UN Guiding Principles on Business and Human Rights (UNGPs). Our underlying approach and commitment to the UNGPs has been relatively unchanged, but we may emphasise certain aspects on a case-by-case basis depending on the region in question and the nature of a company's involvement.

Identifying high-risk regions

EOS identifies priority high-risk regions to address in engagement with companies on an ongoing basis. These have included Myanmar, Western Sahara, the Xinjiang Uyghur Autonomous Region (XUAR), and Ukraine. We may also engage on a region for individual companies where a major controversy arises. We had 15 open corporate objectives related to human rights in high-risk regions as of the end of 2024.

In 2024, companies faced significant pressure from stakeholders to divest from operations potentially exposed to the Israel-Gaza conflict or heightened tensions in the West Bank.[31] EOS undertook outreach to a select group of companies, including some of those identified by the United Nations Human Rights Council (UNHCR), to clarify their exposure and discuss human rights within the framework of our approach. We sought evidence that companies had rigorous human rights practices that applied across all business activities and that they were effectively managing associated risks in line with their fiduciary duty.

In total, we engaged with 22 companies regarding their exposure via correspondence and virtual meetings. We will continue our dialogue with these companies on this issue and their wider human rights performance.

[30] Political Risk Outlook, 'Global conflict zones grow by two thirds since 2021, topping 6 million km2' (November 2024)
[31] European Parliament, 'Products made with forced labour to be banned from EU single market' (April 2024)

VOTING CASE STUDIES

Chevron, Exxon and Phillips66

We saw plastics proposals at Chevron, Exxon, and Phillips66 to test the companies' portfolios against the risk of reduced demand for plastic in the future, using the Pew/ Systemiq Breaking the Plastic Wave scenario.[32] This calls for a 55% reduction in virgin plastic demand by 2040, relative to business as usual. While the companies felt that the scenario was too aggressive, unrealistic, and premature, we recommended support for the proposals to urge oil and gas companies to demonstrate the resilience of their portfolios in the scenario of a clean energy future alongside other scenarios companies might consider.

General Motors and Tesla

At car manufacturers General Motors and Tesla, there were shareholder resolutions on sourcing minerals from deep-sea mining for the first time. We recommended support for both, as a commitment to a moratorium on deep-sea mining or a clarification on the companies' positions, would signal that they acknowledge the importance of supply chain oversight as vehicle electrification accelerates. Many EV auto manufacturers have already signed up to the moratorium.

Shareholder proposals on human rights in high-risk regions

Shareholder proposals relating to human rights in high-risk regions appeared at several companies in 2024. We recommended support for proposals regarding the impacts of products reaching high-risk regions at companies such as Microchip Technology, RTX, and Texas Instruments.

Where material, EOS may also recommend voting against directors responsible for human rights oversight at companies where performance is poor. For example, in 2024, we recommended a vote against a director at a major food processing company due to concerns that risks of child labour were not being properly addressed. We expressed this rationale and expectation to the company through engagement. We also did this at a major aerospace company due to an apparent failure to oversee product quality and safety issues, which resulted in adverse human rights impacts. Our human rights voting policy has been applied in the context of high-risk regions in previous years.

Emerging social themes

A growing number of shareholder proposals addressed digital rights issues such as privacy, freedom of expression, and responsible artificial intelligence. We used our EOS Digital Rights Principles to inform our decisions on these proposals. For example, we supported a proposal filed at Amazon requesting a report on customer due diligence. The company has processes in place for this and policies relating to the responsible deployment of AI. However, there is room for improved transparency on how human rights are considered in the company's relations with governments as customers.

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

This involves public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties. The following is a selection of highlights from 2024:

- We co-signed the 2024 Global Investor Statement to Governments on the Climate Crisis. The letter called on governments to close the policy gap to delivering the goals of the Paris Agreement. This recognised the importance of a facilitating policy environment to support investors in managing climate-related financial risks and opportunities, and delivering value and returns for their beneficiaries. The letter sought economy-wide policies, sectoral transition strategies, and clear integration of the nature, water, and biodiversity-related challenges related to climate change.
- We co-signed the Finance Statement on Plastic Pollution, a joint initiative led by the UN Environment Programme Finance Initiative (UNEP FI). The letter attracted 160 signatories from the finance sector. In the run up to the signing of the UN's Global Plastics Treaty, this statement aimed to amplify the finance sector's voice during the fourth negotiation round in Canada. It called on governments to establish an ambitious policy framework to support the finance sector in taking action to beat plastic pollution.
- We submitted a further response to the UK Financial Conduct Authority's consultation on changes to the UK's Listing Regime, following the initial consultation period and publication of the finalised changes. We expressed disappointment that our feedback did not appear to have been taken on board, and that the proposed reforms were largely unchanged from the original proposal. In particular, we highlighted the removal of requirements for historical financial information for companies seeking to list and the removal of shareholder votes on related party transactions as having a negative impact on overall shareholder rights and protections.

[32] https://www.pewtrusts.org/-/media/assets/2020/10/breakingtheplasticwave_distilledreport.pdf

Collaboration[33] focused on tackling climate change – making progress through Climate Action 100+

Since 2017, the collaborative engagement initiative Climate Action 100+ (CA100+) has been striving to bring the world's biggest corporate emitters into line with international ambitions for a 1.5˚C. EOS is a significant supporter of CA100+, leading or co-leading engagement at a number of companies. Over 2024, we continued to push for progress where companies lagged best practice, while also encouraging efforts where progress had been made. For example, at Danone we welcomed the introduction of a Scope 1-3 emissions metric in the executive remuneration policy.

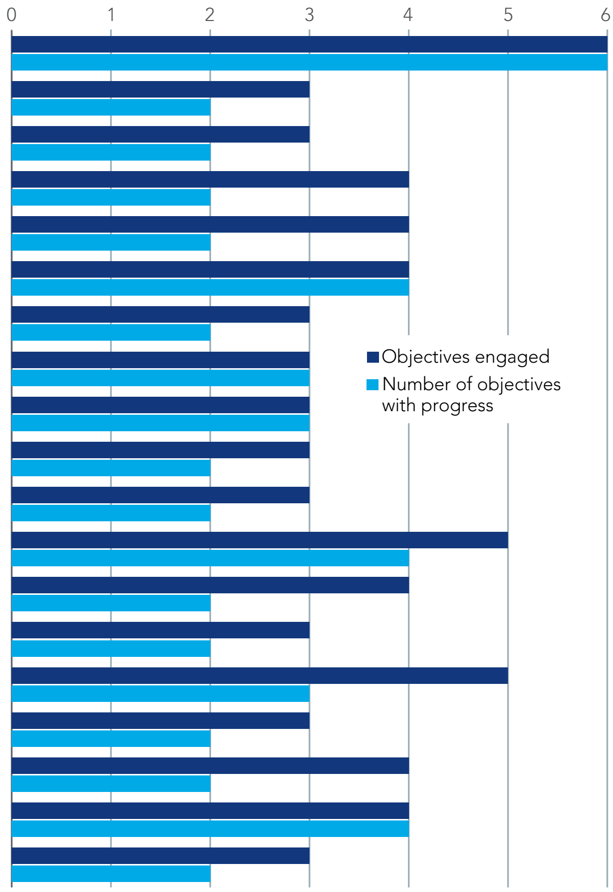
At Air Liquide, we have co-led the CA100+ engagement for several years. In 2024, it responded to our requests that its financial statements demonstrate the consideration of material climate-related risks and opportunities. Through a detailed discussion of the material climate risks facing different segments, investors may now improve their understanding of the company's financial exposure to transition risks.

Following engagement on Air Liquide's claims about public policy dependencies getting in the way of accelerating decarbonisation capital expenditure, we also sought clarity over the company's advocacy efforts to overcome these hurdles. We obtained reassurance over these activities through the company's publication of its public policy positions and a detailed review of the alignment of its industry associations' actions with these positions.

Since 2020, we have been co-leading engagement to ensure the alignment of TotalEnergies' capital expenditure with the Paris Agreement's goals. After meeting with and writing to the chair/CEO on multiple occasions over several years, we were pleased to welcome the company's increased focus on ensuring portfolio resilience through capital expenditure guardrails. In 2024, we welcomed improved disclosure on pipeline economics, the evidencing of the low break-even point of the existing portfolio, and the company's commitment for pipeline projects' production costs to sit below the $20 per barrel mark.

Progress of environmental objectives for selected CA100+ companies engaged by EOS, 2024

Company Name	EOS Sector	Participation
Air Liquide	Chemicals	Co-lead
LyondellBasell Industries	Chemicals	Co-lead
Danone	Consumer Goods	Co-lead
Lockheed Martin	Industrials	Co-lead
Siemens Energy	Industrials	Co-lead
Holcim	Mining & Materials	Support
Anhui Conch Cement Co	Mining & Materials	Support
CRH	Mining & Materials	Support
POSCO Holdings	Mining & Materials	Co-lead
Rio Tinto	Mining & Materials	Support
thyssenkrupp	Mining & Materials	Support
TotalEnergies	Oil & Gas	Co-lead
Marathon Petroleum	Oil & Gas	Support
Valero Energy	Oil & Gas	Support
Bayer	Pharma & Healthcare	Support
Carrefour	Retail & Consumer Services	Support
Caterpillar	Transportation	Co-lead
Engie	Utilities	Support
Fortum	Utilities	Support



Source: EOS data

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

CASE STUDY

Engie

Engie is a French multinational electric utility company. We first requested that the company introduces a climate metric to the executive remuneration incentive plans in a meeting with the chair in 2018, as part of the collaborative engagement initiative Climate Action 100+ (CA100+).

A year later, we again asked the company to embed its new near-term decarbonisation targets into remuneration, repeating this in 2020 when we again met with the chair alongside CA100+ members. This time, the chair confirmed it would add a climate metric by the 2021 AGM, so we followed up with a joint CA100+ letter to the chair and the board encouraging progress on this point.

Around the 2021 AGM, we wrote to the company and welcomed the inclusion of climate-related metrics in the short-term incentive plan (STIP), most usefully a target on reducing the greenhouse gas emissions from electricity production. However, we encouraged the company to introduce similar metrics to the long-term incentive plan (LTIP) as well.

From 2022 to 2024, we saw progress in the STIP and LTIP where climate-related metrics were gradually incorporated. However, we encouraged the company to provide greater clarity on the quantitative criteria used and how these relate to vesting thresholds. We wrote to the company ahead of its AGMs to communicate our aspirations.

Outcomes and next steps

We were pleased to see our feedback was implemented at the 2022 AGM where two climate-related metrics were introduced to the LTIP: increase the proportion of renewable capacities and reduction of CO_2 from power generation. In 2023, in a meeting with the company, we asked it to disclose all minimum/maximum and target thresholds for the climate-related metrics in both its STIP and LTIP.

In a later joint investor meeting we received some reassurances from the chair on how these metrics are tested in the absence of public thresholds but still encouraged full and proper disclosure in line with best practices. otwithstanding this, in 2024, we were also pleased to see that the company expanded its climate-related metrics to include the gas distribution business under the LTIP.

(Published September 2024)

Other climate engagements

As part of NZEI, EOS engages with Ahold Delhaize, a company involved in the management and operation of supermarkets, as well as an e-commerce business. In line with our requests to Ahold Delhaize, the company published a new transition plan with information on the levers for achieving Scope 3 decarbonisation, its public policy work, its engagement with its suppliers and the investment requirements for decarbonisation.

Hyundai Steel is another company where progress was made against the core NZEI requests. It has now made a commitment to reach net zero emissions by 2050 and has published details on its plans to achieve this ambition, including the technological changes required.

Finally, utilities company Veolia has significantly improved its overarching approach to reducing emissions. In February 2024, the company published a net-zero strategy incorporating feedback provided over several rounds of investor meetings. Veolia's climate change target was validated by the SBTi in July and assessed by the Moody's Net Zero Assessment as 1.5°C-aligned. Through the banks initiative, following our engagement on the adequacy, quality, and coverage of sector-level financed emissions risk management, BNP Paribas announced an absolute financed emissions reduction target for the oil and gas sector. Also in 2024, UBS increased the coverage of its sector-level financed emissions reduction targets to 81% of loan book emissions.

We co-led the IIGCC collaborative engagements at the three Japanese megabanks – Mizuho Financial Group, Sumitomo Mitsui Financial Group (SMBC) and Mitsubishi UFJ Financial Group – to reiterate our climate-related engagement requests. We sought more disclosure around the banks' assessment of risks relating to the financing of their fossil fuel sector clients and their mitigation through energy transition plans that are more aligned with the goals of the Paris Agreement.

We were pleased to see enhanced disclosure and methodologies from the banks, as well as an update to SMBC's transition finance playbook and the introduction of environmental and social due diligence. Overall, however, there remains a lack of disclosure around any consequences if client transition plans are found to be misaligned with the banks' climate goals. We have engaged with the banks on considering competencies for managing climate-related business risks and opportunities in the board director nomination process. We also want to see them elaborate further on the consequences of their clients not producing credible Paris-aligned transition plans.

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

Our contribution to industry initiatives

In 2024, we continued to advocate for a number of changes to public policy and market best practice, aligned with the themes upon which we engage, as set out in our Engagement Plan. Below, we have provided a summary of some of our activities in 2024. To allow us to keep abreast of investor concerns and emerging issues as they arise and to promote stewardship, we are active participants in a number of collaborative industry bodies and initiatives around the world (see box).

Key stewardship initiatives

We are an active participant in the following:

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

Source: EOS data

Public policy

34

Number of consultation responses or a proactive equivalent made in 2024

87

Number of discussions held with relevant regulators and stakeholders in 2024

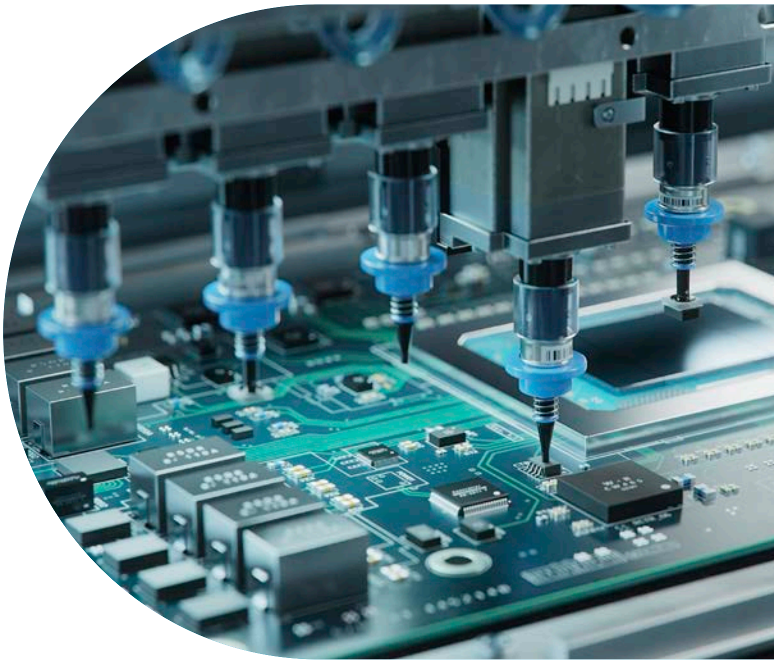
Examples of our public policy and advocacy work from 2024 include:

Biodiversity

- We responded to a survey about biodiversity credits that was initiated by the International Advisory Panel on Biodiversity Credits (IAPB). We emphasised that biodiversity credits cannot replace the action that is needed by all stakeholders to reduce harm to nature and ensure the sustainable use of biodiversity. We suggested developing a globally-accepted methodology that can be adapted to local biodiversity and ecosystems. We also provided additional input on governance, measurement and other aspects.
- We provided informal feedback to the Finance Sector Deforestation Action (FSDA) initiative and the Institutional Investors Group on Climate Change (IIGCC) on the draft deforestation investor expectations for commercial banks. Banks can be exposed to deforestation risks through the financial services they provide to companies that produce and/or use products contributing to deforestation within their direct operations or value chains. Banks that fail to address deforestation are exposed to financial risk through various channels, including physical risk, transition risk and failure to align with net zero.
- We responded to the consultation by the Taskforce on Nature-related Financial Disclosures (TNFD) on the draft sector guidance for food and agriculture. We identified nature and biodiversity as a priority for engagements in relevant sectors, including food and beverage. We recommended that the sector guidance be made explicitly applicable to the beverage sector, as many of its ingredients are sourced from the agricultural sector. Additionally, we provided comments on supply chain oversight, specifically on how robust analysis of certifications and feasibility of traceability could benefit companies and investors. We also proposed additional metrics and disclosures related to antimicrobial use.

Digital Rights & Artificial Intelligence

- We participated in a community meeting of the World Economic Forum (WEF) Artificial Intelligence (AI) Governance Alliance project on responsible AI stewardship for investors. The objective of this project is to help institutional investors and other large capital providers play an active role in accelerating the adoption of responsible AI. It will adopt a multi-stakeholder approach involving the investor community, business, academia, and civil society to ensure that diverse perspectives and interests are represented and considered. We talked about our own experiences engaging with companies on this topic, and shared our recently published case studies and our rationale for prioritising sectors for engagement.
- EOS was appointed as the investor representative to the board of the Global Network Initiative (GNI), a multi-stakeholder organisation dedicated to promoting digital rights in the tech sector. By joining the board as the investor representative, we are assuming an elevated leadership position within the organisation. Joining the board will also increase our insights on the emerging digital rights challenges facing the tech sector and provide additional engagement opportunities with the tech companies that are also on the board.



COP16

We attended COP16 as part of the Finance for Biodiversity (FfB) Foundation delegation, where we co-chair the Policy Advocacy Working Group. The working group published a policy recommendations paper[34] for governments in April 2024.

In the run up to COP16, we led or joined engagements with policymakers and negotiators to share the recommendations and understand the progress being made on implementing the Global Biodiversity Framework at the national level. We contributed to developing the FfB Foundation delegation's position[35] for COP16 and summarised our expectations in an article.[36] At COP16, we followed the negotiations, particularly on resource mobilisation, and participated in a range of events to share our policy recommendations and our approach to engagement with companies.

COP16 resulted in progress on Digital Sequencing Information, with the formation of the Cali Fund to recognise the value of nature for scientific research. Companies in the pharmaceutical, cosmetic and other sectors that rely on nature for research will be expected to contribute to the fund, resulting in increased financial resources for the protection and restoration of tropical rainforests and other ecosystems. Additionally, more formal participation of Indigenous people and local communities in the negotiations was secured through the creation of a subsidiary body.

At the Finance Day, we were pleased to see our policy criteria well-reflected, including the need for policies and economic incentives that enable private sector action; sectoral transformation pathways and change in the real economy; aligning public and private financial flows with biodiversity targets alongside raising more money for nature; and a whole-of-government approach to this challenge.

Other announcements included a new milestone for the TNFD, with over 500 organisations now committed to adopting the recommendations. The International Advisory Panel on Biodiversity Credits (IAPB) also launched a framework for high integrity biodiversity credit markets.[37] We responded to an IAPB survey earlier in 2024 to share our expectations on biodiversity credits, emphasising that these should be a last resort, and that the market would need robust governance and independent oversight.

[34] Aligning Financial Flows with the Global Biodiversity Framework: Translating Ambition into Implementation - Finance for Biodiversity Foundation
[35] FfB Foundation Urges World Leaders to Implement Concrete Actions to Align Financial Flows with the GBF Ahead of COP16 - Finance for Biodiversity Foundation
[36] COP16 to challenge governments to deliver on Biodiversity Plan | Federated Hermes Limited
[37] FRAMEWORK

VOTING CASE STUDY

Tesla

At Tesla's annual meeting, shareholders were asked to consider the company's move from Delaware to Texas and to ratify CEO Elon Musk's 2018 stock option award for a second time. The company faced seven shareholder proposals on governance, human rights and environmental matters. We sided with management on only two proposals, including the ratification of the auditor.

Only two directors stood for election this year. We recommended opposing Elon Musk's brother Kimbal Musk and James Murdoch due to independence concerns. In addition, the classified board structure with no sunset date, low board diversity, pledging of shares and lack of climate targets led us to recommend a vote against Murdoch as the only member of the nominating and governance and audit committees standing for re-election. The re-election of both directors passed with Kimbal receiving the support of 78% of the outstanding shares voted and Murdoch receiving 68% support.[38]

While the CEO and most named executive officers received modest or no compensation for FY2023, we were concerned about an outsized promotion grant to a named executive officer with limited explanation regarding the magnitude and design of the award. Tesla has maintained a non-traditional compensation plan and we are concerned that the executive pay structure and practices do not serve long-term investors or align properly with the core long-term objectives of the company.

Court decision

The ballot items to redomicile the company in Texas and re-ratify Musk's 2018 performance award appeared to be conflated with the Delaware Court of Chancery's decision in early 2024 to invalidate Musk's 2018 stock option award. Shortly after the decision was handed down, Musk took to social media platform X (formerly Twitter) stating that: "Tesla should move immediately to hold a shareholder vote to transfer state of incorporation to Texas."[39]

The board tried to assure shareholders that Tesla's redomiciling was raised before in response to its headquarters move from California to Texas in 2021, and argued that the legal landscape in Delaware was evolving in ways detrimental to the company's future. On consideration, we did not view the board's rationale as compelling. Delaware has one of the most respected corporate judicial systems in the US and an extensive body of corporate case law. Meanwhile, Texas is in the process of forming a specialised business court system and it is unclear how this will function. Due to the substantial uncertainty around the application of corporate law in Texas, we recommended a vote against the proposal.

Stock option award

The concerns we had about Musk's stock option award in 2018 remained intact, including the excessive size of the award and the dilutive effect upon exercise. The company's rationale did little to allay our concerns. We were also concerned about the lack of clarity on the board's plans for Musk's future compensation, including the ability of the award to increase Musk's focus on Tesla given his growing outside interests. For these reasons we recommended a vote against the proposal.

The redomiciling proposal attracted 63% support from the outstanding shares voted while Musk's stock options award garnered the support of 76% of the outstanding Tesla shares voted.[40]

We supported six of the seven shareholder proposals, which included declassifying the board, adopting a simple majority vote, improving disclosure on harassment and discrimination prevention efforts, respecting freedom of association, assessing the feasibility of including sustainability as a performance metric for executive compensation, and asking the company to commit to a moratorium on sourcing minerals from deep sea mining. While stockholders sided with Tesla management on most shareholder proposals in casting their ballots, two non-binding advisory governance proposals were approved. The proposals to reduce director terms to one year and to adopt a simple majority vote each received 53% support.[41]

(Published June 2024)

[38] ISS June 2024.
[39] Musk Says Tesla Will Hold Shareholder Vote 'Immediately' To Move Company's Incorporation To Texas (forbes.com).
[40] ISS June 2024.
[41] ISS June 2024.

Principle 5

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

Our client base

EOS represents a large client base of institutional investors around the world, advising on their assets of over US$2.2tn (as at 31 December 2024), comprised of equity, debt and money market holdings. Established formally in 2004, we have a long track record of working with a variety of client types in 14 different countries, including: Australia, Belgium, Canada, Denmark, Germany, Ireland, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States, who have a range of underlying stakeholders and beneficiaries. A large portion of our client base is made up of asset owners (pension funds, foundations, sovereign wealth funds) and the rest comprises non-asset owner clients, including investment consultants, asset, wealth and fiduciary managers.

We place an emphasis on understanding our client profiles and ensuring that we onboard like-minded clients with long term investment horizons. As a result, we have a strong understanding of the regional nuances and requirements of our client base, and the ability to adapt our service to cater to these needs.

How our services best support our clients' stewardship

Relationships and access

We offer a shared service model that provides a platform for likeminded investors to pool resources, creating a powerful force for positive change. Companies understand that EOS is working on behalf of large institutional investors – representing assets under advice of US$2.2tn – this gives us significant leverage to exercise more effective stewardship on behalf of our clients as well as be more efficient for companies when engaging with their investors.

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

A tailored approach

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

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

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

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

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

Access and intensity

62 companies in our core programme featured engagements with the **CEO or chair**

We engaged with companies in our core programme in 2024 on average

Screening and engagement

We monitor our clients' listed equity and corporate debt holdings, which in practice is a universe of around 25,000 companies. We formally screen these holdings on a quarterly basis to identify companies in their portfolios that contravene the 10 UN Global Compact Principles (UNGC) or are at risk of doing so. We also screen for companies engaged in the production, distribution or maintenance of controversial weapons, and those with infringements on trade and arms embargoes. Companies deemed in breach of the UNGC, those assessed as 'non-compliant', are included in the EOS engagement programme and engaged for the life of the controversy.

Some highlights of our engagement activity in 2024 are as follows:

An integrated service offering

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

Thought leaders and work on emerging themes

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

In addition to the four priority themes that we identified for our updated Engagement Plan (referred to earlier in this report), we are pursuing further engagement in these fast-growing areas in 2025:

- **Nature and biodiversity** – We ask companies to address marine and terrestrial biodiversity loss across their value chains, in line with the COP15 mission to halt and reverse biodiversity loss by 2030. COP16 made historic strides in recognising the role of indigenous and local communities in biodiversity conservation, but challenges remain in securing the necessary funding, and the monitoring mechanisms to achieve global biodiversity targets.

  The production and selling of food will remain a priority for engagement, alongside other sectors with significant impacts, such as mining and agrochemicals. We ask companies to reduce their impacts on biodiversity across the value chain, and aim for a net-positive impact on biodiversity as best practice. Depending on the specific company context, engagement will cover deforestation, water stress, regenerative agriculture, infectious diseases and antimicrobial resistance (AMR), sustainable proteins and chemical runoff management.

  As we outlined in our white paper on biodiversity, published in February 2021,[42] we encourage companies to identify, assess and measure their impacts and dependencies on biodiversity and ecosystem services, in line with the 2023 Taskforce on Nature-related Financial Disclosures (TNFD)[43] recommendations, and then to develop strategies and targets to address the most material risks. We will continue to work with investor coalitions such as the Rainforest Alliance,[44] the PRI's Spring initiative[45] and Nature Action 100[46] to bring added weight to engagements with affected companies.

- **Digital rights and AI:** – We will continue to engage companies on our Digital Rights Principles,[47] which outline the responsible development and deployment of AI. These will be updated in 2025 to encompass the latest concerns, issues and opportunities. We engage companies on negative societal impacts, including problematic content on social media, reinforcement of unintended bias, and health and safety impacts on children and young people.

  We encourage companies to balance freedom of expression with their obligations to remove problematic content and respect privacy rights online. Ensuring that the appropriate controls are in place is becoming critical, particularly with rising concern over the use of social media to spread misinformation and disinformation. This is driving a lack of trust in traditional media outlets. Cybersecurity, and concerns over the use and impact of AI, are also rising up the agenda. Although AI is creating new opportunities for companies, it also brings the potential for workforce disruption, regulatory infraction or reputational damage, and we will be engaging with companies on how they mitigate these risks.

Integration of client views and feedback into our approach

One of our key differentiators is our client-led approach. As introduced in Principle 1, we have many touchpoints for clients to provide their input to shape and influence the service we offer, in a structured way. As mentioned in Principle 2, we also have an established formal feedback loop for clients, which ties the touchpoints together with our other

[42] Our commitment to nature | Federated Hermes Limited.
[43] The Taskforce on Nature-related Financial Disclosures.
[44] About | Rainforest Alliance (rainforest-alliance.org).
[45] PRI | Spring (unpri.org).
[46] Nature Action 100 – Supporting greater corporate ambition and action on tackling nature and biodiversity loss.
[47] EOS Digital Rights Principles.

structures and processes, to ensure that we remain a client-driven stewardship service provider. A summary of some of the key touchpoints is given below.

- **Annual Engagement Plan, client service and communications survey –** we strongly encourage our clients to complete this annual survey where we seek views on the content of our Engagement Plan and the allocation of engagement resource. We also seek feedback on client service, reporting and communications.
- **Client meetings –** At our bi-annual client meetings, our head of stewardship hosts a session, discussing our progress against the Engagement Plan and our draft approach going forward. Clients have an opportunity to offer additional ideas and expertise, ask questions and give feedback on the direction they would like our engagement to take.

In addition, each client is assigned a dedicated client relationship manager ('CRM') who understands the market and the challenges faced by similar clients, and who can help the client to make the most of the tools and service we provide. CRMs have very regular touchpoints with clients in order to seek and integrate feedback across the wider service.

Communicating with clients

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

- Our online client portal was built so that clients can access high-level, as well as company-specific, engagement activity 24/7. It also includes an online library of relevant documents and client communications. Continuous development features heavily, with recent improvements including momentum indicators and better access to data. We work closely with clients, requesting their feedback on enhancements and consulting with them periodically throughout the process.
- Quantitative and qualitative reports are provided on a monthly, quarterly or annual basis with company updates and statistics on our work. Our client portal offers the functionality to extract engagement data.
- On an ad-hoc, regular basis, market insights on key industry topics and company case studies on our engagements are published on the Insights page of the firm's website and communicated to clients. Our process around case study development ensures that we send our drafts to the companies for a fact-check, verifying the engagement impact we have described and adding credibility to the stewardship outcomes we are achieving on behalf of our clients. In 2024, we issued 73 case studies and over 50 other materials, covering a range of themes, markets and companies, which can be used by our clients to communicate with their internal and external stakeholders.
- On an ad hoc basis, clients are sent invitations to join client-only events, such as educational calls, training sessions and opportunities to seek feedback. In 2024, topics covered included climate solutions, water, climate and insurance, COP16 and voting trends.
- Clients are invited to join engagement meetings and upcoming meetings on a sustainable and appropriate basis.

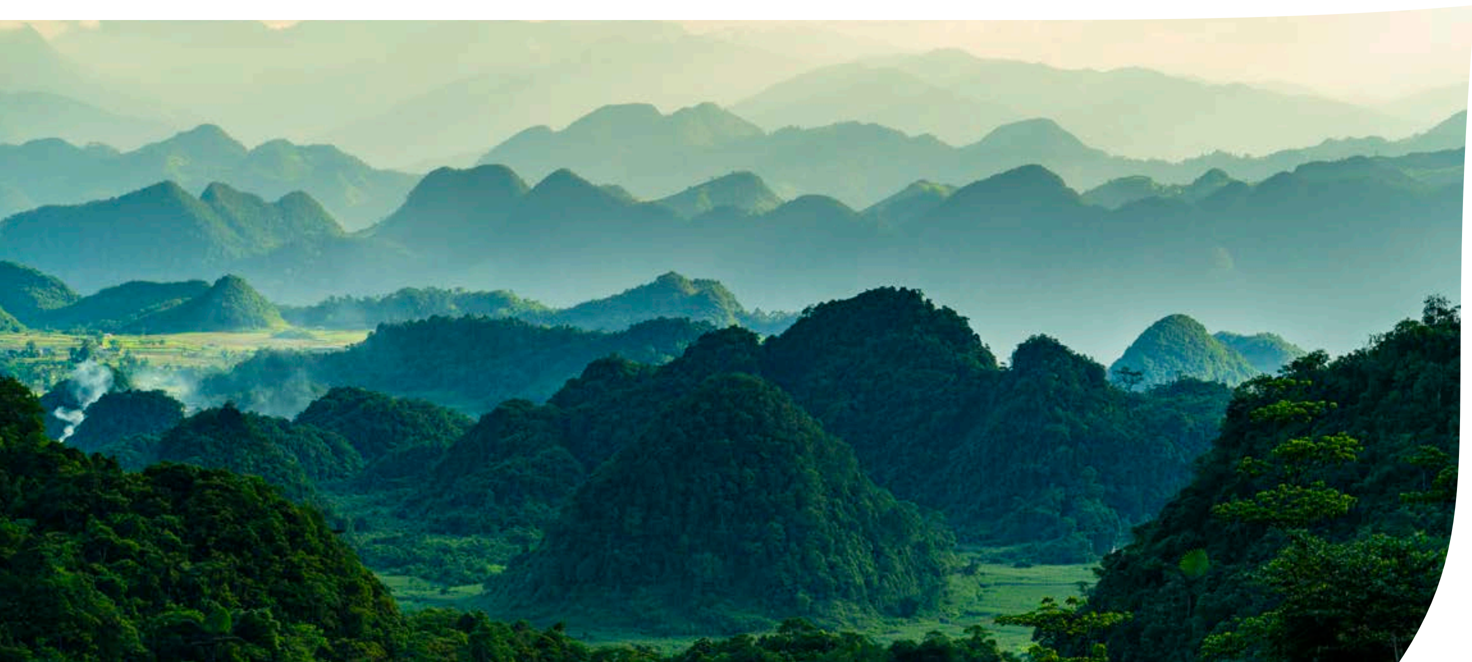
Some of our reporting is confidential but we have developed materials that can be used publicly to communicate with our clients' beneficiaries and other external stakeholders.

Consideration of clients' views and feedback

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

Reporting

Clients present their views and feedback on the provision of our services through one of our many client touchpoints, which are considered by our reporting governance group. The group meets periodically to evolve reporting according to relevant criteria.



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

- One example of this is adapting our client-driven Engagement Plan, which was originally confidential for clients only. However, as well as continuing to produce the very detailed and confidential version for our clients, we now produce a public version outlining our high-level approach to stewardship.
- Other examples include our short-form company case study summaries, both independently published as well as a selection in the Public Engagement Reports, which are also fact-checked by the companies. Clients can easily access these as well as identify outcomes from the engagement, in the client portal.

> **An important aspect of our service involves supporting clients' communications with stakeholders to ensure that their trustees, beneficiaries and others have a clear idea of the intention, direction and impact of our clients' stewardship activity.**

Voting

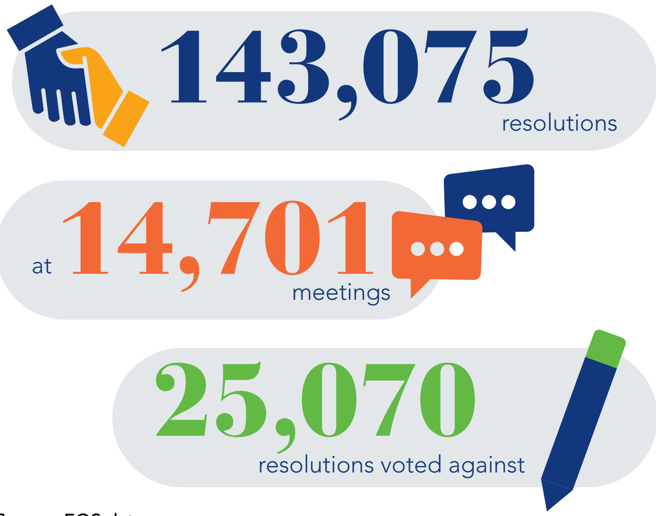
In advance of the voting season, we provided a detailed overview of our expectations, noteworthy AGMs/ballots, and an overview of material changes to our voting policies for clients via an EOSi Question Time call (specific sessions held with clients on designated topics).

Clients are welcome to provide us with feedback on our approach to voting recommendations and we may make tweaks to our policy where appropriate.

Each year we update our global voting policy guidelines, which inform the recommendations we issue to our clients. For 2024, we continue to take a tailored approach to voting across the key global markets where EOS clients have holdings, setting out our broad position on a number of topics in our global voting policy. We also outlined our market-specific voting principles and policies in our Public Vote Guidelines for Europe (including UK), North America and Asia and Global Emerging Markets.

For example, in our view, creating an inclusive culture can be linked to positive company performance through outcomes such as lower attrition and a more productive and fulfilled workforce. We encourage companies to put in place effective board oversight and management structures across the employee lifecycle. Therefore, we seek to hold boards accountable for more effective oversight of human capital across all levels of a company's workforce.

Voting recommendations made on:



Source: EOS data

We believe that boards and directors are ultimately responsible for the culture of a company, and should therefore have effective oversight of an inclusive culture and merit based diversity across all levels of the company's workforce. Where we believe that companies are failing to do so, we will seek to engage on the topic, and potentially recommend votes against directors who we identify as being most responsible for the topic.

As such, as part of our 2024 voting policy review process, we sought to raise our minimum criteria in areas where board progress has been slower, such as in Japan and South Korea. We also harmonised our committee independence guidelines for all countries across Asia and Global Emerging Markets (GEMs). We now encourage all companies to have a fully independent audit committee (where one is present), and majority independence of the nomination and remuneration committees (where present), with an independent chair and no executives on the committee.

As part of our updates for 2025, we are adjusting how we escalate our voting approach on gender diversity for companies in the Asia/GEMs region. In most markets, where legally permissible, we would like to recommend votes against directors for insufficient progress on gender diversity, we will focus on the nomination committee chair and members, including independent directors on the committee. This marks a shift from our previous approach of focussing on executives, and aligns more closely with our approach in other regions, which seeks to hold the nomination committee accountable for the task of increasing board independence.

In some markets, where there is a lack of disclosure or the appropriate committees, we will adopt a more case-by-case approach. For European countries, we are aware of the upcoming EU Women on Boards Directive, which requires that, by mid-2026, every company listed on a stock market within the EU needs to have at least 40% female non-executive directors, or a female representation of executive and non-executive directors of at least 33%. We will engage with companies in that region on this topic ahead of the Directive's implementation, and will look to update our voting policies accordingly ahead of the 2026 voting season.

Climate vote policy

The Transition Pathway Initiative's (TPI's) Management Quality We expect companies to actively demonstrate that they are effectively managing climate-related financial risks and opportunities. In our view, it is important to review our benchmark indicators of good practices on a regular basis, in order to recognise improved company performance while also seeking to continue capturing companies that appear to be failing to adequately manage climate-related risks.

The Transition Pathway Initiative's Management Quality score where in line with local law and applicable requirements, continues to form a part of our voting approach to climate-related issues. To develop a more nuanced approach, we now consider certain sub-criteria below different levels when making an assessment of overall risk management in addition to the headline score.

We use several other assessments and watchlists as part of our broader climate change voting policy, and will be making further updates to how we integrate these for 2025. For example, we plan to use a benchmark assessment of methane-leak risk management at upstream oil and gas companies as an indicator of potentially poor climate-related risk management. Other indicators that we use include those covering potentially inadequate risk management of deforestation and a wider appraisal of the quality of climate-related risk and opportunity management.

Overall, in common with the appraisal of governance quality across many different dimensions of company performance, we recognise the challenge in relying on third-party indicators of climate-related risk management. For this reason, we have increased the range of indicators considered and we seek to engage with companies to inform our final approach to voting recommendations, where practicable.

Remuneration

The debate around executive remuneration remained at the top of the agenda for many stakeholders in 2024, driven by broader conversations around market competitiveness and company ambition. We are aware of this, and are cognisant that executives at truly global organisations will receive remuneration that is commensurate with that at their global peers. However, we do not believe that this should be a justification for continual increases in pay quantum for all executive teams, particularly at a time when the broader workforce is navigating a high cost of living environment at a lower level of pay in real terms.

We believe that executive pay must be accompanied by robust justification, and disclosure on how the broader stakeholder experience has been taken into account. We welcome the Investment Association's revised Principles of Remuneration for the UK market, which encourage companies to consider flexible approaches that are different from the conventional bonus and long-term incentive plan (LTIP) packages used by many in the market. We see this as a good opportunity to re-emphasise our positive views on restricted shares-based packages, which aim to simplify executive remuneration. We continue to be supportive of companies seeking to make such changes.

In 2025, our voting approach will maintain its focus on priority issues such as excessive variable pay and poor alignment with shareholder interests. We continue to see high shareholding requirements as an important factor in demonstrating alignment, and will consider recommending votes against remuneration structures where we feel the levels required are insufficient.

Screening

The primary product of our screening service, the Controversial Company Report (CCR), has been redeveloped in response to client feedback. Clients sought more oversight beyond the UN Global Compact breaches made by companies in their holdings, expanding CCR to reference additional international principles and guidelines. For example, we now flag companies in our clients' aggregate holdings universe that have severe negative impacts on people, society and the environment along themes defined by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The report delivered to clients provides a record for each company and is provided with a corresponding link to the client portal, making it easier for clients to get more context about ongoing engagements against the controversies flagged.

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

The effectiveness of our communication with clients

Communication through reporting and the client portal

Earlier examples under this Principle demonstrate that we have diverse reporting to cater to different client needs. Our confidential client portal was built in response to client feedback and a need for a window into our engagement activities and outcomes.

However, over time, by gathering feedback via our many client touchpoints, clients' needs have become increasingly sophisticated.

Based on client feedback, we introduced new functionality to enhance the user experience. The portal allows clients to more easily view the activity undertaken on their behalf, and to track the progress we are making in our engagements. It also offers an enhanced search facility, data extracts to support clients own bespoke reporting requirements, easier access to publicly available third party information and more recently more detail around discontinued engagements.

Communicating our progress at companies

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

Client feedback has confirmed that public case studies provide an engaging way of communicating our progress to our clients. Case studies are typically written about objectives that have moved milestones, demonstrating our satisfaction that the company has achieved or is on the way to achieving the goal. Responses from our client service and communications survey consistently demonstrate that clients highly value this output as it helps them to communicate with their external stakeholders.

Often there is a need for more succinct summaries of case studies for clients to use in their reporting. In response to this, we now produce many short-form case studies, and have updated the structure to provide a clearer focus on engagement actions and outcomes.

During 2024, we produced 19 standalone full-length case studies and 62 short company updates, all are sent to the companies to be fact-checked. Some of these appeared in our Public Engagement Reports.

Principle 6

Signatories review their policies and assure their processes.

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

Engagement and voting

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

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

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

The EOS voting guidelines are developed through an annual process, which runs in conjunction with the policy review process at ISS informing its benchmark research. EOS looks at feedback from clients, the evolving best practice in each market, and the changes made at ISS in view of the resolution-level data for past voting seasons, to consider what additional changes are warranted.

Further input is provided by our Engagement Plan, which identifies the thematic priorities for engagement. These can often be boosted by enhanced vigilance, and potentially escalated through our voting recommendations.

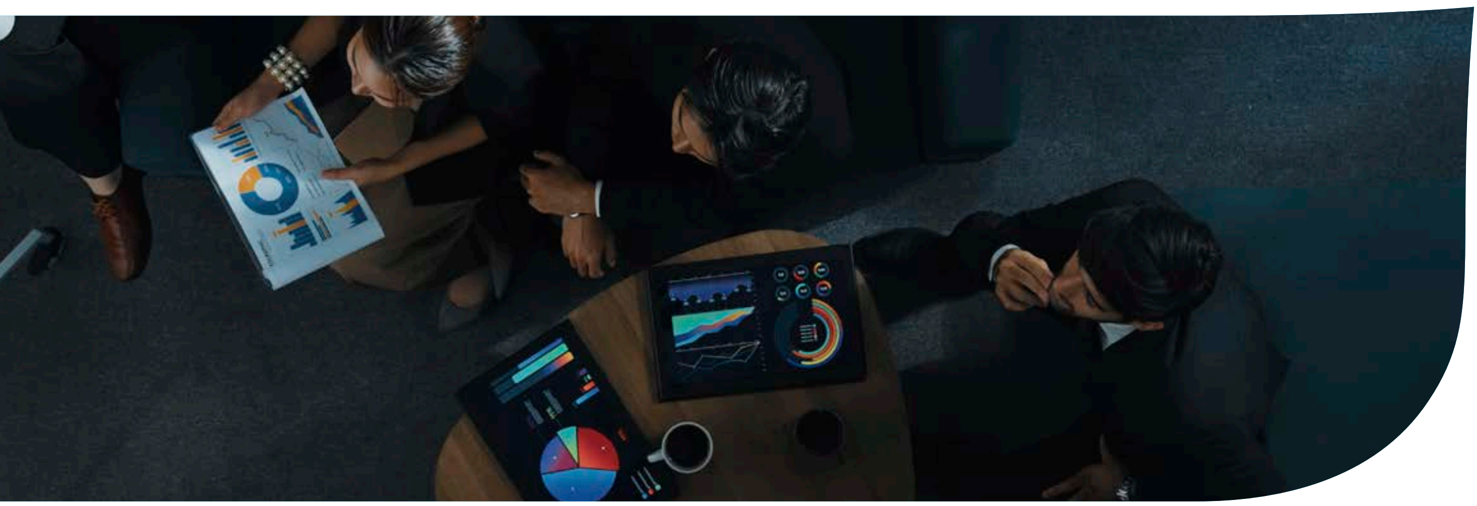
EOS completes its major policy changes before the main voting season in each market. Once the changes are applied, the policy is monitored to ensure that it is having the desired effect and adjusted further where appropriate. Our Global Voting Guidelines are approved annually by the Sustainability and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

Below, we give examples of the way our voting guidelines were applied in the 2024 voting season.

Talent management and development

Subject to local law and applicable requirements, and 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 consider recommending a vote against the re-election of responsible directors where we do not see clear indicators of cognitive diversity.

In Europe, we support a goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as non-binary), race and ethnicity, and other diversity traits such as LGBTQ+ and disability. Where best practice or listing rule obligations exist in a country, we expect companies to



adhere to these at a minimum. In Europe we also support gender diversity at the management team level, and will consider our voting approach for companies of significant size where there is no female representation at the top levels of executive management.

In 2024 we continued to look for greater gender diversity on boards and in leadership teams and opposed companies that did not meet our minimum expectations. This included at KBC Group, HelloFresh, PolyPeptide Group and British American Tobacco. This is in line with our fiduciary duties to enhance long-term value at each company.

In developed Asia and emerging markets we still came across instances of all-male boards that gave cause for concern, given the more diverse board perspectives increasingly being acquired by peers. At Power Grid Corp of India, we recommended voting against the election of a new male non-independent director, in the absence of nomination committee members or the board chair being up for election. At Grupo México, which has historically maintained an all-male board, the company continued to bundle the director elections and failed to disclose information on candidates prior to the AGM, which led us to recommend voting against the slate of directors.

For 2024, we tightened our board gender diversity criteria to 15% in Japan and South Korea. This was to signal our minimum aspiration of around two female directors and in anticipation that companies achieve the long-term ambition of 30% women on boards by 2030. This resulted in more recommendations of votes against for board gender diversity in both markets. We recommended voting against the longest tenured independent director at Posco, and against the presidents of Keyence, SoftBank and Omron. We observed progress in the appointment of mostly outsider female directors in Japan due to the government target and increasing investor pressure, but there is still a lack of female executive directors.

In general, it was positive to see that all-male boards in Hong Kong were becoming rare, as companies listed on the Hong Kong stock exchange needed to have at least one female board director by the end of 2024.

Executive pay, auditor tenure and governance

We continued to see excessive CEO pay, excessive auditor tenure, and questionable governance structures in various sectors and markets. For example, several US healthcare and services companies such as HCA Healthcare and Tenet Healthcare awarded excessive pay packages, despite issues with staff retention in the sector. We pressed them to consider how this would impact workforce perceptions, and said that investing in human capital would drive better long-term value for shareholders.

We recommended voting against the pay packages at several North American oil and gas companies, including Exxon, Canadian Natural Resources, Suncor, Chevron, and Cheniere Energy due to the high quantum and other structural

concerns. In addition, we opposed the pay award at aircraft manufacturer Boeing, due to concerns relating to the level of quantum and a lack of downward discretion applied despite several serious safety issues.

At TotalEnergies, we recommended voting against the re-election of the lead independent director, Jacques Aschenbroich, due to concerns around shareholder rights. We understood that the board had refused to allow a shareholder resolution onto the ballot from the Ethos Foundation regarding the separation of the chair and CEO roles, both held by Patrick Pouyanné. We had engaged with the company's head of corporate and securities law on the process that the board followed before dismissing the shareholder resolution. While we received assurance that the lead independent director had consulted with board members without the influence of the chair/CEO, we were concerned that the board stated that it would no longer accept advisory shareholder resolutions on to the ballot. We consider this to be an erosion of shareholder rights.

We continued to recommend votes against the audit committee chair and the ratification of the external auditor where the audit firm had been in place consecutively for 80 years or more, with no review or consideration of auditor rotation. In 2024 we recommended opposing the auditor and audit committee chairs for 258 companies, including Target, Dow, Goodyear, Sherwin-Williams, Archer DanielsMidland, Deere & Co, Kimberly-Clark, Coca-Cola and Johnson & Johnson.

Board independence

We continued to look for higher levels of independence to achieve more effective boards at companies in Asia and emerging markets. At Mexico's Cemex, we recommended a vote against the re-election of three directors with long tenures, two of whom had served on the board for over 25 years. We question the independence of long-serving directors as their tenures could indicate over-familiarity and insufficient challenge to management and other board members. In previous engagements and at AGMs, we had asked for a gradual refresh of the board to bring in new independent directors with skills aligned with the company's strategy, but Cemex did not take appropriate action.

In India, we observed increasing levels of board independence, but our concerns about the quality of independent directors remained. For example, we recommended voting against two directors at Reliance Industries, who were classified as independent by the company. They had indirect connections that raised concerns about their genuine independence, such as one director's firm providing legal services to Reliance Industries.

Assurance in relation to activities that support our clients' stewardship

Assurance of engagement and overall service

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

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

Assurance of our voting recommendation process

In addition to escalation, client feedback and post-season reviews, other measures are in place to support the quality of voting recommendations. These include an end-of-day review and daily prioritisation to tackle timely escalation and any corrections before distribution to clients. Our internal audit team performs checks on a regular basis to ensure that recommendations are provided on a timely basis and that operational controls are effective.

In terms of our partnership with ISS, we review its timeliness, platform availability and other key indicators against our Service Level Agreement. EOS personnel liaise with ISS on a regular basis, informally and formally, to conduct oversight, including a service review each year.

External audit assurance on our integration and stewardship activities

Our external assurance providers now assess us on a two-year basis. As such, we still refer to their latest limited assurance engagement on the information disclosed as part of the sustainability reporting of FHL in the period from end of June 2022 to July 2023 (inclusive). The limited assurance engagement related to our stewardship and ESG integration within our public equities, credit, real estate and infrastructure investment portfolios.

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

Risk and compliance

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

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

Ensuring our reporting is fair, balanced and understandable

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

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

Using feedback for continuous improvement

Changes to our client portal

As we highlighted earlier in this report, we have redeveloped our client portal to enhance the search functionality and user experience, also introducing the ability for clients to generate bespoke reporting based on the themes of their choice.

As we highlighted earlier in this report, we have recently included PAI indicators linked to our engagement work with the purpose of allowing clients to easily filter engagements according to the mandatory or voluntary indicators they need to report against. This follows the momentum indicators that were rolled out in 2023 to help clients understand how smoothly an engagement is progressing or whether our dialogue with a company has in fact stalled.

Changes to our screening tool

No changes have been made to our Controversial Company Report (CCR) in 2024 following improvements that we made in 2023, which focused on systematically engaging companies with the most serious controversies. In addition to the evolved engagement approach, we enhanced the reporting by integrating it into the client portal.

> **We have redeveloped our client portal to enhance the search functionality and user experience, also introducing the ability for clients to generate bespoke reporting based on the themes of their choice.**

Conclusion

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

Federated Hermes

EOS

Federated Hermes

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

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

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

Our investment and stewardship capabilities:

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

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