Stewardship Report 2022

EOS at Federated Hermes

April 2023

Federated Hermes
EOS

www.hermes-investment.com
For professional investors only

Welcome to the EOS at Federated Hermes 2022 Stewardship Report.[1]

The investment industry can play a powerful role in creating sustainable wealth for investors and in building a better world – and at EOS at Federated Hermes, we believe active stewardship is a critical way to achieve this.

As a service provider, we contribute to asset owners and asset managers 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.[2] This leverage means we can have a more meaningful impact on the issues of most importance to our clients.

In 2022, a host of geopolitical and macroeconomic factors combined to threaten the fragile recovery from the pandemic. Russia's invasion of Ukraine created huge disruption in trade, resulting in a surge in fuel and food prices. The rising cost of living was intensified by other issues such as labour and component shortages after the pandemic, soaring inflation and corresponding increases in interest rates, impacting companies, employees, customers and suppliers.

The war in Ukraine has also displaced a huge number of people and created human and labour rights concerns for companies operating in the region. Against this backdrop, the investor community has continued to place more emphasis on social themes in its stewardship and advocacy activities. In acknowledgement of these issues, we engaged with companies on their response to the Russia-Ukraine war and the cost of living crisis, and recommended support for a number of shareholder resolutions on social issues such as paid sick leave and human rights impact assessments.

Whilst companies faced increasing social pressures, environmental concerns did not diminish. Europe faced record-breaking temperatures during the summer, whilst Pakistan suffered from extensive flooding, devastating large swathes of the country. These events reinforced the need to address the current geopolitical issues in a way that is aligned with the goals of the Paris Agreement on climate change. In our stewardship activities, we emphasised the need to address the climate, energy security and cost of living crises together.

At the end of a challenging year, the outcomes of COP15 on biodiversity sounded a more positive note. Almost 200 countries adopted the Kunming-Montreal Global Biodiversity Framework in December, which features a target to protect at least 30% of land and seas by 2030. We had advocated for an ambitious framework ahead of COP15.

As a business dedicated to delivering sustainable 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

[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.

[2] 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.

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 second 2021 Stewardship Report,[3] this report describes our stewardship work during 2022 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 more detailed information about the training that we offer our team members; an update on the firm's diversity, equity and inclusion strategy; insights into our engagement approach to the cost of living crisis; highlights of the operational enhancements we have made to our client portal; and a detailed update on our collaborative engagement activities with Climate Action 100+. Examples and case studies are 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 2022, as well as the areas identified for further improvement in 2023.

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

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

[3] https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/eos-stewardship-report-2021/

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 (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 environmental, social and governance (ESG) 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 sustainable 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 £1.14tn/€1.30tn/US$1.34tn (as at 31 December 2022) invested in over 20,000 listed equity, corporate debt and money market holdings worldwide, working collectively 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 collective importance to our clients.

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 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 sustainable wealth creation that enriches investors, 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 and ESG 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 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.

Over the last three years, Federated Hermes Inc., which has a history of backing and investing in the talent and the businesses it acquires, has made substantial investments in FHL, including that in MEPC (a fully-owned development and asset management subsidiary); the build out of the business in the Asia Pacific region; and the build out of the EOS team in the US.

Its commitment could not be better demonstrated than by its decision to change its own name to Federated Hermes, Inc. This was an important step and a powerful illustration of the high regard it has for FHL's talent, expertise and client proposition.

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, 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.

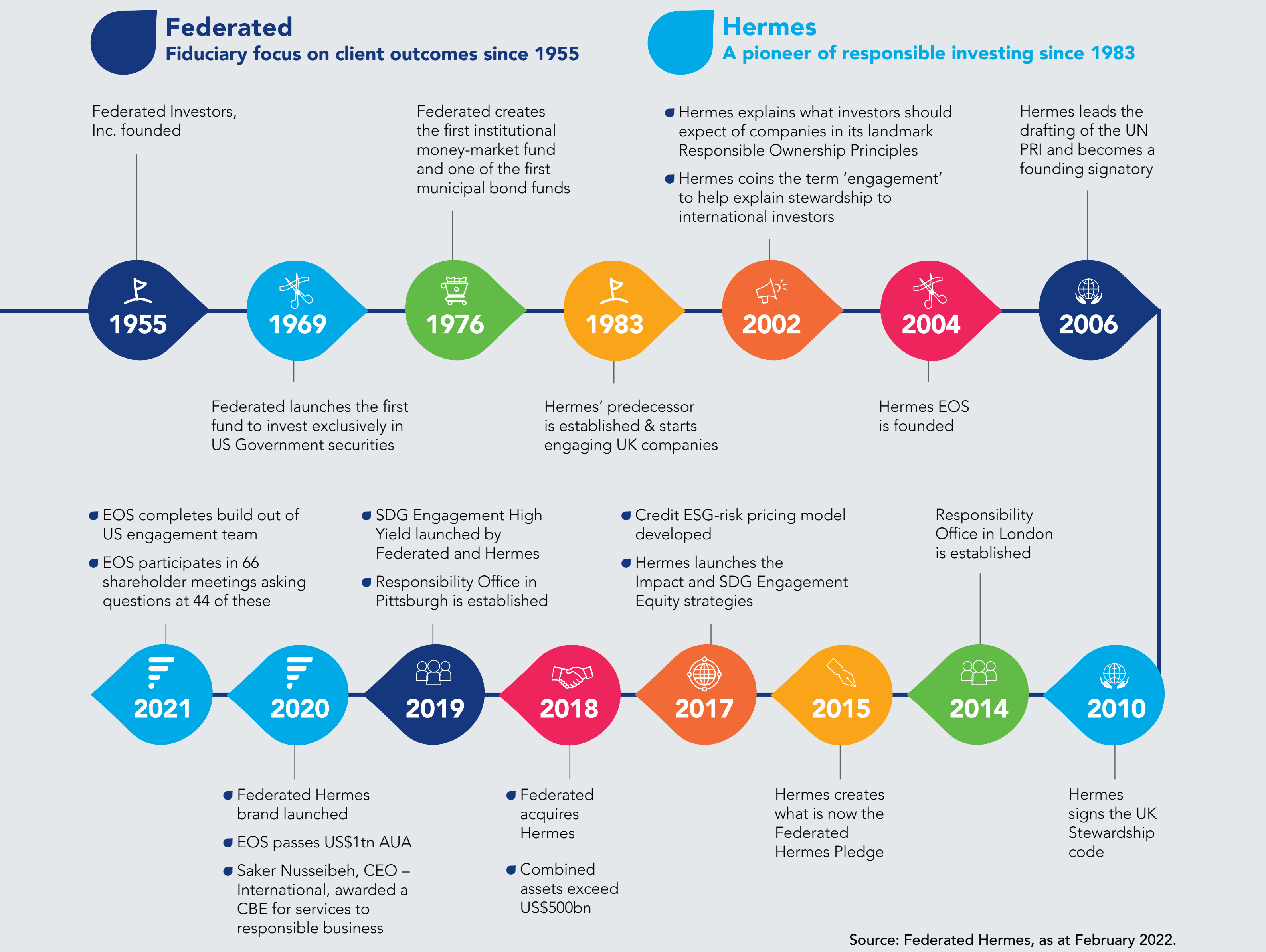
In 2023, FHL will continue to put in place a plan for the sustainable development and growth of this three-platform franchise, placing clients firmly at the heart of what we do.

Purpose and strategy

Effective stewardship is a hugely important activity for institutional investors to create sustainable wealth for clients and their investors. Our engagement is therefore focused on ensuring that companies are responsibly governed and well managed to deliver sustainable long-term value, 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.

FHL's priority for 2023 will be to continue its integration efforts with Federated Hermes Inc., our parent, while upholding our strong heritage. With the introduction of a new strategic pillar, Sustainable Careers, we will also prioritise employee satisfaction, wellbeing and retention. The firm will seek sustainable and profitable growth by demonstrating cost resilience and continuing to invest in our competitive strengths in responsible investing and stewardship.



Source: Federated Hermes, as at February 2022.

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. It has been voluntarily signed by 98% of employees to date at FHL, including EOS. 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$1.34tn of assets invested in over 20,000 companies worldwide, working collectively 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 collectively. 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.

98% of employees to date at FHL, including EOS, have voluntarily signed the pledge.

EOS engagement strategy

Our stewardship is focused on providing improved long-term risk-adjusted financial returns on investment and better, more sustainable 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. 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 dialogue and 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 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.

We aim to strategically engage on the most financially material ESG risks. We select approximately 320 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, but 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.

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.[4] 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. It also speaks to our shared service business model and strategy to achieve positive change on behalf of an international coalition of investors. This strengthens our collegiate culture, and empowers us to strive for change at companies on behalf of our clients with collective assets under advice of US$1.34tn.

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.

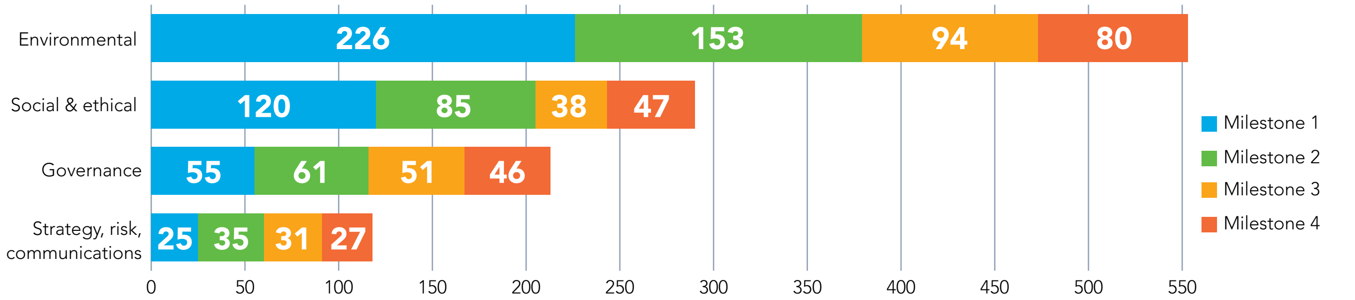
We have put our engagement service at the heart of our stewardship service as we believe we can best promote stewardship by tying our engagement insights into our entire service offering to achieve positive change. When speaking with prospective clients, understanding that this is fundamental to our 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 2022

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 sustainable growth and helps to build a better world. The table and graphic below demonstrate that during 2022, we engaged with 1,138 companies, covering 4,250 identified objectives or issues, and 804 objectives advanced by at least one milestone within our engagement programme, on behalf of our clients.

	# of companies engaged	# of issues and objectives engaged	# of objectives engaged	# of objectives completed
Engagement Programme (core)	324	1,924	674	123
Other companies	814	2,326	634	77
Grand total	**1,138**	**4,250**	**1,308**	**200**



Source: EOS data

Our engagement activity in 2022 reflects an increase on that of 2021 with reference to the number of issues and objectives that we discussed with companies. Some 64% of assets under advice were engaged in 2022 versus 59% in 2021. Our engagement with companies equates to 61% of the value of the MSCI ACWI All Cap index.

In 2022, we made 33 public policy consultation responses or proactive equivalents such as a letter and held 75 discussions with relevant regulators and stakeholders. We believe this is industry-leading, but we look to improve year-on-year. 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.

64% of assets under advice were engaged in 2022 versus **59%** in 2021

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[5] page of our firm's website. In 2022 we produced 75 standalone case studies and some 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[6] pages, provide examples of our other public reporting.

> **In an industry where greater focus and awareness at the asset owner and beneficiary level has prompted a push for more transparency around engagements, our clients are able to use the Engagement 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.**

CASE STUDY: ENVIRONMENTAL

Posco International
Sustainable palm oil strategy

We began engaging with South Korea's Posco International on sustainable palm oil in 2016. This followed a divestment by a major pension fund in 2015 and severe criticism of the company by NGOs over deforestation related to palm oil development in Indonesia.

Following our suggestion, Posco International began a discussion with the Roundtable on Sustainable Palm Oil (RSPO) to develop its sustainable palm oil strategy. In 2017 our engagement intensified, including a joint meeting with the company and NGOs that resulted in a robust discussion about the company's potential commitment to a no deforestation, no peat, no exploitation (NDPE) policy and contribution to reforestation.

In July 2018 the company became a member of the RSPO and committed to a plan to obtain Indonesia Sustainable Palm Oil (ISPO) certification by 2020. In August 2019 this goal was met. We continued to engage, and in March 2020 the company committed to an NDPE policy, promising to preserve areas of high conservation value and high carbon stock. It also said it would implement a programme outside its concessions on a scale that corresponds to the size of the developed plantation. In September 2021 the company achieved RSPO certification for all its plantations and mills, including smallholders.

In an August 2022 virtual meeting with parent Posco, it confirmed that its palm oil subsidiary's NDPE policy was being implemented in close co-operation with the RSPO. According to the company, a large-scale environmental conservation and community development programme has been developed in accordance with RSPO guidelines. This is being carried out by transparently communicating with relevant stakeholders, including indigenous peoples. We verified that the company's human rights grievance mechanisms were available to domestic and overseas workers, as well as people in impacted communities.

[4] https://www.hermes-investment.com/uploads/2023/02/66aec9d2d37638930bca5c6d7d63d810/eos-engagement-plan-2023.pdf

[5] https://www.hermes-investment.com/uk/en/intermediary/insights/?theme=stewardship&team=eos
[6] https://www.hermes-investment.com/uk/en/intermediary/eos-stewardship/eos-library/

CASE STUDY: SOCIAL

RPM International Human capital

Since 1947, RPM International's corporate culture has focused on a philosophy called the Value of 168, which is the sum of the hours in a week. For the company, its employees and affiliates, the Value of 168 is a constant reminder that there is limited time to do the right thing for the right reasons. The Value of 168's core principles – integrity, commitment, responsible entrepreneurship, and moral courage - help define the company, what it demands of itself and what others can expect it to do.

In 2018, the company underwent a major restructuring leading to staff redundancies and consolidation of the business. At that time, we raised concerns with executive leadership that these changes could dilute corporate culture if not appropriately managed. The company's change management actions to maintain the integrity of its culture were not apparent to us through the consolidation, and it was unclear how the company was promoting its Value of 168 core principles.

The company acknowledged our concerns stating that senior leadership had recognised the need to prioritise work on culture including a sustainability strategy, which we appreciated. We continued to reiterate our perspective and signalled our ongoing concerns at the 2021 annual shareholder meeting, with a further recommended vote against the longest-serving member of the nomination committee who was up for election.

In a call with the CEO and executive team in 2020, we welcomed the company's strong focus on employee health, safety and wellbeing in response to the Covid-19 pandemic. The company said it was mindful of maintaining a strong corporate culture and shared values. In 2022, RPM International published its second sustainability report (Building a Better World), which provides more robust disclosure of the company's culture and a renewed Value of 168 focus, as well as an emphasis on a sustainable product approach.

Our engagement has found the company to have effectively re-visioned its Value of 168 principles since the restructuring. It has also demonstrated a stronger commitment to the wellbeing of its employees during the pandemic and increased its focus on sustainable product design.

CASE STUDY: GOVERNANCE

Beijing Enterprises Climate governance

As part of our ongoing dialogue on climate governance with the state-owned utility company, Beijing Enterprises, we first raised our expectations for the company to assert greater board oversight on ESG and sustainability issues 2021.

We encouraged the company to form an ESG committee, which should be accountable for developing an ESG strategy that guides the senior management team, and can also be applied to wider employee training, target setting, communication and execution. In particular, we were concerned by the lack of board oversight on climate at the group level, particularly after President Xi Jinping announced China's ambition to aim for carbon neutrality by 2060.

Following our meeting in 2021, we asked Beijing Enterprises, as a state-owned business, to explain how it could fulfil the Chinese government's upcoming guidelines to achieve the 2060 carbon neutrality target. We urged the company to consider forming a sustainability committee with clear board oversight to lead discussions on how a utility company in China might practically achieve carbon neutrality.

In response, the company said that it was aware of the needs of the Chinese government and institutional investors and agreed to proceed with such a committee. In 2022, we welcomed the company's public announcement that seven members in the executive team had formed a sustainability committee of the board, chaired by the CEO. With the committee in place, we continue to urge the company to establish an emissions reduction/ decarbonisation plan, which should include short-, medium- and long-term targets, with reporting aligned to the Task Force on Climate-related Financial Disclosures framework (TCFD).

CASE STUDY: STRATEGY, RISK AND COMMUNICATION

The Bank of Nova Scotia (Scotiabank) TCFD implementation

In 2020, we raised concerns about Scotiabank's climate strategy and the value of integrating the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to address these issues, in a meeting with the corporate secretary.

We encouraged the bank to expand upon its TCFD disclosure by including metrics that would enable better tracking of its progress against its strategy. We also asked how it was thinking about financing restrictions. In a meeting with the independent chair in 2021, the chair asserted that the board supported disclosing a detailed strategy, and was focused on defining the pathway to net zero 2050 before making a public commitment.

> **The bank committed to transparency on its climate-related initiatives and continued alignment with the recommendations of the TCFD.**

In early 2022, the bank released its inaugural Net-Zero Pathways Report, expanding upon its enterprise-wide strategy to support the Paris Agreement by identifying and acting on pathways available to the bank to achieve net-zero emissions by 2050. The bank committed to transparency on its climate-related initiatives and continued alignment with the recommendations of the TCFD.

These include setting targets for all, or a substantial majority, of its carbon-intensive, high-exposure sectors within 36 months of signing the Net-Zero Banking Alliance commitment, reviewing interim targets at a minimum of every five years, and setting the next interim five-year target as it approaches each interim target year (eg the 2035 targets to be set prior to 2030).

We attended the bank's annual shareholder meeting in person in April 2022 and thanked the bank for its TCFD reporting, the alignment of its net-zero strategy with its business purpose – "for every future" – and its initial sector-based decarbonisation targets.

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 2020 and 2021, we collaborated with a working group of interested clients to redesign our client portal, which provides 24/7 access to our engagement insights. Based on their feedback, we have introduced new functionality to enhance the portal. You can read more about this later in the report.

Some markets reopened in 2022 as economies emerged from the Covid-19 pandemic, which allowed us to resume travelling to meet companies in person. We took advantage of this to build on the strong relationships that we had fostered with companies in the past to continue our engagement through face-to-face interactions. This included engagement trips to Australia, Japan and the Netherlands where we met with companies, often at their headquarters, as we pursued the long-term agenda of our Engagement Plan. On our priority themes, we saw good progress against our Plan's objectives, with some notable highlights below.

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, in 2022 we continued to focus on the same four priority themes as 2021. However, we updated our work in each area as follows:

Climate change action: We intensified engagement on aligning corporate targets with the goals of the Paris Agreement as closely as possible to 1.5°C.

Human and labour rights: We continued engagement on human rights in the supply chain, in particular the integration of human rights issues into business models and purchasing practices, and how this impact is evaluated and assessed. We elevated our focus on digital rights, which are human rights specific to digital products and services, and began engagement on online privacy rights, online freedom of expression, and the negative societal impacts of digital products and services, based on our investor expectations.

Human capital: We increased our focus on diversity and inclusion, freedom of association, and health and safety, with a particular reference to the employee value proposition in the context of a tightening labour market.

Board effectiveness and ethical culture: To enhance the quality of board performance and corporate decision-making, we focused on ensuring that boards make improvements to ethnic diversity that at least match the recent progress on gender diversity. We also asked boards to consider the lessons of the pandemic, including the possibility for more internationally diverse board appointments, enabled by more effective remote working practices.

We had also updated the engagement theme taxonomy for 2022 to reflect the latest best practice areas. The theme formerly referred to as 'conduct, culture and ethics' was renamed 'wider societal impacts' to reflect the societal impact of positive ethical behaviours (such as zero tolerance of bribery and corruption), as well as the benefits of achieving safer products and responsible tax practices.

For the past two 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, ie depth versus breadth, to which we are responding.

In 2023, 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

In 2021, a revised PRI Reporting Framework was introduced with each module scored out of 100, which translated into a rating out of five stars. FHL received five stars for Investment & Stewardship Policy, which partly reflected the work undertaken by EOS.

There is some literature on stewardship that demonstrates the direct financial benefits for investors when engagement occurs at the right level and with the appropriate resources. A few years ago, we shared our engagement data with an international team around Professor Andreas Hoepner from University College Dublin. The authors formulated a very simple – in this case paraphrased – research question: What effect do engagements by EOS have on the riskiness of targeted companies?

In 2023, we undertook an updated survey that focused on client service, but also incorporated questions on our reporting and communications.

The study revealed that companies that are successfully engaged by EOS exhibit a lower risk profile, particularly when environmental issues are tackled. We published a summary of the study on our website. The research was revised in November 2022 whilst maintaining its premise that engagement on environmental, social, and governance issues can benefit shareholders by reducing downside risks.[7]

Prior to this, back in 2017 a research team around Professor Wolff at the University of Göttingen also documented a link between interpersonal communication and the engagement success of EOS. The results showed that: personal interaction with companies is an important driver of success; chair meetings are especially important for successful governance engagements; and contact with C-level executives should be accompanied by meeting the chair or company secretary.

[7] ESG Shareholder Engagement and Downside Risk by Andreas G. F. Hoepner, Ioannis Oikonomou, Zacharias Sautner, Laura T. Starks, Xiaoyan Zhou :: SSRN

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 a limited company wholly-owned by FHL, which is wholly-owned by Federated Hermes, Inc. Its activities and direction are overseen by a legal board, comprising members of FHL's senior management team (SMT), which is responsible for all significant matters relating to the overall management of the business. Leon Kamhi, as chair of EOS at Federated Hermes and head of responsibility for FHL, is a member of the SMT.

EOS is represented on the Federated Hermes Governance Committee, 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. Its members are the head of responsibility (chair), head of investment, head of the international client group, managing legal counsel, chief regulatory officer and head of government affairs, and managing director, private markets.

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, the head of stewardship, the director of client service and business development, the director of business management 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, workshops or networking. Our thoughts for changes to our Engagement Plan, as well as updates on progress are shared so that clients 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 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.

Change is brought about by access at board level gained by engagement professionals who have industry or professional experience, gravitas, and the specialist skills to challenge senior decision-makers.

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 level gained by engagement professionals who have industry or professional experience, gravitas, and the specialist skills to challenge senior decision-makers. We believe 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.

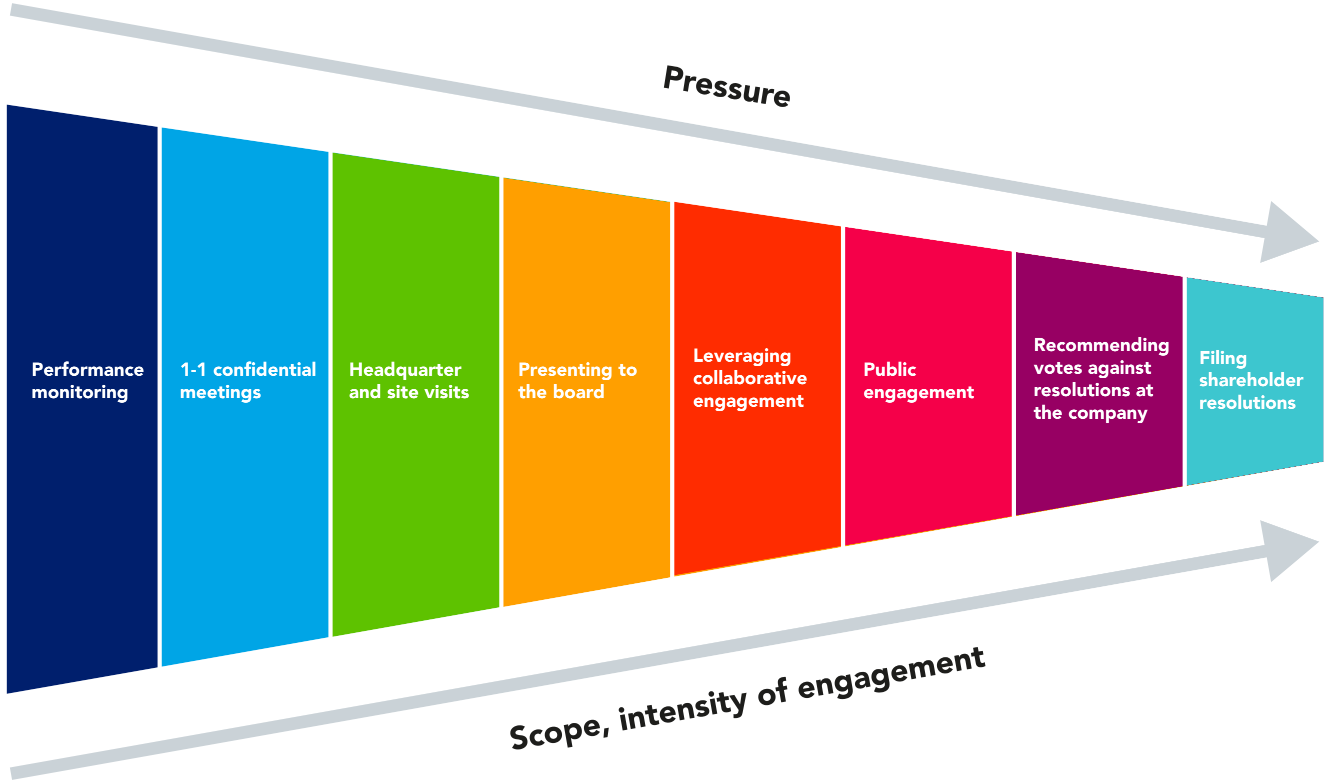
This approach to promote effective stewardship is also supported by literature on stewardship suggesting that engagement is most effective if it occurs at the right level and with the appropriate resources. Under Principle 1, we mentioned how we shared our engagement data with academics, which revealed that companies that are successfully engaged by EOS exhibit a lower risk profile, particularly when environmental issues are tackled. We also highlighted another study from 2017, which found that: personal interaction with companies is an important driver of success; chair meetings are especially important for successful governance engagements; and contact with C-level executives should be accompanied by meeting the chair or company secretary.

Escalating our engagement at the appropriate time

While we can be robust in our dealings 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 and add further pressure. When doing so, we would normally notify a company in advance. We may also 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 pressure for change at the company.



CASE STUDY

LyondellBasell

This summary example demonstrates the escalation of an engagement over several years, using a selection of engagement tools, including collaborative engagement and a legal mechanism to secure a discussion on climate change at an annual shareholder meeting.

EOS has engaged with the multinational chemical major, LyondellBasell Industries, on climate change since 2017. As part of Climate Action 100+ (CA100+), a collaborative engagement of more than 370 investors and their representatives seeking greenhouse gas emissions reductions from the world's largest emitters, we co-lead the engagement with the company.

LyondellBasell first published its sustainability disclosures and CDP reports in 2017. These disclosures were useful but did not set targets. Given the company's reliance on hydrocarbon value chains, the materiality of energy expenses, and its role in scaling solutions to global plastics pollution challenges, we wanted the company to set ambitious climate targets. In 2019, our feedback on the company's sustainability and CDP reports raised our concerns regarding a lack of forward-looking targets for energy efficiency, carbon emissions, effluents, water efficiency and waste, and meaningful solutions for sustainable plastic use.

Together with CA100+ investors and their representatives, we met the CEO and senior management in Q2 2021 to discuss the company's progress towards disclosing sustainability targets, including its planned science-based targets and a net-zero ambition.

By 2030, the company aims to source a minimum of:

50%

of its electricity from renewable energy sources

Escalation

In order to accelerate progress, EOS, as the CA100+ lead for the company, used a legal mechanism to propose a discussion on climate change at the company's 2021 annual meeting. EOS led contributions by a group of eight institutional investors who posed questions on climate progress, leading to over 45 minutes of shareholder-board discussion on the company's climate change strategy. During the meeting the company indicated its willingness to make further commitments.

In Q3 2021, we welcomed the company's release of its climate strategy, setting a Scopes 1 and 2 net zero ambition for its global operations by 2050; a 30% absolute reduction of Scopes 1 and 2 emissions by 2030; and a goal to source a minimum of 50% of its electricity from renewable energy by 2030.

The company also has a goal to produce and market two million metric tons of recycled and renewable-based polymers annually by 2030. To deliver on this ambition, it recently announced a new organisational structure including a Circular and Low-Carbon Solutions business segment, and is strategically investing along the value chain.

It has also set out a pathway towards achieving its 2030 target and we encouraged LyondellBasell to collaborate with industry peers with the aim of developing a science-based sector-wide Scope 3 approach. In late 2022, LyondellBasell announced that it would increase its 2030 greenhouse gas emissions reduction targets for Scopes 1 and 2 emissions to 42%, relative to a 2020 baseline. It also said it would establish a 2030 Scope 3 greenhouse gas emissions reduction target of 30%, relative to a 2020 baseline, and in accordance with guidelines from the Science Based Targets initiative (SBTi). It will submit its climate goals to the SBTi to be validated against SBTi guidance.

We continue to engage with LyondellBasell on its pathway to net zero including capital allocation and climate policy.

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 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.

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

The EOS team has strong gender diversity (63% female/37% male for permanent staff as at 31 December 2022) 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 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
- Academia
- Law
- Corporate governance
- Sciences
- Corporate strategy
- 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 18 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. 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, as we believe face-to-face engagement 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. The training also provides exposure to areas of the business that the team would not necessarily have otherwise.

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 2022, EOS ran 45 of these sessions, which were also attended by investment analysts.
3. **Thematic webinars** – we hosted six thematic webinars exclusively for the EOS team. These covered topics such as biodiversity, climate change and human capital management.
4. **Deep-dive thematic** – EOS team members delved into detail on climate change, covering areas such as asset sales, a just transition and offsetting. We hosted five of these sessions in 2022 for EOS team members.

In addition, we have 15 separate industry working groups, consisting of investment professionals and engagers, in which the format is to discuss two companies from a fundamental and engagement perspective.

Diversity, equity and inclusion across the wider firm

Our firm-wide diversity, equity and inclusion (DEI) approach is of relevance to those involved in our stewardship activities. We have a long-standing commitment to increase diversity and inclusion in our business, and we acknowledge that we need to make further progress. We aim to foster and promote a culture of inclusion that 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 this area, our SMT endorsed the firm's new DEI Strategy and Action Plan in 2022.

The firm's employee resource group UNITY, the Inclusion Committee, its Corporate Citizenship team and its Human Resources team discovered new ways to support our workforce, especially as we transitioned to a more flexible working life in 2022. Activities undertaken over the year included the continuous development and support of the firm's seven Employee Networks, which hosted several events including the City Hive Cross-Company Mentoring Scheme in collaboration with the #TalkAboutBlack programme, for which we were a lead sponsor.

The Race Steering Group, which was set up to improve racial equity within the firm, continues to work through the recommendations outlined in the Insight Report. This report was generated for FHL by an external consultant from a series of listening and coaching circles with leadership colleagues on ethnic diversity and inclusion in 2021.

After signing the Menopause Workplace Pledge, the firm launched a Menopause Project Team to support female colleagues experiencing menopause symptoms and offer training for employees.

After signing the Menopause Workplace Pledge, the firm launched a Menopause Project Team to support female colleagues experiencing menopause symptoms and offer training for employees. The Team has trained Menopause Champions and Advocates, and an SMT Menopause Champion. The firm continues to support listening circles for Gender and Disability, and will expand these to other protected characteristics of the Equality Act 2010. The firm also launched its Equality Data Campaign in the latter part of 2022 to capture the Equality Data of our employees (see below).

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

In 2022, 274 employees, from line managers to SMT members, attended Inclusive Leadership training and follow up focus groups. FHL has a programme of inclusion training including Cultural Competency workshops and Inclusive Recruitment workshops. For more information, please see the firm's website.[8]

[8] https://www.hermes-investment.com/uki/about-us/diversity-and-inclusion/

Taking a data-led approach will allow the firm to see to what extent different people and characteristics are underrepresented at senior levels, are less engaged or face higher incidences of racism, discrimination, bullying and harassment.

With the support of FHL's Employee Networks, in which EOS participates, the firm embarked on an Equality Data Collection Campaign in the latter part of 2022 to increase the number of employees sharing equality and diversity data. By collecting and analysing equality and diversity data, FHL will be able to see if its practices are providing fair access and opportunities for all, and reducing inequalities.

Taking a data-led approach will allow the firm to see to what extent different people and characteristics are underrepresented at senior levels, are less engaged or face higher incidences of racism, discrimination, bullying and harassment. Data collection is paramount in highlighting these disparities – but it is also important that the firm acts on the data that it collects. FHL will look at data through the intersectionality lens, so that it can analyse and understand employees' individual experiences in a more nuanced way rather than looking at characteristics in isolation.

In our last report, we set out some of the steps that FHL and EOS are taking in an effort to achieve greater diversity, equity and inclusion in the workplace and to support the firm's 2025 commitment to achieving an equal gender balance across our workplace. These actions are ongoing in 2023. Other DEI activities planned for 2023 include further cultural competency and inclusive recruitment workshops; completing inclusion leadership training for line managers and senior colleagues; and rolling out inclusion training for the rest of the firm.

FHL will be delivering the DEI Strategy and Action Plan and working with its Employee Networks. These have planned activities including menopause training for line managers and colleagues, and training on improving accessibility and inclusion for deaf colleagues.

It is also important to note that EOS seeks to amplify its impact by actively engaging with companies on DEI. Engagement objectives at companies include ensuring board diversity and effective oversight of DEI practices among employees, supply chains, and products and services.[9] Our internal experience provides insight into engagement, and engagement with companies provides insight into best practices that we seek to infuse into our company.

In our last report, we set out some of the steps that FHL and EOS are taking in an effort to achieve greater diversity, equity and inclusion in the workplace and to support the firm's 2025 commitment to achieving an equal gender balance across our workplace.

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. Our investment teams can access this database, which affords them a full and instantaneous view of the engagement history with the company.

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 business as a whole, which is much less directly quantifiable but just as important to address. It also considers the feasibility of achieving success when assessing engagement candidates.

In order to understand this, a certain amount of company research is necessary. There is no hard and fast rule to this. However, from this research, 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 or material. 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[10] (Guidelines) inform our recommendations. The Guidelines explicitly reference ESG factors and aim to harness voting rights as an asset to be deployed in support of achieving engagement outcomes.

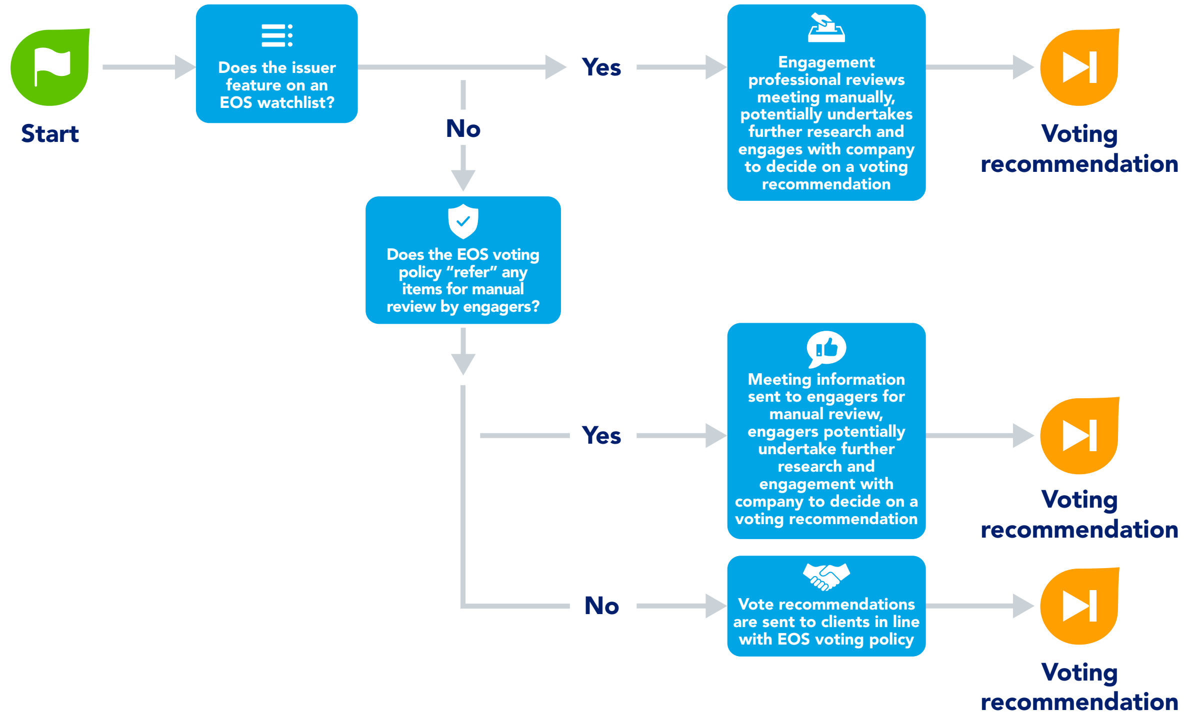
Our Guidelines are informed by a hierarchy of externally- and internally-developed global and regional best practice guidelines - our regional vote policies and corporate governance principles and country-level engagement and voting priorities. These set out our fundamental expectations of the companies 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 ESG 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 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 2022 we made voting recommendations on 134,188 resolutions at 13,814 meetings. 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 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.[11]



[9] https://www.hermes-investment.com/ie/en/professional/eos-insight/stewardship/creating-value-by-addressing-social-injustice/

[10] https://www.hermes-investment.com/uploads/2021/12/e8cded419aa5ed6696cf1c258a64714e/fheos-corporate-global-voting-guidelines-2022.pdf

[11] https://www.hermes-investment.com/uploads/2021/12/5c453873d45c4c701ec0baf8a78070e1/eos-corporate-bpp-compliance-statement-12-2020.pdf

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 – our clients have the opportunity to endorse and co-sign our written responses through our process of sharing our drafts with them ahead of submission.

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 Office, often draws upon the processes and relationships within the Responsibility Office to assist with such requests.

The Responsibility Office acts as the conscience of the business, holding all colleagues to account for executing on the firm's mission of delivering sustainable wealth creation for investors. It supports, monitors and holds its investment teams and EOS accountable for the integration of engagement and ESG factors into investment strategies and engagement activity respectively.

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, ESG 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:

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-to-day 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 as a key driver. 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.

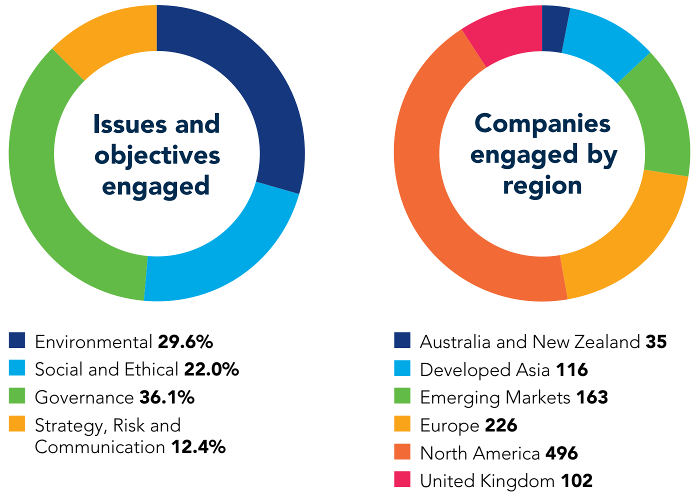
The effectiveness of our governance structures and processes in supporting our clients' stewardship

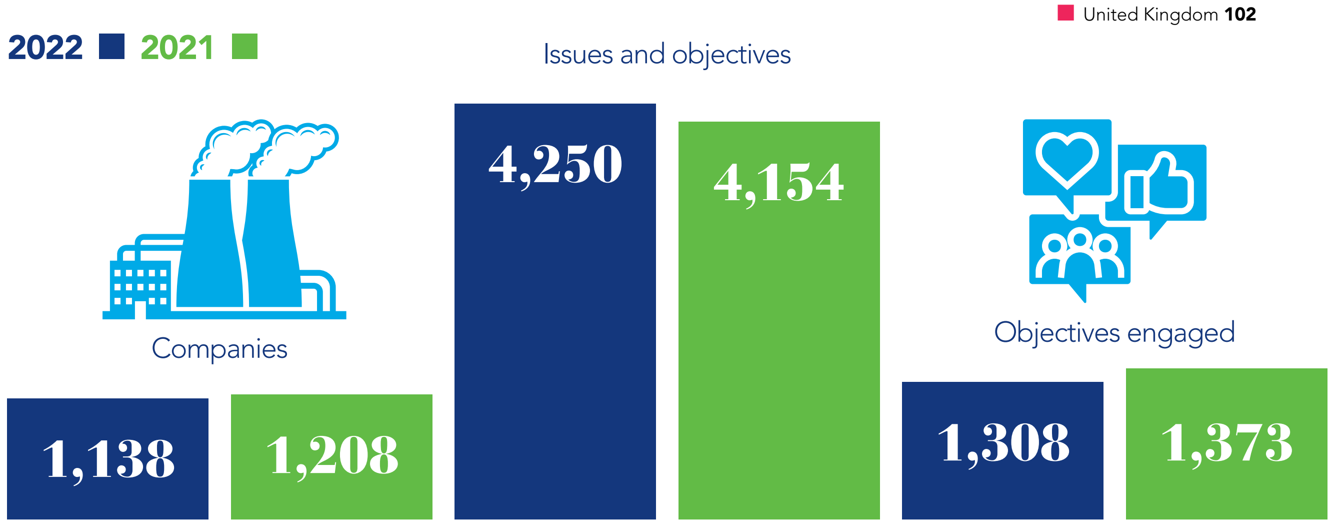
Our governance structures and processes, as outlined earlier, are a result of how they have worked in practice and their evolution over time. We believe we have a good balance of internal governance structures and processes, as well as structures to integrate external client input to support effective stewardship. The following charts demonstrate our activity in 2022 versus the prior year, which suggests that our governance structures and processes in supporting our clients continue to be effective.

> **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.**

Number of engagements

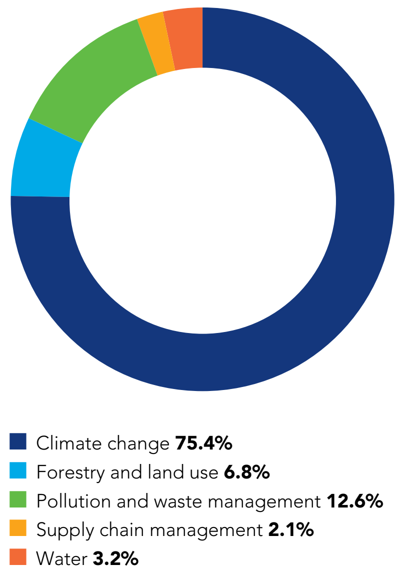
Principle 1 outlined our headline engagement process during 2022. In addition, the following charts demonstrate that our structures and approach are considerate of our global client base with differing priorities, outlining a breakdown of our engagement according to theme and region during 2022.



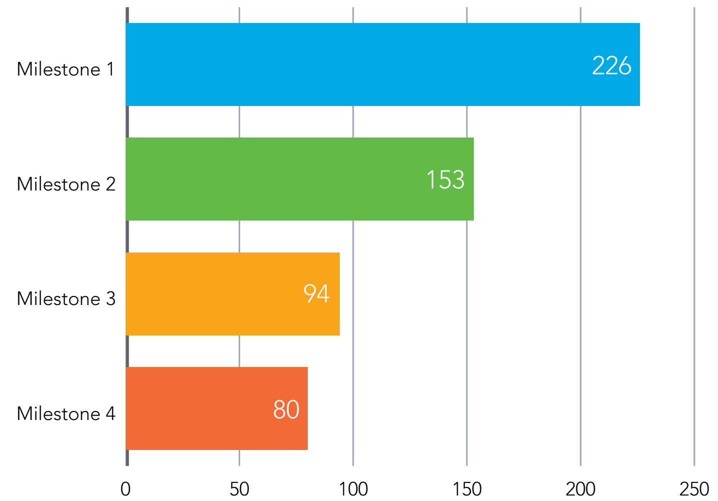


Source: EOS data

Environmental topics comprised 30% of our engagements in 2022.

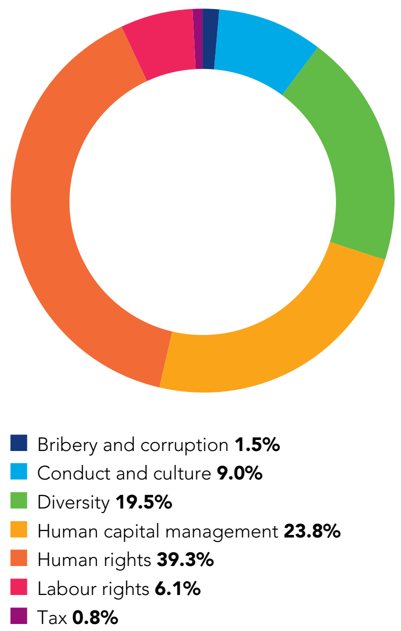


Progress against environmental objectives

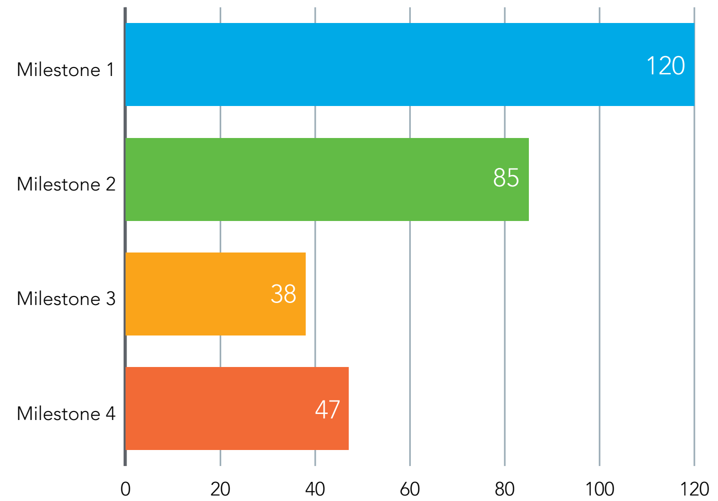


Source: EOS data

Social and ethical topics comprised 22% of our engagements in 2022.



Progress against social and ethical objectives

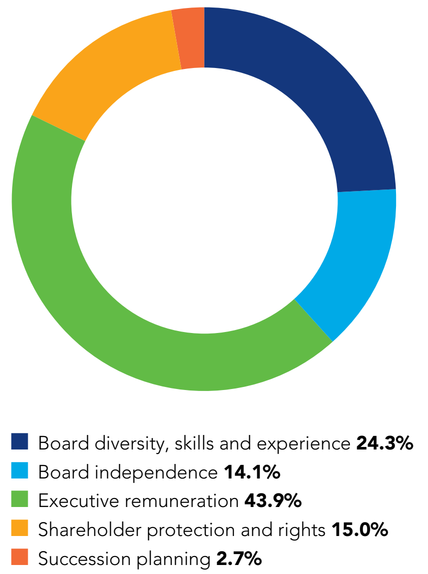


Source: EOS data

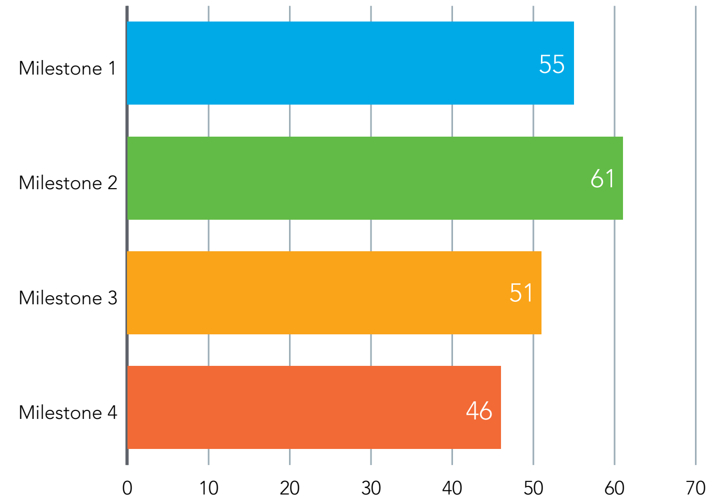
Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously. A summary of some the key issues on which we engaged in 2022 is shown across these two pages.

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.

Governance topics comprised 36% of our engagements in 2022.

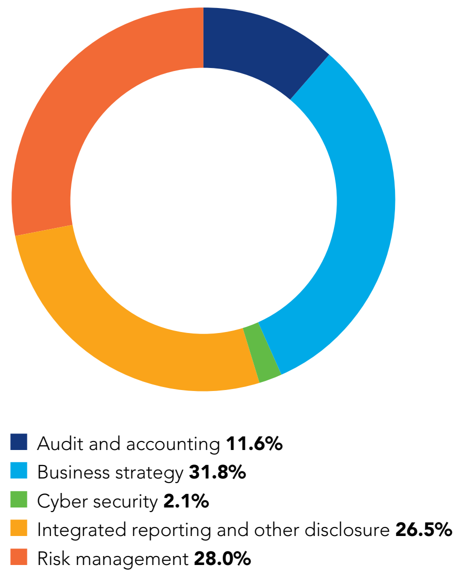


Progress against governance objectives

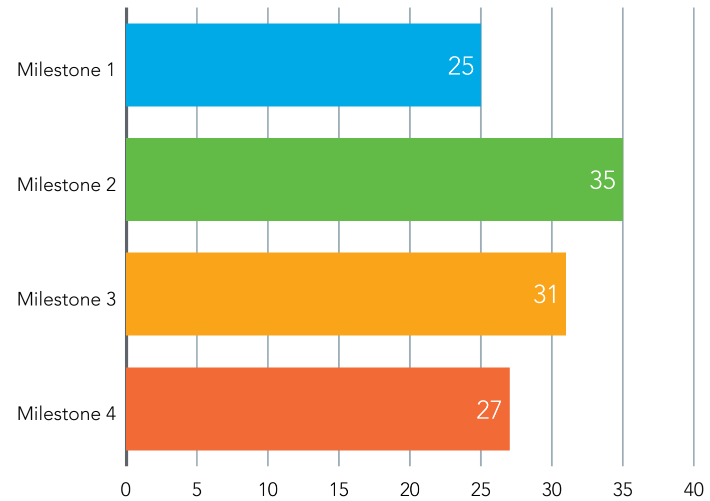


Source: EOS data

Strategy, risk and communication topics comprised 12% of our engagements in 2022.



Progress against strategy, risk and communication objectives



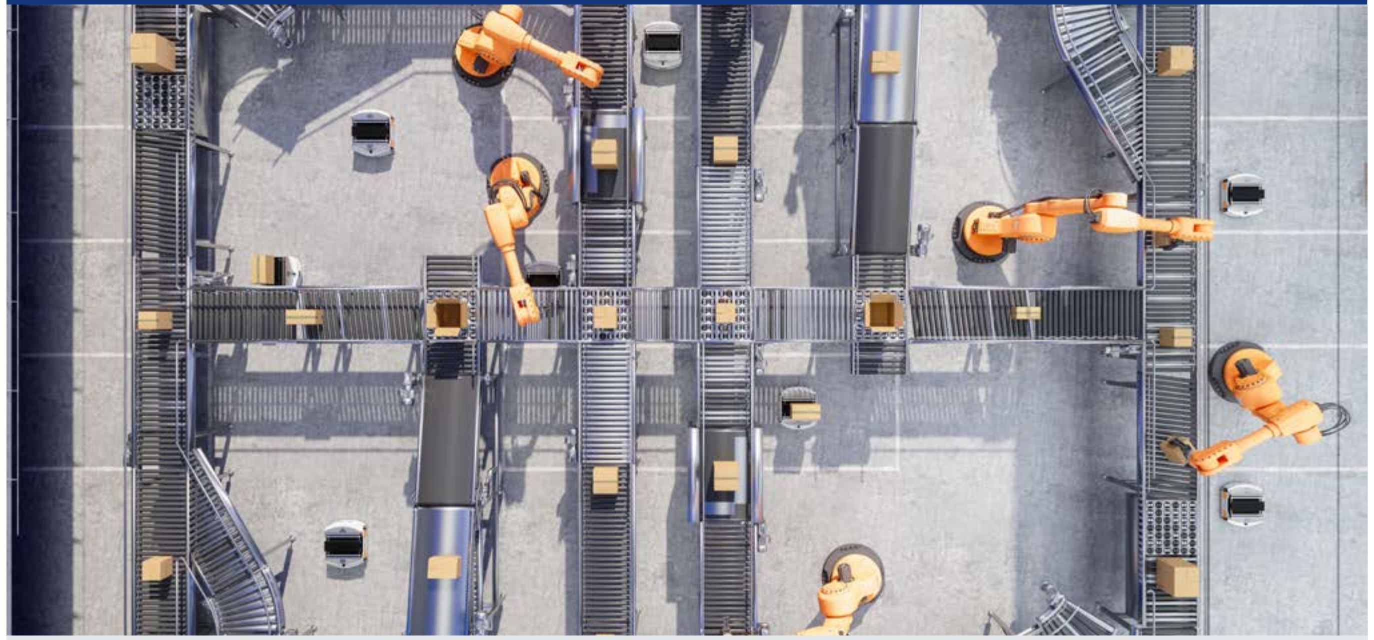
Source: EOS data

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 on the next two pages.

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.

CASE STUDY

Alibaba



Alibaba provides online, offline and mobile marketplaces, alongside other services such as cloud computing and digital media and entertainment, both in China and internationally. It is dual-listed in the US and Hong Kong, with overseas investors accessing the stock via a variable interest entity structure (VIE). Initially, little information was provided about the governance, the appointed directors and the oversight of this entity, or how it interacted with the Hong Kong-listed company.

In addition, Alibaba has a partnership structure, raising concerns about board and committee independence, and about how the partnership interacts with the board. A combined chair/CEO and the lack of a lead independent director were also of concern.

We first raised our concerns about the lack of shareholder communication in 2015. Subsequently, we also expressed concern about insufficient board and committee independence. Ahead of the 2018 annual shareholder meeting, we issued a public statement, calling for clarity on the company's board governance structure including the VIE structure, improved board independence (of at least 50%), the appointment of a lead independent director, and independent chairs for the nomination and governance committee and the compensation committee.

In a call with the company in June 2021, we highlighted Alibaba's opportunity to improve its board independence by replacing a non-independent non-executive director with an independent director, who would ideally be female. The investor relations director said this was a useful suggestion and it would be relayed to the board.

In a call with the company in June 2021, we highlighted Alibaba's opportunity to improve its board independence by replacing a non-independent non-executive director with an independent director, who would ideally be female.

Outcomes

At the 2021 shareholder meeting, Alibaba did not propose the re-election of one of the non-independent non-executive directors, as we had suggested, meeting the goal of 50% board independence. In 2022, the company appointed an independent chair to the nomination and governance committee.

The 2019 and 2020 reports provided more information on the VIE structures. This included information about the governance and the holding structures as well as the names of the individuals from the Alibaba Partnership who form the limited liability companies as part of the VIE structure. As part of establishing a credible plan to improve minority shareholder engagement, the company appointed a director responsible for engaging with shareholders on all aspects of ESG, leading to significantly improved shareholder engagement.

- **Read the case study in full: https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/alibaba-case-study/**

CASE STUDY

DuPont de Nemours

This chemical company is seen as an environmental and social leader in many regards, but when the new board was announced in 2019, board gender diversity was well below expectations at 8%. We expected the company to refresh its independent board over the next two years to increase gender representation and demonstrate that it was driving towards at least 30% women on the board.

In 2020, we raised the topic of board gender diversity during our engagement with the company and it indicated that it was seeking to refresh the board over time, with diversity being one of several criteria. At the 2021 annual meeting, while we noted that progress had been made, board gender diversity remained below our expectations at 25%.

In our engagement with the company later that same year, we learned that it was not in a period of active board refreshment, but was being purposeful about adding female directors to the board, which we welcomed. In Q1 2022, we wrote to the company providing our US corporate governance principles and conveying our expectations with respect to board diversity.

Outcomes

In the company's 2022 proxy we were pleased to read about the nomination of a female director to the board bringing gender diversity to above 30%. During our subsequent engagement with the company on its proxy, we welcomed the increase in board gender diversity, the company's enterprise-wide focus on diversity, equity and inclusion (DEI) and publication of gender, race and ethnicity data on a dedicated DEI webpage.

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 2022, we continued the development of our client portal following its launch in 2021. Through our client working group and other feedback, we improved the client portal to facilitate better communication of engagements to clients. This was supported by our EOSi portal campaign, which consisted of a series of emails to educate clients about how they could optimise their use of the portal.

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 proposals 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 to be engaged. 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 below, both of which have been anonymised.

CASE STUDY

Discontinued objective: Increase shareholding requirements of CEO

We began engaging with this energy provider on this issue in 2019, asking the company to increase the CEO's stock ownership requirements from the existing five times salary and to lengthen the required holding period. The company acknowledged our request. We reiterated our concern for the CEO to be required to own more shares during a call with the head of ESG in late 2020.

Ahead of the 2021 and 2022 shareholder meetings, we reiterated our vote recommendations against the say-on-pay proposal due to CEO compensation placing well above the 75th percentile. This was due to the company's below-average performance, and the fact that the company continues to fall outside vote policy thresholds with elevated severance arrangements and low CEO stock ownership guidelines.

Following our engagement activity, the company has failed to make progress from the current five times base salary guideline in place. We will continue to engage on this issue, alongside further efforts to enhance the robustness of performance targets underpinning compensation. While we will continue to articulate to the company that a failure to increase its CEO stock ownership guidelines may result in continued recommended opposition to say-on-pay proposals, we are discontinuing the objective as it no longer warrants heightened focus.

CASE STUDY

Discontinued objective: Improve shareholder rights

Since 2019, we have engaged with this vehicle manufacturer to improve shareholder rights. Specifically, this has related to annual elections for directors, a majority vote standard and the ability for shareholders to call a special meeting in line with our US corporate governance principles.

At the company's 2021 annual meeting, we recommended support for a shareholder proposal to declassify the board, which received majority support. In 2022, we sent the company our updated US corporate governance principles and a cover letter highlighting our expectations on governance, in particular. We asked the company to share any feedback or questions it may have on the documents. To support our ongoing corporate governance engagement, we also highlighted our expectations on compensation given concerns tied to misalignment of pay and performance in the past.

> **At the company's 2021 annual meeting, we recommended support for a shareholder proposal to declassify the board, which received majority support.**

We were disappointed that the board did not implement the wishes of the majority of its shareholders following the 2021 annual meeting, instead putting forth a management proposal in 2022 to reduce the term of its classified board versus declassification of the board. At the 2022 annual meeting, board-supported management proposals to reduce director terms to two years and eliminate the applicable supermajority voting requirements each failed to gain the supermajority vote threshold needed of at least 66.67% of the total outstanding shares of the company's common stock.

Our engagement to advance shareholder rights at the company has failed to achieve the desired outcome within a reasonable timeframe. Further progress is challenged by the current supermajority voting provisions in place. However, we will continue to exercise our vote recommendations in line with our corporate governance principles to improve shareholder rights at the company.

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[12] sets out our commitment to act professionally at all times. 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 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.**

We also have a specific Stewardship Conflicts of Interest Policy.[13] 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

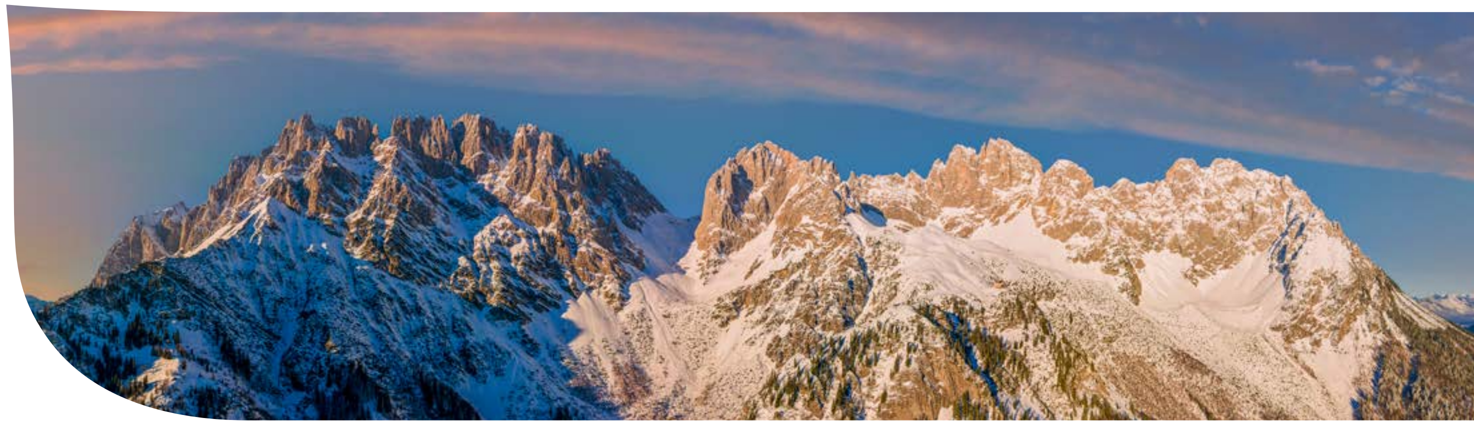
Ownership

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.



[12] Conflicts of interest policy (hermes-investment.com)
[13] Stewardship conflicts of interest policy (hermes-investment.com)

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.

Short selling

Whilst FHL's investment teams do not generally hold short positions, those teams that regularly have short positions are prohibited from being involved in any engagement activities for companies where they hold a short position.

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 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.

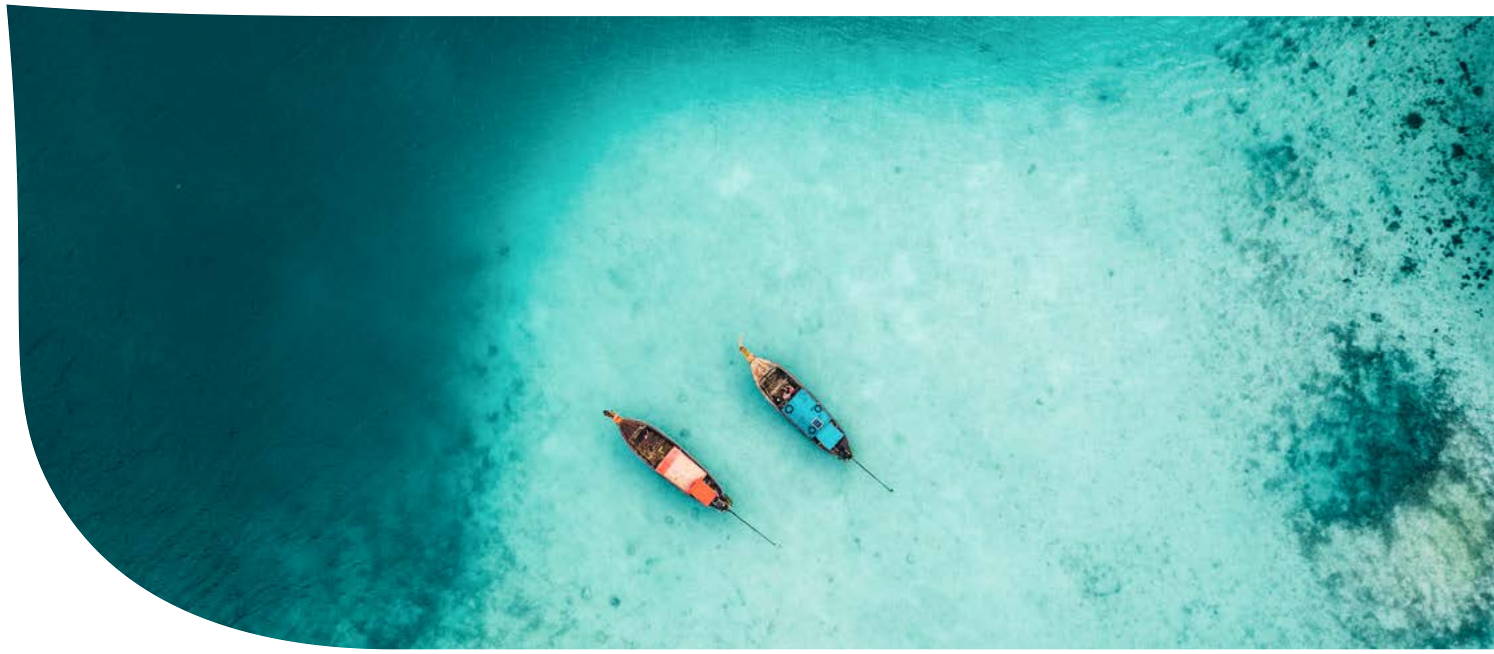
In our voting recommendations and engagements with companies which are the sponsors of (or in the same group as) our clients, we are careful to protect and pursue the interests of all our clients by seeking to enhance or protect the long-term value of the companies concerned. In the first instance, we 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.

> **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.**

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 our voting policies. EOS' external clients are also invited to join upcoming engagement meetings on a sustainable and appropriate basis. The engagement objectives are set out and the voting recommendations made and provided by EOS in line with FHL's Responsible Ownership Principles (or, where agreed, client-specific 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 ESG risks, and results in a better appreciation of ESG risk 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.

> **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.**

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 Governance Committee, which acts as an escalation committee.

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 Governance Committee. The Governance Committee is comprised of our Head of Responsibility, Head of Investment, Head of International Client Group, Managing Legal Counsel, Chief Regulatory Officer and Head of Government Affairs and Managing Director, Private Markets.

The group is guided by our mission to deliver sustainable 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, which is an independent sub-committee of the FHL board.

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.[14]

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.

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 following are some examples of conflicts that arose as a result of client interests, which we identified and managed in 2022:

- An EOS engager had a prior relationship with an executive who had recently assumed the role of chief legal officer in a company for which the engager had taken the lead role in 2022. To avoid the potential perception of a conflict of interest, the company was re-assigned to an alternative engager.
- We made voting recommendations for the items on the agenda at a company's 2022 annual shareholder meeting. As EOS had a number of clients within the company's wider group, the vote was escalated to the Escalation Group, where it was decided to recommend support for all items. The clients did not speak to the EOS team about the vote or influence our voting recommendations.
- A potential conflict of interest arose between the EOS voting policy and the views of FHL's investment team. The EOS vote policy suggested a recommendation to vote against the re-election of a company chair due to the tenure exceeding nine years and concerns over shareholder rights. The EOS template also recommended support for the remuneration policy. After discussions between EOS and the investment team, it was agreed to recommend supporting the chair's re-election, as the investment team's engagement with the company suggested that sufficient plans were in place. It was also agreed to recommend voting against the remuneration policy due to the substantial increase in the annual bonus as a percentage of base salary.

[14] Stewardship conflicts of interest policy (hermes-investment.com)

Principle 4

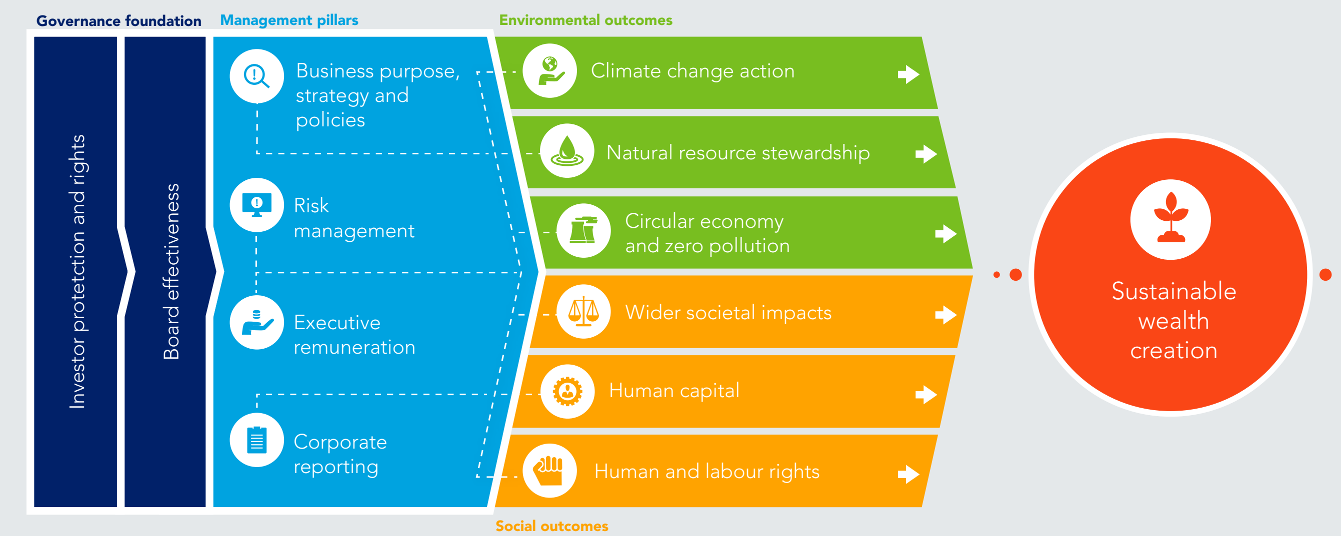
Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

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

Selecting our engagement themes for 2023-25

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 12 key themes and 32 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.



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 action: ensuring company strategies and actions are aligned with the goals of the Paris Agreement to limit climate change to 1.5°C, and demonstrating that business models are resilient and can adapt to future climate change.

Natural resource stewardship: protecting, preserving and restoring natural resources and biodiversity by transitioning to sustainable food systems, avoiding antimicrobial resistance and managing water stress.

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, including through the provision of affordable essential goods and services to help reduce poverty.

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

Wider societal impacts: ensuring that a company adheres to the highest ethical standards, with zero tolerance of bribery or corruption, and responsible payment of taxes. It should also maximise the positive impacts of its products and services while reducing any associated harms to the extent that this is possible.

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 – encompassing effective boards composed primarily of independent individuals representing the diversity of stakeholders the company serves; the alignment of executive remuneration with the creation of long-term value while paying strictly no more than is necessary; developing a corporate culture that puts customers first and treats material stakeholders fairly; and the establishment and protection of all material investor rights.

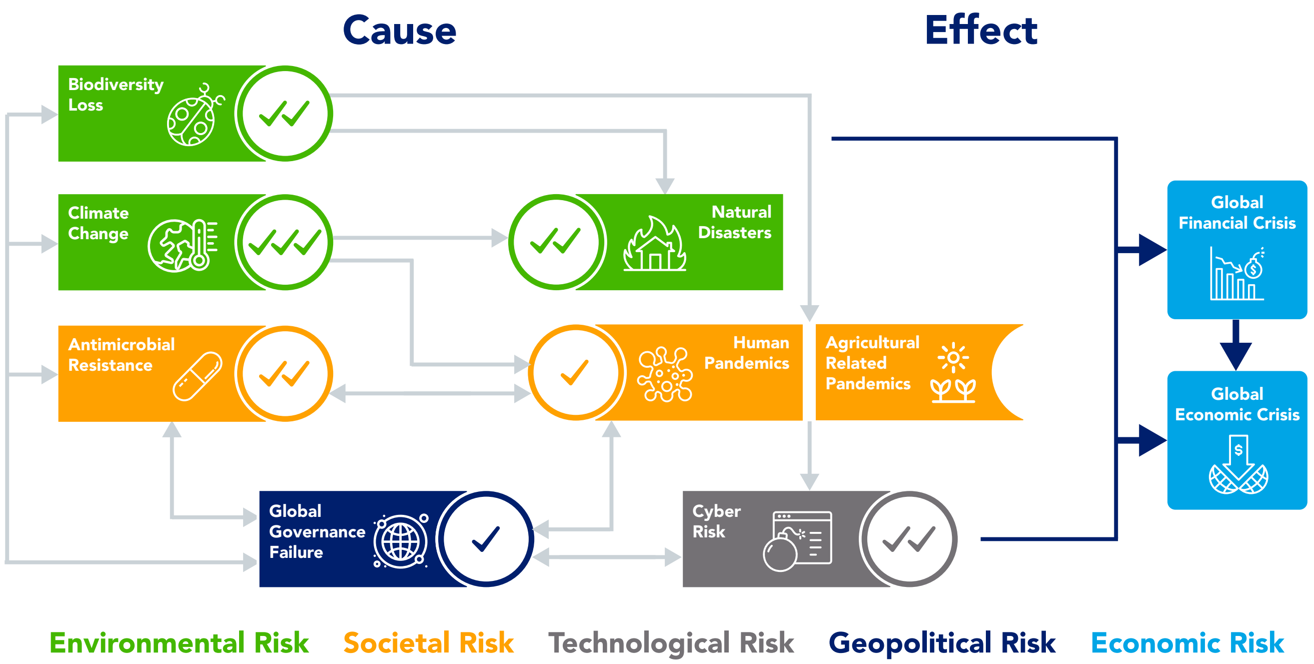
Strategy, risk and communication – the clear articulation of a company's purpose in order to deliver long-term value to all stakeholders, supported by a sustainable business model and strategy that addresses the needs of its different stakeholders; robust risk management practices to protect long-term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

Addressing systemic risks through engagement

Part of our horizon scanning exercise in 2022 included a review of recent academic reports to ascertain the key systemic risks to take into consideration across our engagement work. Our review included the latest academic research from the World Economic Forum Global Risks Report[15] and the Centre for Risk Studies at Cambridge University.[16] We looked at the most important systemic risks that were highlighted, examined how they were interlinked, and often had 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 resistance – which have cascading causal effects, are important themes in our Engagement Plan.

> **We looked at the most important systemic risks that were highlighted, examined how they were interlinked, and often had cascading effects, and overlaid these with the focus areas 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

[15] World Economic Forum, 'Global Risks Report 2023', (January 2023)
[16] Systemic Risk: Systemic solutions for an Increasingly Interconnected World - Managing multi-threat - Cambridge Judge Business School

Alignment with the SDGs

In addition, the United Nations (UN) has 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 our engagement work is aligned with 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).

2,617

of the issues and objectives engaged in 2022 were linked to one or more of the SDGs

Source: EOS data

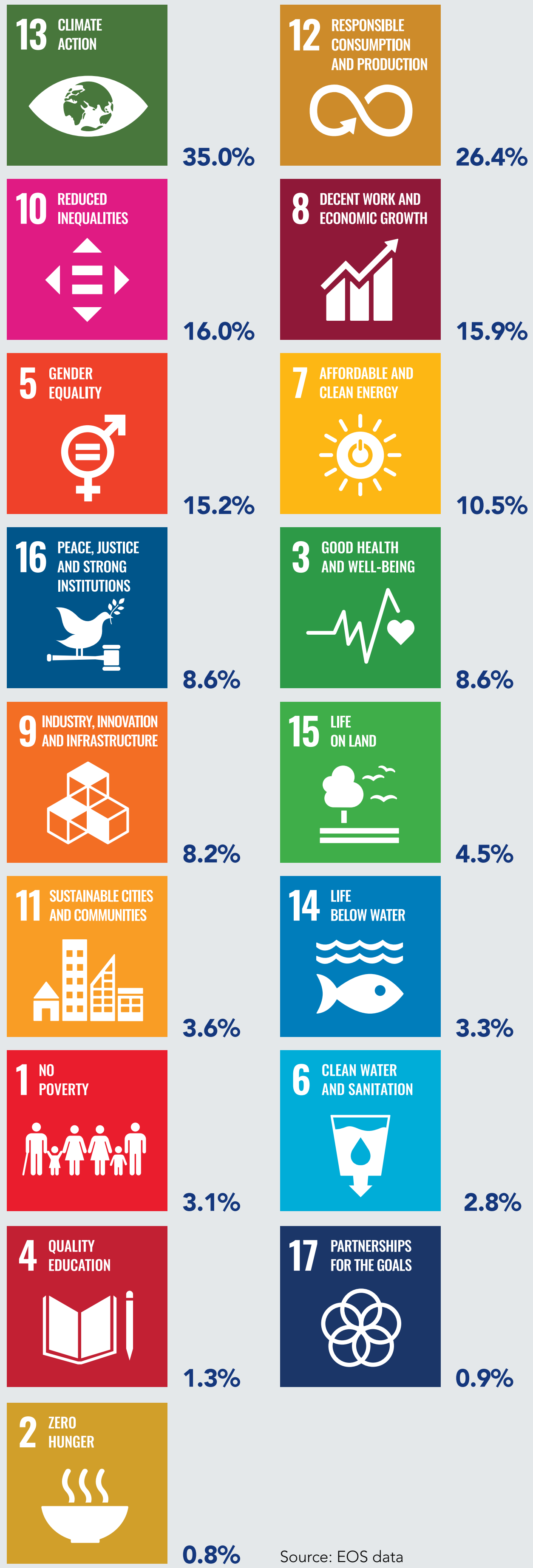
A spotlight on our approach to climate change

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. Our engagement remains focused on companies having a strategy and greenhouse gas reduction targets aligned with the Paris Agreement, seeking to limit climate change to 1.5°C, together with aligned financial accounts and political lobbying. Under the broader Glasgow Financial Alliance for Net Zero and our own engagement-driven targets, we have intensified our engagement with banks, ensuring that their net-zero ambitions are aligned with those of asset managers.

In the near-term, this means that we seek a range of objectives such as: development of a strategy consistent with the goals of the Paris Agreement, including that each new material capex investment is consistent with the Paris goals; science-based emissions reduction targets for Scopes 1 and 2 emissions and Scope 3 emissions (where a methodology exists, or the equivalent ambition); a public policy position supportive of the Paris Agreement goals and alignment of both direct and indirect lobbying activity by member industry associations; board oversight and understanding of climate risks and opportunities; and adoption and implementation of the TCFD recommendations. We also support action to ensure that published financial accounts and political lobbying are similarly aligned.

EOS has continued to lead or co-lead collaborative engagements across multiple sectors through the Climate Action 100+ and Institutional Investors Group on Climate Change (IIGCC) initiatives. We have started engaging more systematically on physical climate risk at exposed companies, targeting the development of adaptation plans that will bring much needed resilience. We are strengthening our focus on the need for a 'just transition' and the human rights impacts of climate change.

Proportion of issues and objectives engaged in 2022 linking to the SDGs



Source: EOS data

Our response to the cost of living crisis and social inequalities

Soaring food and fuel price inflation squeezed household budgets in 2022, driven by supply chain disruption, Russia's invasion of Ukraine, and labour shortages in key sectors such as logistics. Frequent price hikes by supermarkets for staples such as bread and milk hit lower-waged workers hardest. Central banks responded to inflation by raising interest rates, impacting borrowing costs. This created a cost of living crisis, with household budgets under severe strain, prompting workers in some sectors to seek a pay rise to match inflation.

The crisis has had a disproportionate impact on low-waged households as they spend a larger proportion of their income on basic necessities, such as fuel and food. In recognition of these pressures, we integrated cost of living engagements into our wider stewardship programme in 2022. We challenged companies on their role during this difficult time, encouraging them to assess the impacts of their business models on their stakeholders, and to articulate the actions they could take to help support the most affected, without damaging their long-term sustainability.

Companies need to balance the various pressures in their value chain and steer a responsible course through crises. We encouraged companies to consider paying the real living wage, as demonstrated by our voting recommendations, to be creative in meeting the challenges at different levels in their organisation, and to think carefully about how they could support their employees with other benefits. This included exercising restraint over executive remuneration, similar to the approach taken during the height of the pandemic.

Key insights from our cost of living engagements

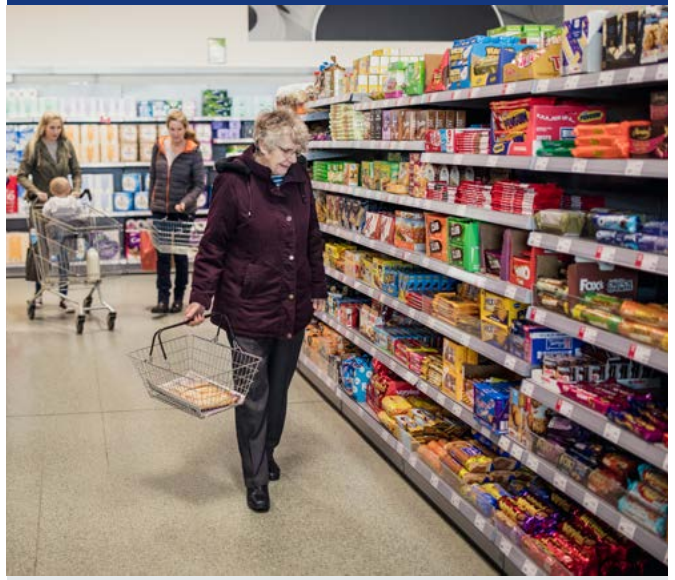
With UK supermarket chain Sainsbury's, we supported the company's adoption of the living wage for 90% of its workforce. It also brought forward its 2022 annual pay review to help offset rising cost pressures for employees. We challenged Marks & Spencer on its decision not to subscribe to the Living Wage Foundation, but were reassured that it was working on different cost of living proposals that could achieve an equivalent wage package, such as increased shopping discounts for employees and families. The Royal Bank of Canada confirmed that it would increase its total rewards package to support employees, including a mid-year 3% base salary increase, enhanced family benefits and the offer of mental health/wellbeing support.

Companies also need to work with their suppliers to ensure that rising cost pressures are managed effectively, so that they can continue to provide quality goods while maintaining health and safety standards and conditions of employment. It may not be viable for the full increase in operational costs and wholesale prices to be passed on to customers, as low income households will struggle to absorb this inflation. Our engagement with FTSE 100 company Ashtead, which operates an equipment rental company in the UK, US and Canada, showed that businesses that treat their employees well during a crisis are able to reap the dividends. By bringing forward pay reviews and paying the living wage, it has maintained staff engagement. Meanwhile, its customers are shifting from purchasing heavy plant to rental models, which has benefitted Ashtead.

> **Companies also need to work with their suppliers to ensure that rising cost pressures are managed effectively, so that they can continue to provide quality goods while maintaining health and safety standards and conditions of employment.**

VOTING CASE STUDY

Sainsbury's



Typically, we will engage with companies on employee remuneration and encourage accreditation by the Living Wage Foundation in the UK, or similar organisations such as the Global Living Wage Coalition. However, we also recognise the need for wage restraint to control inflation. This means focusing pay increases at the lowest levels, while demonstrating pay constraint at higher levels. This provides a more nuanced approach to remuneration that supports those hardest hit by inflation.

A shareholder resolution was filed at Sainsbury's 2022 annual shareholder meeting calling for the grocery chain to seek accreditation from the UK Living Wage Foundation. In line with our ongoing engagement with the company on the payment of living wages for its workforce and third-party contractors, we gave the resolution careful consideration and engaged intensively with the company – including with the chair, CEO and HR director – to understand its concerns about seeking accreditation.

We understood that Sainsbury's already paid the vast majority of its workforce at or above that level, and believed that the majority of its contractors were paid at that level as well. While we welcomed the actions the company had already taken, we concluded that the resolution had merit and recommended that our clients vote in support. While the resolution did not pass, it received a good level of support from minority shareholders (over 16%), signalling the ongoing importance of this issue in the context of the UK's rising cost of living.

The 2022 voting season in the context of systemic risks

Climate voting gained momentum in 2022 following its debut in 2021. We provided recommendations on 58 say-on-climate proposals from management teams, asking investors to approve transition plans or providing an annual update on already-approved plans. We also started to assess the integration of climate-related considerations into some companies' financial accounts and audit practices. We expanded our proactive vote policy, which has been in place for four years and targets laggard companies that are materially misaligned with the goals of the Paris Agreement. In total, we recommended voting against directors or relevant proposals at 292 companies in 2022, up from 144 companies in 2021, due to concerns about insufficient management of climate-related risks.

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144 companies in 2021, due to concerns about insufficient management of climate-related risks.

We took a robust approach to assessing companies' climate transition plans, recommending voting in favour of those we believed were substantially aligned with 1.5°C. This included cases where the company clearly indicated that alignment was the goal, with a more developed plan to be put to a further vote, such as at NatWest and Amundi.

We recommended opposing the plans at Shell, TotalEnergies and Standard Chartered where climate ambition was materially below our sector-specific expectations. At Barclays and Standard Chartered, we engaged with management after identifying areas that fell below our 1.5°C-aligned expectation. Following our discussions, Barclays published a late clarification of its climate plan, emphasising its commitment to targeting 1.5°C portfolio alignment, which ultimately prompted us to recommend support. Standard Chartered failed to make further commitments to improving its coal policy or its methodology for setting decarbonisation targets, which led to us recommending a vote against its plan.

At Barclays and Standard Chartered, we engaged with management after identifying areas that fell below our

1.5°C aligned expectation.

1.5°C

Climate-related shareholder proposals

As well as these say-on-climate votes, many climate-related shareholder proposals were filed. Some companies supported such proposals, including one at Caterpillar for a report on long-term greenhouse gas targets aligned with the Paris Agreement, which attracted 96% support. Boeing was asked for a report on a net-zero emissions by 2050 ambition, and whether it intended to revise its policies to align with the Paris Agreement. This attracted 89% support. It was encouraging to see companies and boards supporting climate shareholder proposals and seizing the opportunity to engage with investors and their representatives, as opposed to being defensive and automatically opposing.

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96% support.

Coal and deforestation

We also sought to identify companies whose activities were more clearly misaligned with the goals of the Paris Agreement, including through coal and deforestation. For coal exposure, we targeted companies that were expanding coal infrastructure or materially producing or deriving revenue from coal-related activities without an adequate plan for phase-out. We were supportive where we were satisfied that progress was being made. However, we had red lines on the expansion of coal-fired power or coal mining infrastructure, and opposed directors at Evergy, Sumitomo, WEC Energy Group and Mitsubishi.

For deforestation, we recommended opposing the directors responsible at companies that were the poorest performers on the Forest 500 assessment, which targets companies that are most exposed to deforestation risks. This led us to oppose the directors responsible at retailer TJX and food manufacturer Kikkoman.

Social issues and the voting season

In 2022 we saw record numbers of shareholder proposals at major US companies, including many on social issues, against a backdrop of soaring inflation and a tumultuous political environment. These covered topics such as paid sick leave, reproductive rights risks, unionisation, and animal welfare, some of which were supported by high-profile campaigns. For example, at retailer TJX, we supported a shareholder proposal to adopt and publicly disclose a policy that all employees, part and full-time, accrue some paid sick leave that can be used after working at TJX for a reasonable probationary period. The proposal garnered over 33% support showing that shareholders increasingly view paid sick leave as a basic human right.

At Meta, we used our EOS Digital Rights Principles to inform our decisions and justify our support for several shareholder resolutions. These included requests for a report on the enforcement of policies to moderate problematic content; a human rights impact assessment of targeted advertising; and a report on the trade offs between privacy rights and child protection. We noted the company's willingness to engage on these issues ahead of the annual meeting, but recommended opposing the CEO and the entire governance committee due to the dual class share structure and other issues.

More Civil Rights Audit (CRA), Racial Equity Audit (REA) and Racial Justice Audit shareholder proposals were filed in the 2022 proxy season, including at Apple, Chevron, Wells Fargo and Johnson & Johnson. In general, such proposals urged boards to oversee a third-party audit analysing the adverse impacts of companies' policies and practices on the civil rights of stakeholders. In 2022, we recommended support for the Apple CRA shareholder proposal, which received 53.6% shareholder support. Where we assessed that the intention of a proposal was to undermine racial equity, such as those at Levi Strauss, Bank of America and Citigroup, we recommended opposing.

Responding to the Russia-Ukraine conflict

Respect for human and labour rights is a priority engagement theme for EOS. Following the outbreak of the conflict, we temporarily suspended engagement with five Russia-listed companies and two companies with the majority of their operations and assets in Russia, as we believed it was highly unlikely that they would engage with us meaningfully at that time. These included Gazprom, Lukoil and Sberbank.

Ahead of the Russian annual shareholder meeting season, we also took the decision to temporarily cease making voting recommendations and facilitating voting execution services in respect of all Russian companies. We review these decisions on an ongoing basis. We also contacted non-Russian companies in our engagement programme with material connections to Russian clients, suppliers, or counterparties.

We asked what actions they were taking to ensure the safety of employees and their families, whether they were being evacuated, and if salaries continued to be paid. We sought information on a company's increased due diligence to identify any connection to human rights violations, and the actions taken to remedy these. This should include the urgent mapping of supply chains or partners that could be involved in supporting the conflict through their products, services or finance.

We also reminded companies to evaluate the risks associated with their ongoing operations and the Russia-Ukraine war, given the various sanctions imposed by Western governments that targeted Russian banks, individuals and businesses.[17] Due to the human rights risks inherent in armed conflict, we began engaging on this issue before sanctions were announced, in the knowledge that these were likely to impact companies later. Some companies were quick to announce that they would cease operations in Russia, but withdrawing from Russia has proven difficult for those with sizeable assets there, such as oil and gas producers, for example.

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 2022:

- We submitted a response to a consultation by the European Financial Reporting Advisory Group on the EU Sustainability Reporting Standards. Our response focused on the need for the standards to include transparency on the lobbying activities of companies, particularly indirect lobbying conducted by industry associations.
- We co-signed a letter co-ordinated by Farm Animal Investment Risk and Return (FAIRR) to the Food and Agricultural Organization of the United Nations (FAO), calling on the FAO to produce a global roadmap towards a sustainable global food system by 2050. In the letter, we underlined that it is crucial that the roadmap aligns with the Paris Agreement's goal of limiting global warming to 1.5°C while ensuring the protection and restoration of nature and achieving food and nutrition security goals.

- As a member of the CDP's Technical Working Group, we responded to a public consultation survey on CDP water-related indicators for financial institutions. CDP, with input from investors and their representatives, is developing the first set of standardised, global water security reporting indicators for the financial sector. We previewed the list of new water indicators and shared feedback confidentially with CDP. The water-related indicators included in the consultation represent the second phase of indicator development, which are quantitatively focused. An initial set of water security indicators have already been incorporated into a nature-related module as part of CDP's 2022 climate change questionnaire for the financial sector.
- We spoke at a roundtable at the UK Houses of Parliament, organised by ShareAction and the UK Sustainable Investment and Finance Association. It was attended by cross-party representatives from the House of Commons and the House of Lords. Other attendees came from the financial sector and civil society. The goal was to raise the ambition of UK policymakers and action by the finance sector ahead of the Convention on Biological Diversity COP15. At the roundtable, we highlighted the importance of engagement and stewardship for investors to tackle biodiversity loss. We outlined the actions we had taken to advocate for an ambitious and transformative Global Biodiversity Framework, including formal participation in the negotiations on behalf of Finance for Biodiversity, position papers on aligning financial flows and an open letter to governments.
- As a member of the Asian Corporate Governance Association (ACGA), we attended a virtual delegation meeting in Japan with Japan's Financial Services Agency (FSA), the Japan Exchange Group (JPX), the Ministry of Economy, Trade and Industry (METI) and the Japanese Institute of Certified Public Accountants. We outlined our policy expectations for shareholder rights and corporate governance best practice.
- We also responded to the PRI's request for input on its draft response to the Japanese FSA's consultation on ESG evaluation and data providers. In the consultation response, we provided our requirements for clear and detailed disclosures. We want to see companies implement public reporting that is mandatory for supporters of the Code of Conduct for ESG Evaluation and Data Providers, and to explain in detail which principles and concepts they comply with and how.

[17] Wikipedia ¦ International sanctions during the 2022 Russian invasion of Ukraine

Since 2017 CA100+ has grown to include

Over
700 signatories

1.5°C

representing over
US$68tn
in assets under management

Source: CA100+

Collaboration[18] focused on tackling climate change – our work with Climate Action 100+

Since December 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 24 companies, although EOS and CA100+ paused engagement at three Russian companies after the start of the Russia-Ukraine conflict.

In 2022, we continued to push for progress where companies lagged best practice, as well as welcoming the setting of new targets by companies such as Danone. In December the French food company set Science Based Targets initiative validated 1.5°C-aligned emissions targets, which we have engaged on since 2019 as CA100+ lead.

Also in Europe, particularly at oil and gas companies, there was a surge in companies disclosing their climate transition plans and putting them to a vote at the annual shareholder meeting, sometimes referred to as a say-on-climate vote. These plans became an area of focus for CA100+ co-leads, requiring some intensive engagement to inform the analysis distributed to CA100+ signatories, and our vote recommendations to clients.

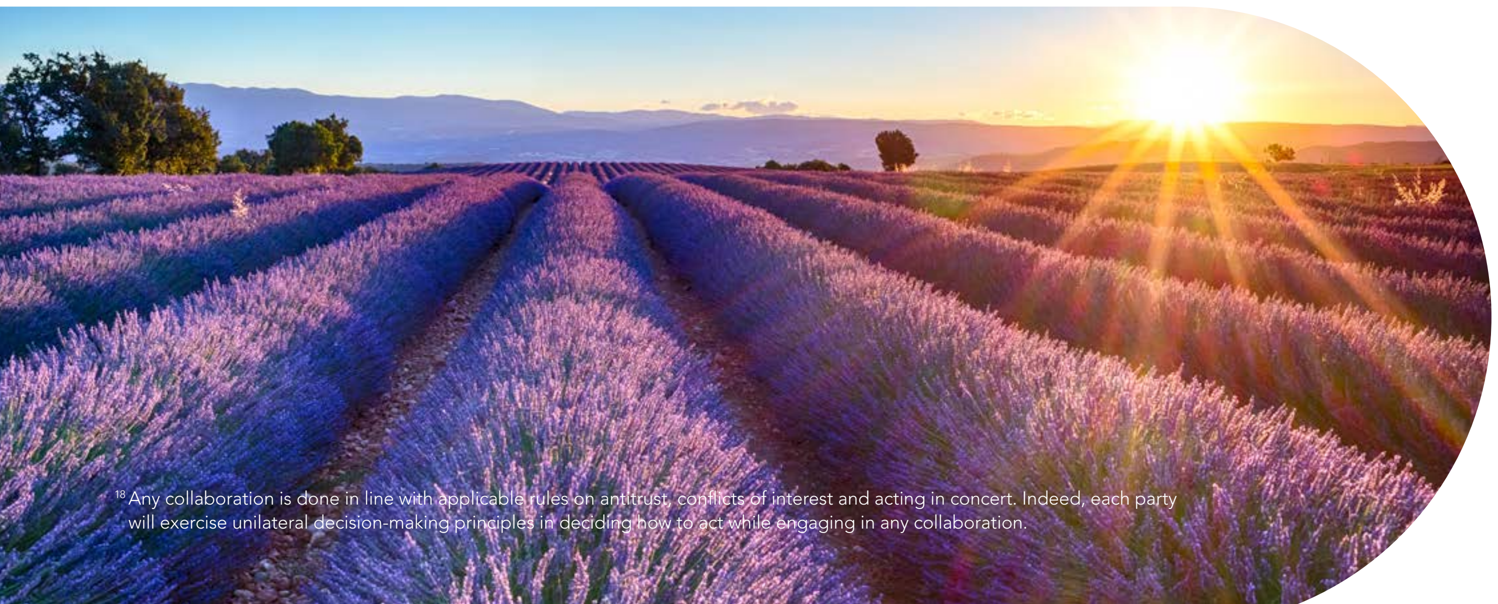
At TotalEnergies, we determined that the climate strategy remained materially below our sector-specific expectations, and escalated our concerns by pre-declaring our intention to recommend a vote against the climate change progress report.

For example, at BP we met repeatedly with management, including the CEO, to challenge the strategy put forward. We also made a statement at the AGM with other co-leads, supporting the company's efforts but also identifying areas where we expected to see further progress. At TotalEnergies, we determined that the climate strategy remained materially below our sector-specific expectations, and escalated our concerns by pre-declaring our intention to recommend a vote against the climate change progress report. We also met the CEO at the company's headquarters in Paris.

At UK energy utility Centrica, we led the CA100+ engagement on its climate transition plan ahead of the annual shareholder meeting. We recognised the significant progress made by the company in developing a strategy to reach net-zero emissions by 2045 for Scopes 1 and 2, and by 2050 for Scope 3. But we asked for greater detail on the strategy for heat energy decarbonisation and later raised this in board-level conversations.

In our role as CA100+ co-lead for the US oil company ConocoPhillips and in response to the board's failure to implement a 2021 shareholder proposal requesting absolute Scopes 1-3 emissions reduction targets, we filed an exempt solicitation. This publicly urged shareholders to vote against the chair of the board's sustainability and public policy committee.

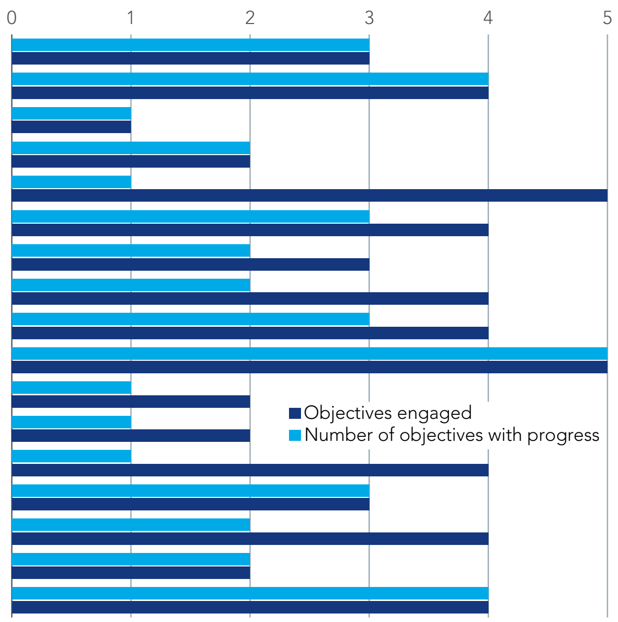
COP26 in Glasgow in 2021 elevated awareness of the outsized impact of methane emissions on climate change, which provided a tailwind for our longstanding engagement on the issue. This was realised in a shareholder proposal filed at Chevron, where we also co-lead the CA100+ engagement, requesting a report on the company's methane emissions. We successfully urged the board to support this resolution, and filed an exempt solicitation encouraging investors to vote for the board's recommendation. The resolution ultimately passed with 98% support.



[18] 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.

Progress of environmental objectives for selected CA100+ companies engaged by EOS, 2022

Company Name	EOS Sector	Participation
Mercedes-Benz Group	Automobiles	Lead
Bayerische Motoren Werke	Automobiles	Co-lead
Volkswagen	Automobiles	Co-lead
Dow	Chemicals	Co-lead
Walmart	Food, Beverages & Forestry	Co-lead
Hon Hai Precision Industry	Industrials	Co-lead
POSCO Holdings	Mining & Metals	Co-lead
BP	Oil & Gas	Co-lead
Chevron	Oil & Gas	Co-lead
Kinder Morgan	Oil & Gas	Co-lead
PetroChina	Oil & Gas	Co-lead
Petroleos Mexicanos	Oil & Gas	Co-lead
TotalEnergies	Oil & Gas	Co-lead
Enbridge	Oil & Gas	Support
AP Moller – Maersk	Transportation	Co-lead
Stellantis	Transportation	Co-lead
Lockheed Martin	Transportation	Support



Source: EOS data

A systemic risk requires systemic action: escalation and key outcomes

It is important for companies to develop strategies to reduce their emissions footprint, but they should also recognise where they are reliant on significant public policy and technology development. They must assess and disclose the financial consequences of the risks and opportunities that arise from their own climate-related actions and the systemic economic impacts of the energy transition and climate change.

We are therefore increasingly scrutinising and engaging companies to ensure that corporate lobbying of policymakers helps rather than hinders the development of responsible climate policy, and that companies properly consider the financial impact of climate-related risks and opportunities in their accounts and audit process.

As CA100+ co-lead for the German automobile companies BMW, Mercedes-Benz and Volkswagen, in 2022 we intensified our engagement on aligning their public policy lobbying with their ambitions for achieving net-zero emissions. We specifically requested transparency on climate-related lobbying activities, which BMW and Mercedes provided through lobbying reports.

Volkswagen remained reluctant to do the same, so we escalated our engagement by supporting the filing of a shareholder resolution asking for an explanation of how its lobbying activities help to address climate risk. In response to the company's rejection of this resolution, we voiced our support for a group of investors taking legal action to challenge the decision. We also recommended voting against the discharge of the management and supervisory boards in connection to this issue, and other governance concerns.

It is important for companies to develop strategies to reduce their emissions footprint.

At Hon Hai Precision Industry (better known internationally as component supplier Foxconn) we welcomed the submission of its emissions reduction targets to the Science-Based Targets initiative. As CA100+ co-lead for the company, we pressed it to improve its climate risk disclosure and align these with the TCFD recommendations to give investors better visibility of its exposure to climate-related risk. This has also been an engagement priority at Hong Kong's Power Assets Holdings, where we are in the CA100+ support group, and have seen progress in 2022. In our CA100+ co-lead engagement with South Korea's Posco, we sought more granular disclosure of emissions to allow for a comprehensive assessment of the impacts of the conglomerate's distinct businesses.

And at CRH, a building materials company, we first requested in 2020 that the audit committee chair improve the consideration of climate-related risk in the company's financial accounts. In 2022, we met the board chair to communicate our concerns about the lack of progress on this aspect of the accounts and ultimately recommended a vote against the re-election of the audit committee chair.

Likewise, at Air Liquide, we recommended a vote against the chair due to the lack of significant progress on the issue, whereas at BP and Rio Tinto we supported the boards in recognition of the progress made, while continuing to engage for improvements. We have also sent letters to other companies where we co-lead the CA100+ engagement, such as Repsol and Mercedes-Benz, emphasising the importance of addressing our expectations and properly recognising the financial materiality of climate risk.

EOS has responded to two consultations on strategy renewal for phase two of CA100+ and the development of the Net Zero benchmark.

Although good progress has been made over the last five years of climate engagement, many of the world's biggest emitters are still far from achieving full alignment with the Net Zero Benchmark or the 1.5°C goal of the Paris Agreement. To this end, CA100+ is considering how it might go further in phase two.

EOS has responded to two consultations on strategy renewal for phase two of CA100+ and the development of the Net Zero Benchmark. We support proposals for greater depth of engagement on specific sub-themes and sectoral priorities and increasing the support and involvement of collaborative investors. We also suggested increasing the focus on the regional differences in decarbonisation to support better region-specific engagement.

Given the growing importance of the Net Zero Benchmark, we emphasised the importance of transparent and strong governance processes to support its credibility. We also supported proposals for a rolling assessment process, whereby companies would be assessed at a time that suits their disclosure and AGM timetable.

We will continue to play an active role in CA100+ and other collaborative climate engagements, leveraging the power of collaborative engagement as an escalation tool, and a way to signal investor consensus on the need for rapid climate action from the world's largest emitters. We will continue to shape efforts to expand collaborative engagement on climate change to additional sectors and companies not covered by CA100+.

Shareholder proposals focused on environmental and social concerns

We have seen an overall increase in shareholder proposals covering environmental and social issues. From 2021 to 2022, the total number of these proposals increased from 308 to 447, with the majority of the proposals targeting social and ethical issues. At least part of this increase may be attributable to a rule change by the US Securities and Exchange Commission (SEC). This significantly narrowed the scope for a company to exclude shareholder proposals from the proxy statement, especially those addressing environmental and social issues including climate change and human capital management.

We also sense that this is a lingering effect from the Covid-19 pandemic, during which concern for the wellbeing of employees, and a company's actions to protect them, came under greater scrutiny. We expect this trend to continue, driven by growing investor attention focused on how companies manage environmental and social risks throughout the value chain.

In our experience, shareholder proposals can be a catalyst for related dialogue with issuers and we avail ourselves of these opportunities, where appropriate, whether or not we recommend a vote in favour of the resolution itself. We expect boards to address the issues raised by shareholder proposals which receive significant support or where they are material to the company.

In addition, we view any failure to implement a shareholder proposal that has received majority support as a clear indication that the board of directors is not fulfilling its obligations to the owners of the company. EOS has initiated and supported the co-filing of many shareholder resolutions in previous years, for example on climate change at Glencore, Rio Tinto and Anglo American in 2016 and at BP in 2019. In 2021, we also co-filed a resolution on climate change disclosures at Berkshire Hathaway.

Our contribution to industry initiatives

In 2022, 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 2022. 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).

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.

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.
- Asian Corporate Governance Association
- Canadian Coalition for Good Governance
- CDP
- Investors for Opioid & Pharmaceutical Accountability
- Investor Alliance for Human Rights
- Investor Initiative on Mining & Tailings Safety
- International Corporate Governance Network
- The Institutional Investors Group on Climate Change
- UN Guiding Principles Reporting Framework
- US Council of Institutional Investors (CII)
- 30% Club

Source: EOS data

Public policy

Number of consultation responses or proactive equivalent made in 2022:	Number of discussions held with relevant regulators and stakeholders:
33	**75**

Source: EOS data

Examples of our public policy and advocacy work from 2022 include:

Biodiversity

- As co-chair of the Finance for Biodiversity Foundation's public policy and advocacy working group, we advocated for an ambitious Global Biodiversity Framework (GBF) to be agreed at COP15. We focused on the need for the GBF to require public and private financial flows to be aligned with global biodiversity goals and targets. We also contributed to three position papers outlining text suggestions for the GBF. We attended international biodiversity negotiations virtually in August 2021, in Geneva in March 2022, and in Montreal in December 2022.
- At COP15 the Kunming-Montreal Global Biodiversity Framework was adopted by almost 200 countries. This features a target to protect at least 30% of land and seas by 2030, and addresses key issues related to biodiversity loss, such as subsidies and the financing gap. There is a requirement for financial flows to be aligned with both the 2030 targets and the 2050 vision, which should stimulate action over the short, medium and long term. In addition, governments will be required to ensure that large companies and financial institutions assess and disclose their risks, impacts and dependencies on biodiversity throughout operations, value chains and portfolios.

Methane emissions

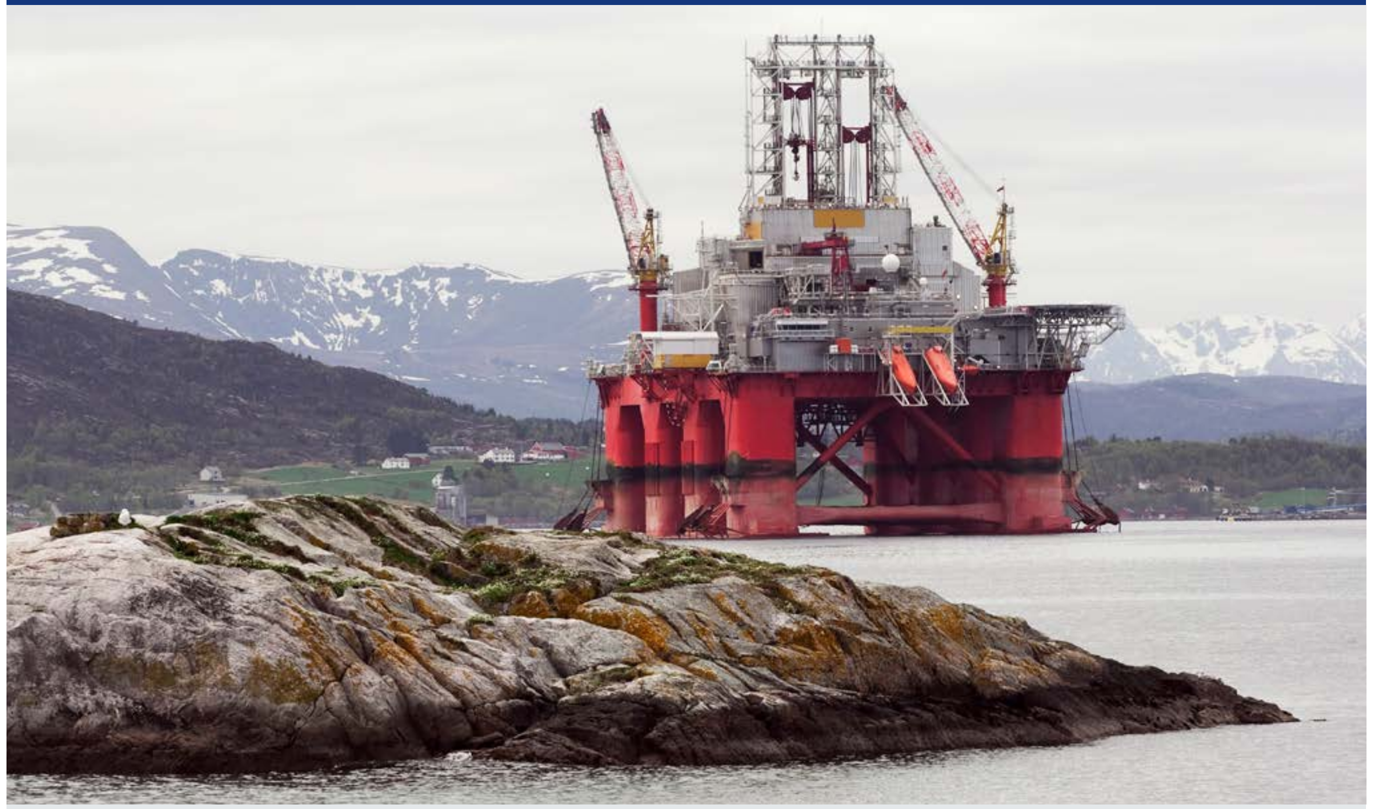
- We worked closely with the Environmental Defense Fund (EDF), a US-based non-profit environmental advocacy group, on a letter to send to the International Financial Reporting Standards (IFRS) Foundation. This came in response to the International Sustainability Standards Board's draft IFRS Climate-related Disclosures for oil and gas exploration and production, midstream operators, and electricity and gas utilities and distributors. The letter laid out specific methane-related disclosure enhancements.
- Noting that methane emissions are inconsistently and under-reported we submitted a comment letter on the US Environmental Protection Agency's proposed rule on US oil and gas sector methane emissions for new and existing sources, expressing support for strong methane emissions performance standards. We stated our principles-based position in support of enhanced reporting transparency, credibility and comparability and endorsed the Oil & Gas Methane Partnership (OGMP) 2.0 disclosure framework. We also called for the promotion of best operating practices including reducing the wasteful practice of routine flaring, advanced leak detection and the use of zero-emitting pneumatic controllers, along with an improvement of public health and safety and environmental justice.

Banking sector and the climate transition

- To help investors assess banks on their transition strategies and align their own portfolios with net zero, the Institutional Investors Group on Climate Change (IIGCC) and the Transition Pathway Initiative produced the Net Zero Assessment Framework in July 2022. EOS, continuing our role as a co-chair for the IIGCC Banks Working Group, contributed directly to the finalisation of this framework. This followed our work on the banking sector investor expectations published in April 2021. That document set expectations for banks to manage climate-related risks and opportunities by aligning their activities with the goals of the Paris Agreement.
- Our contribution to the Net Zero Assessment Framework included giving direct and specific feedback on the scoring methodology, co-authoring the report foreword, and contributing to the socialisation of the framework. It includes pilot indicators under six key areas underpinning a bank's approach to the transition. These are long-term commitments, short- and medium-term targets, decarbonisation strategies, climate governance, policy engagement, and audit and accounts. The framework was designed to enable investors and their representatives to robustly engage on bank transition strategies, as part of their own net-zero alignment efforts and stewardship of portfolio companies.

CASE STUDY: CLIMATE CHANGE RISK MANAGEMENT

Equinor



Equinor is a predominantly upstream oil and gas company, which faces high climate change transition risk due to the likelihood of reduced demand for its primary product over time. We engaged the company to develop a strong approach to climate change risk management and transparent disclosure of the climate risks faced by the company.

We have discussed these issues with the company since 2014 in meetings with the CEO, head of sustainability and climate change specialists, as well as supporting related shareholder resolutions in our vote recommendations. We continued regular engagement with the company, including pressing for reporting aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2018. In meetings with the CEO in 2021, we pressed the company to develop a comprehensive energy transition strategy.

> We engaged the company to develop a strong approach to climate change risk management and transparent disclosure of the climate risks faced by the company.

In 2016, in response to a shareholder resolution we supported, the company first published an analysis of the resilience of its asset portfolio to an International Energy Agency (IEA) scenario aligned with 2°C of warming. The company also adopted and now publishes an index that outlines all its disclosures relating to climate change risk management. It also developed a comprehensive energy transition strategy, which the company put to a shareholder vote at the 2022 annual shareholder meeting.

While the strategy needs further improvement to be considered fully aligned with the goals of the Paris Agreement, its creation and the disclosed sensitivity analysis of its net present value to the IEA's 1.5°C scenario represents strong risk management and transparent disclosure.

Also, for all its investment decisions, the company incorporates assumptions of carbon pricing that exceed those forecast in all the IEA's scenarios, including the 1.5°C-aligned Net Zero Emissions scenario. The company also uses a breakeven target for oil and gas projects. The volume weighted breakeven price of its upstream projects coming on stream by end of 2030 is below US$35 per barrel, which demonstrates prudent investment planning. We will continue to engage on fully aligning the energy transition plan with 1.5°C.

CASE STUDY: DIVERSITY AND INCLUSION

Pfizer

During a call with the company in Q2 2020, we encouraged it to outline a clear strategy for diversity and inclusion (D&I), particularly around gender and ethnicity. This included disclosing the workforce composition at each level within the organisation and details on programmes to improve representation.

We met the company again in Q4 2020, at which time it acknowledged our concern and confirmed that plans were underway to publish its US Equal Employment Opportunity Commission report on workforce composition in 2021. It also highlighted its plans to outline a clear strategy to achieve its D&I goals.

> In Q2 2021, the company published workforce composition metrics and set targets for increasing workforce diversity.

In Q2 2021, the company published workforce composition metrics and set targets for increasing workforce diversity. In response to the company's stakeholder survey on its ESG reporting, we suggested enhancing future reporting by providing more disclosure of performance over time, projecting future performance against targets, and by disclosing how the company assesses the effectiveness of its diversity and inclusion programmes, as well as other material ESG priorities.

We met the company in Q3 2021 and thanked it for its enhanced disclosure, as well as its commitment to analysing and addressing gender, racial and ethnic pay gaps across the organisation. We continue to engage with the company on other material ESG issues, including more detailed lobbying disclosures, executive compensation and its strategy for managing the risk of antimicrobial resistance.

CASE STUDY: FINANCIAL INCLUSION

Reinsurance Group of America (RGA)

We initiated engagement with RGA on expanding access to insurance in Q1 2018. Many developing countries face critical challenges with insurance product availability, distribution, and consumer engagement. We believed that RGA was well positioned to support product development and, in turn, access to financial risk protection products within the Asia market.

We met the CEO in Q4 2018 and again raised the issue of under-protected constituencies in markets where RGA plays a significant role in product development. The CEO agreed and indicated that the company was looking at supporting the primary insurers with product development in various markets.

In a Q4 2020 meeting with the company's chief marketing actuary, covering the Asian market, we learned about the company's local product development teams and cross-functional regional teams working to innovate products that align with the needs of community stakeholders. He explained that the company was focused on simplifying the underwriting process to help expand access to life insurance products that people may not otherwise qualify for due to pre-existing conditions, whilst developing a range of risk scoring solutions to further simplify the process by leveraging data and technology.

We followed up on these developments with investor relations in Q2 2022. The company highlighted its ambitious statement of business purpose "to make financial protection accessible to all," which has been an important foundation and competitive advantage especially in Asia. It has been particularly good at asking clients about their challenges and then developing insurance solutions. The head of the Asia/Europe team has been instrumental in developing innovative products to serve the market, and the company intends to apply this approach globally and more proactively going forward.

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

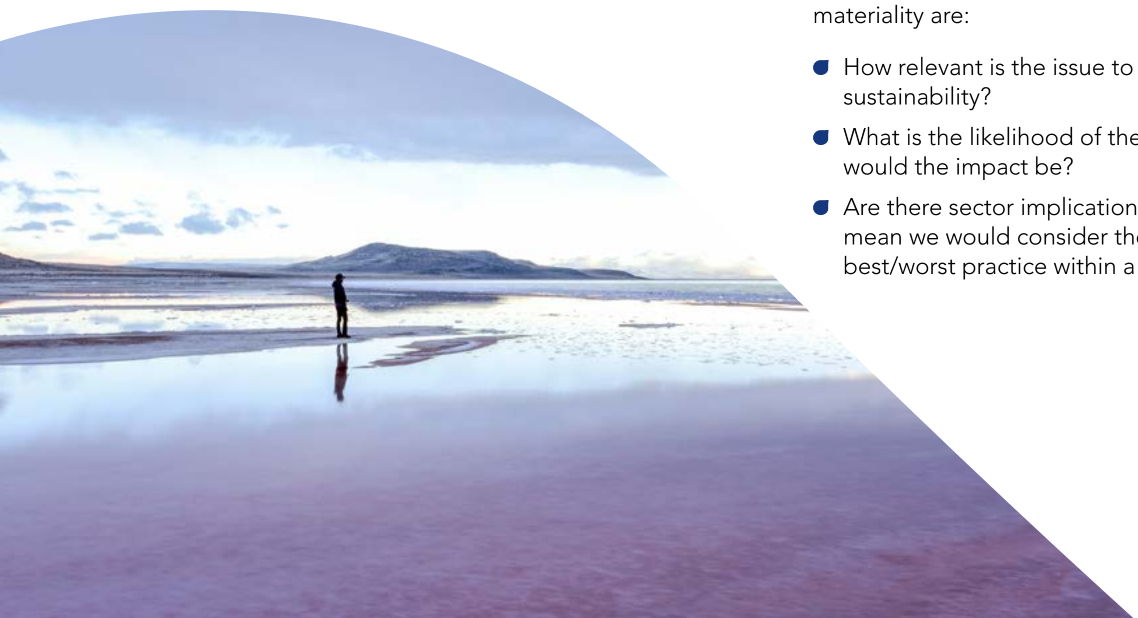
EOS represents a large client base of institutional investors around the world, advising on their assets of over US$1.34tn (as at 31 December 2022), comprised of equity, debt and money market holdings. Established formally in 2004, we have a long track record of working with a variety of client types 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 only onboard like-minded clients who wish to invest with a focus on the long term, sharing our vision and strengthening our culture. 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 like-minded 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$1.34tn – this gives us significant leverage to exercise more effective stewardship on behalf of our clients.



EOS is a trusted brand, and most of our engagement is conducted behind closed doors, which is how we achieve the biggest changes 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 12 key themes and 32-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 sustainability of companies.

> **EOS is a trusted brand, and most of our engagement is conducted behind closed doors, which is how we achieve the biggest changes on our clients' behalf.**

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

- How relevant is the issue to the company's viability and sustainability?
- 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?

Some highlights of our engagement activity in 2022 are as follows:

47 companies in our core programme featured engagements with the CEO

33 companies in our core programme featured engagements with the chair

226 companies in our core programme featured engagements with senior management

We engaged with companies in our core programme in 2022 on average more than **4** times

Regional corporate governance principles

79% of our relationships with companies in our core engagement programme have lasted 5 years or more

69% of our relationships with companies in our core engagement programme have lasted 8 years or more

Source: EOS data

Screening and engagement

We monitor our clients' listed equity and corporate debt holdings, which in practice is a universe of around 20,000 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.

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:

- **Biodiversity** – We will focus our engagement on halting and reversing marine and terrestrial biodiversity loss at companies that are involved in the production and selling of food. Other key challenges include antimicrobial resistance and deforestation. As we outlined in our white paper on biodiversity, published in February 2021,[19] companies must identify, assess and measure their impacts and dependencies on biodiversity and ecosystem services. They must reduce their impacts on biodiversity across the value chain following the mitigation hierarchy, and aim for a net-positive impact on biodiversity as best practice. Depending on the specific company context, engagement will cover issues including deforestation, water stress, regenerative agriculture, sustainable proteins and chemical runoff management.
- **Tax** – Tax systems and revenue are vital to the functioning of wider societal services such as health, welfare, justice, emergency services, education and environmental protection. Public services are under tremendous strain in the wake of the pandemic and soaring inflation has only added to the pressure. Companies that seek to aggressively minimise their tax payments will face increasing legal, financial and reputational risks as regulation tightens. Investors need sufficient information to gauge a company's tax position and governance approach and anticipate any future risks to their holdings. EOS will publish its Responsible Tax Principles in 2023 and our engagement expectations will focus on four critical areas: tax policy, governance, stakeholder engagement and transparency.

[19] Our commitment to nature | Federated Hermes Limited (hermes-investment.com)

- **Digital rights** – We will engage companies on our Digital Rights Principles,[20] which we published in 2022. Digital products and services can play a critical role in strengthening human rights but have also brought unanticipated harms and new challenges. We engage companies on negative societal impacts including problematic content on social media, misuse of artificial intelligence, health and safety impacts on children and young people, environmental and social impacts in hardware supply chains, and the growing digital divide. We expect companies to balance freedom of expression with their obligations to remove problematic content and take action to respect privacy rights online.

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 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 survey on client service and communications** – We ask clients to complete this survey, which looks at the communications, reporting, emails and events that we offer, and solicits feedback on our service, asking clients to assign priorities on their greatest external pressures.
- **Annual Engagement Plan 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.
- **Client meetings** – At our biannual client meetings, our head of stewardship hosts a session, discussing our progress against the Engagement Plan and our approach going forward. Clients have an opportunity to ask questions and give feedback on the path they would like our engagement to take.

In addition, each client is assigned a dedicated client relationship manager 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.

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. Following the client portal

redevelopment in 2021, we have continued to enhance features in response to client feedback, including improved search functionality to navigate our wealth of stewardship activity, and reporting folders for easier accessibility of key reports. We worked closely with clients, requesting their feedback on the desired 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 always 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 2022, we issued 75 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 2022, topics covered included human capital management, engaging on net zero, voting season trends and responsible tax.
- 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.

[20] Hermes Investment Management (hermes-investment.com)

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 often 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 bi-monthly to evolve reporting according to various pre-agreed factors.

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.
- Another development is our short-form company case study summaries, which are also fact-checked by the companies. We include a selection in our Public Engagement Reports, replacing the previously anonymised summaries. We have also created a folder in the client portal dedicated to case studies for clients to access them more easily. In addition, we have refined the structure of these to focus on the engagement activity and outcomes.

Voting

On behalf of our clients, in 2022 EOS delivered:

Number of voting recommendations made in 2022:

134,188 resolutions at **13,814** meetings

Number of recommended votes against:

24,461 resolutions

Source: EOS data

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 2023, 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 and North America, a new EOS publication for 2023, and our Corporate Governance Principles in Asia and Global Emerging Markets.

In North America, we will expect companies of all sizes, not just those listed on the S&P 500, to have a minimum of **40%** overall diversity.

For 2023, we have strengthened our policies for board diversity and board independence, asking companies for the strategies they can adopt to meaningfully address these concerns. In North America, we will expect companies of all sizes, not just those listed on the S&P 500, to have a minimum of 40% overall diversity. Within this, we will expect a minimum of 30% gender diversity and at least one director from a diverse racial or ethnic background. We also welcome the inclusion of directors identifying as LGBTQ+ and those with disabilities in the composition of this 40%, beyond the gender, racial and ethnic thresholds specified.

We continue to push for a minimum of 30% women on boards and at least one woman on executive committees across Europe. In the UK, we hardened board gender diversity rules to 33% women on FTSE 350 boards and endorsed new 'comply or explain' listing rules targets for women on boards in key positions, including chair, senior independent director, CEO and CFO, and for ethnic diversity on boards at a minimum threshold of one director. We are introducing new policies for below board diversity and will oppose all-male executive committees across the FTSE 350. We expect women to account for 25% of the executive committees and direct reports of FTSE 100 companies, extending this to 20% for the FTSE 250 in 2023.

We expect a minimum of 20% women on boards across much of Asia and the global emerging markets. In Japan, we have set a minimum of 10% for most companies but have increased our expectation for the largest companies to a minimum of two women. We consider recommending a vote against the relevant directors for inadequate disclosure of director gender identity across the region.

For remuneration, we will continue our focus on issues such as excessive variable pay and insufficient long-term share ownership for executives.

We have also evolved our human rights voting policy from the initial 2022 version to focus on companies in clear breach of regulatory responsibilities or those that have caused or contributed to egregious, adverse human rights impacts or controversies, without providing appropriate remedy.

In addition, in 2023 we expect to see an increasing number of 'say-on-climate' proposals and will continue to assess these against the criteria of alignment with the Paris Agreement goals and limiting global warming to 1.5°C, the quality of the company's plan to deliver this, and the commitment of the company to achieving its stated goals. As good practices for these proposals develop, we may look to communicate more detailed vote policy guidelines to support their continued improvement across markets.

For remuneration, we will continue our focus on issues such as excessive variable pay and insufficient long-term share ownership for executives. However, in 2023 we will also be assessing executive and workforce pay against a context of widening income inequality, a global cost of living crisis and an uneven post-pandemic recovery. We will expect companies to demonstrate how they provide fair, living wages to their workforce in conjunction with good quality employment, and scrutinise any executive pay awards that appear misaligned with wider workforce pay. We will also review incentive schemes granted during the pandemic that appear to have produced undeserved windfall gains for executives as markets rebounded.

Many vote recommendation clients will disclose their voting behaviour on their own website, and we provide vote disclosure files to them for this purpose. We were able to facilitate enhanced reporting via our partner, ISS, to help clients as they consider 'significant votes' relevant to their portfolio, as per the EU's Shareholder Rights Directive II and the UK Stewardship Code. We also assist PRI signatory clients with inputs they can use to support their own reporting.

Screening

The primary product of our screening service, the Controversial Company Report (CCR), has been redeveloped in response to client feedback. Clients wanted more engagement oversight into issues that are flagged, 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 companies are given with a corresponding link to the client portal, making it easier for clients to get more context about ongoing engagements.

The evolution of the screening tool also enables us to assist clients with their requirements as signatories to the international responsible investment covenant, IMVB. We prioritise adverse impacts based on their scale, scope and irremediable character. In accordance with the IMVB covenant, we further distinguish between companies with current or potential salient adverse impacts.

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. 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 to make it easy for clients to find information, linked to key terms, across all our stewardship activity and the content we produce. We have also developed a mechanism for clients to extract the underlying data to support their own bespoke reporting requirements. Finally, we have updated the reporting and communications sections with folders to facilitate easier navigation of clients' reports.

The evolution of the screening tool also enables us to assist clients with their requirements as signatories to the international responsible investment covenant, IMVB.

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 2022. 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 reached completion by progressing to milestone four, as this is when we are satisfied that the company has achieved 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 have increased the number of short-form case studies that we produce, and updated the structure to provide a clearer focus on engagement actions and outcomes. During 2022, we produced 15 standalone full-length case studies and 60 short company updates, all fact-checked by the companies. 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[21] 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 governance committee. The regional Corporate Governance Principles are noted by the governance 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 2022 voting season.

Diversity and inclusion

We again tightened our diversity and inclusion voting policies, encouraging greater representation of women and ethnic minorities on boards and in leadership teams. Globally, we recommended voting against 2,920 proposals due to diversity concerns, versus 2,693 proposals in 2021.

In the US, where we expect women and ethnic minorities to make up at least 40% of the board at the largest companies, with a minimum of 30% gender diversity in line with our support for the 30% Club, we opposed 1,033 proposals for insufficient gender and ethnic diversity. This included at Berkshire Hathaway, Amgen, United States Steel, Sinclair Broadcast Group, FreeportMcMoRan, Kinder Morgan, Dollarama and NextEra. In India we opposed 214 proposals on this issue, up from 128 in 2021.

Globally, we recommended voting against **2,920** proposals due to diversity concerns, versus **2,693** proposals in 2021.

[21] https://www.hermes-investment.com/uk/en/intermediary/eos-stewardship/eos-library/

In Europe, we continued to push for greater gender diversity on boards and in leadership teams and opposed companies that did not meet our minimum expectations.

In Europe, we continued to push for greater gender diversity on boards and in leadership teams and opposed companies that did not meet our minimum expectations. This included at miners Antofagasta, where we opposed the nomination committee chair for poor board gender diversity, and Fresnillo. We enforced our guidelines for ethnic diversity on UK boards and were pleased to see great progress by FTSE 100 companies in meeting minimum standards of representation. We continued to oppose chairs where this was not the case, for example at DS Smith. Overall, in the UK, we opposed 19 proposals for concerns about insufficient diversity, including gender diversity, at board level and below, versus 37 proposals in 2021.

We enforced our guidelines for ethnic diversity on UK boards and were pleased to see great progress by FTSE 100 companies in meeting minimum standards of representation. We continued to oppose chairs where this was not the case, for example at DS Smith. Overall, in the UK, we opposed 19 proposals for concerns about insufficient diversity, including gender diversity, at board level and below, versus 37 proposals in 2021.

The slow progress in board and senior management gender diversity in Brazil led B3, the Brazilian Stock Exchange, to propose the introduction of a new listing rule, on a comply or explain basis. This requires companies to have at least one woman and one ethnically diverse member on the board or the executive committee from 2025. This remains below our expectations, which are reflected in our voting policy.

Legal requirements are also tightening in South Korea, Malaysia and Hong Kong. In the latter, we were pleased to see progress at companies such as Geely Automobile, where board gender diversity reached 30% after several years of engagement on this topic. At AIA Group and Ping An Insurance, we recommended support for directors by exception to our policy to recognise their progress in reaching a level of diversity that is just below our minimum expectations. However, we recommended votes against at Beijing Enterprises, China Mengniu Dairy, and China Resources Beer. More focus is needed to raise female board membership far above our current 20% minimum threshold.

In Japan, there was progress on gender diversity in companies such as Chubu Electric Power and retailer Seven & i. However, other companies lagged, including Shin-Etsu Chemical, Canon, Toyota Industries and Toray Industries, which led us to recommend votes against the responsible directors and step up engagement on gender diversity. At Chugoku Electric Power, we recommended voting for a non-executive female director, despite her long tenure, in order to achieve improved gender diversity.

Executive pay and auditor rotation

We saw a resurgence in some executive pay packages in 2022, so overall we recommended a vote against 65% of pay proposals. In North America, we continued to oppose the majority (78%) of say-on-pay proposals on the basis that practices across the region remained materially misaligned with our principles. For example, we recommended voting against executive pay and the compensation committee chair at Netflix. Some 73% of shareholders rejected the pay proposal, so we will expect a robust response from the compensation committee in the coming year.

We saw a resurgence in some executive pay packages in 2022, so overall we recommended a vote against

65% of pay proposals.

We also recommended opposing pay at Caterpillar, Walmart, Visa, Morgan Stanley, Meta, ExxonMobil, Chevron, Mondelez International, JPMorgan Chase and many more. This was mainly for excessive quantum, without adequate disclosure of the additional value created for long-term shareholders when paying the CEO significantly above the labour-market median.

In the UK, we opposed 17% of remuneration policy proposals versus 23% in 2021. In Europe, we pushed for greater shareholdings for executives, and improving disclosure where this was lacking or where pay awards were substantial. We scrutinised what appeared to be excessive pay levels, whether these came through salary increases or incentive scheme opportunities.

For example, at GSK we were not supportive of a remuneration policy that continued to increase the variable pay opportunity far in excess of our policy limits. We also noted a duplication of metrics across the bonus scheme and long-term incentive plan (LTIP), which we generally do not support as it rewards executives twice for the same performance.

We pushed for better auditor independence with a focus on long audit firm tenures in the US, where some have been in place for over 100 years. In 2022, we set expectations for companies to voluntarily rotate the auditor after 20 years. In the US, the rotation of the lead audit partner every five years is not sufficient to strengthen auditor firm independence in our view. Where an audit firm has been in place consecutively for more than 20 years, we will consider recommending votes against the audit committee chair and the auditor ratification.

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. 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.

We introduced an additional control to escalate any potentially late vote recommendations to senior management, prior to the deadline.

External audit assurance on our integration and stewardship activities

Prime Advocates Limited, an independent external assurer, undertook a second limited assurance engagement on the information disclosed as part of the sustainability reporting of FHL in the period from July 2021 to June 2022 (inclusive). The limited assurance engagement related to our stewardship and ESG integration within our public equities, credit, real estate and infrastructure investment portfolios.

The 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].'

Internal audit

Following our last internal audit, we strengthened the controls in relation to the voting processes. This included performing an audit of the voting recommendations provided by the engagement team and the automatic votes placed by ISS, to ensure that they are aligned with EOS's or our clients' policies. Where they differed, rationales were documented. Additionally, we improved the governance around changes to policies by formally documenting reviews and approvals.

We also introduced an additional control to escalate any potentially late vote recommendations to senior management, prior to the deadline. We introduced a user recertification process for the EOSi portal, reviewing the internal users and asking clients to confirm the accuracy of their system users. We also redesigned and added new metrics and data to the management information provided to senior committees. The internal audit team confirmed that the changes introduced had satisfied the recommendations made by the audit.

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.

Changes to our screening tool

We have also made improvements to our screening service with the redevelopment and relaunch of our primary product, the Controversial Company Report (CCR). The enhancement 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.

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.

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 sustainable form of capitalism and global financial markets. By engaging with companies and policymakers on ESG issues, we assist clients in adding long-term value to their investments and managing their risks.

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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.

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

Our investment and stewardship capabilities:

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

Why EOS?

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

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

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