Federated Hermes

Case study summaries 2020

EOS at Federated Hermes publishes a range of public case studies highlighting our work with companies throughout the year, endeavouring to ensure good coverage of holdings and a mix of thematic areas.

This document contains summary versions of our full-length engagement case studies produced in 2020 which have been fact-checked by companies and can be found on our website at: https://www.hermes-investment.com/ukw/stewardship/eos-insights, which you might find useful for inclusion in your annual reporting.

This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

Kuala Lumpur Kepong Berhad – published January 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/klk-case-study

EOS was concerned over the Kuala Lumpur Kepong Berhad's lack of response in 2012 to NGO and media reports about poor labour conditions at its plantations in Liberia and its suppliers in Indonesia. In our first meeting in 2012, the company was quite defensive and denied the allegations. 2013 saw further allegations and we urged it to provide clarity on how it was investigating, and assessing steps taken to avoid similar issues. While the company was gradually more willing to discuss labour issues, details on policy implementation were still lacking which we pointed out in a letter sent to the chair in 2014. We continued to raise our concerns in further calls and correspondence over the next few years. Since our initial engagement KLK has: improved disclosure of labour conditions standards and processes for its supply chain; achieved Roundtable on Sustainable Palm Oil (RSPO) certification for its operation in Malaysia; and adopted a group-wide sustainability policy, including consequences for suppliers in breach and a programme to support smallholder suppliers to attain RSPO certification, among other successes. In addition to engaging on KLK's overall sustainability action plan, we will continue to focus on labour standards and the effectiveness of its new task force plans on no exploitation as part of the RSPO principles.

Duke Energy – published 13 February 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/duke-energy-case-study

EOS wanted Duke Energy to demonstrate a broader corporate commitment to facing climate-related challenges. We first raised the implications of the US Environmental Protection Agency's Clean Power Plan with Duke Energy's chief sustainability officer in 2014, meeting again in 2015, and in 2017 to discuss support for shareholder resolutions which called on the company to publish a climate report aligned with the Task Force on Climate-related Financial Disclosures (TCFD). We met with the chief financial officer ahead of the 2018 annual shareholder meeting, to encourage thinking about how the company could disclose aspirations for emissions reduction to 2050. In early 2019, we discussed ideas for improved disclosure with key executives, as well as greater ambitions for 2030 carbon emissions reduction targets. In 2010, Duke Energy adopted its first carbon dioxide emissions reduction target. In 2015, it committed to double the capacity of its renewable energy portfolio by 2020. In 2017, it set long-term targets for reducing emissions by 40% and the carbon intensity of its generating assets by 45% by 2030 (from 2005). In September 2019, it increased its 2030 reduction target to 50% and further advanced its ambition by indicating an aspiration of achieving net-zero emissions by 2050. In 2017, the company committed to publish TCFD-aligned disclosure and in 2018 it published its first TCFD-aligned climate report. In 2019, the company improved the clarity of its disclosures on lobbying, trade association and political expenditure. We continue to engage on faster retirement of coal power, further opportunities to optimise the balance of gas and renewables with energy storage and distribution, climate reporting and strategy for managing the impact that decarbonisation could have.

Centrica – published 05 February 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/centrica

EOS has engaged with Centrica since 2010 on its response to climate change. We stepped up engagement in 2016, speaking at its annual shareholder meeting (AGM), requesting that the company set ambitious carbon reduction targets for customer emissions and seek to regain its coveted A grade under the CDP rating system. We continued to welcome progress whilst requesting further action and disclosure at the AGMs in 2017, 2018 and 2019. After the 2016 AGM, we met the group head of environment, head of corporate affairs and company secretary. In 2017, we met with the chair and in 2018 EOS was appointed lead coordinator of investors at Centrica as part of the Climate Action 100+. Key changes began in 2017, when the company gained third party assurance on its reported carbon reductions from its customers. In January 2019 the company gained an A grade in the CDP ranking, a Level 4 rating under Transition Pathway Initiative and in April 2019 it published its 2030 Responsible Business Ambitions. This report included a target to enable the reduction of its customers' emissions by 25% below 2015 levels. In its 2018 Annual Report, the company confirmed its commitment to report in increasing alignment with the Task Force on Climate-related Financial Disclosures. In July 2019 the company explicitly integrated the low-carbon transition into its corporate purpose. We continue to engage on achieving net-zero emissions from heat and power, in line with the goals of the Paris Agreement, the role the company can play in the transition and the required actions of other stakeholders.

ConocoPhillips – published 03 March 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/conocophillips-case-study

EOS began engagement with ConocoPhillips in 2010 after the Deepwater Horizon oil spill disaster. We focused on the company demonstrating that it had best-in-class health and safety, and disaster response risk management. We also sought best-in-class management of oil sands risk and a reduction in climate risk. We met the global head of sustainable business development and his predecessors, the climate change director and the director of

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social responsibility many times, as well as the company's governance professionals. We came away pleased with the company's thoughtfulness but disappointed with the mismatch with its reporting. After correspondence and several meetings, the company convinced us that it is an industry leader on health and safety and disaster recovery, completing our objective in 2013. We also completed our objective concerning best practice oil sands production in 2014. In addition, we have seen progress in its reporting on climate and political activity and donations, enabling us to complete further objectives that year. Its 2018 sustainability report marked a significant step forward – it now reports on three 2°C scenarios and has articulated a climate change action plan, which is enabling us to progress our objective on improving disclosure and our objectives in relation to lobbying activity and factoring climate into executive pay. We continue to encourage the company to improve its climate change related disclosure as well as to further improve its disclosure of how it governs its relationships with membership organisations in relation to climate change.

Imperial Brands – published 11 March 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/imperial-brands-case-study

EOS began engaging with Imperial Brands, the multinational tobacco and tobacco alternatives company, on its water use in 2012. We encouraged it to implement water management systems and targets at its sites. In 2015 our engagement established that, although the company had conducted analysis of supply chain water risks, it had not yet set targets for water management beyond its own operations. Over subsequent years, we sought updates from the heads of sustainability on how the company was monitoring water use and progress against site-specific reduction targets, which were achieved in 2018, ahead of the 2020 target year. Given the early completion, we pressed on whether the 2020 targets had been sufficiently stretching. In a follow up meeting with the head of sustainability in 2019, we heard that the company intends to develop context-based water targets for water-stressed sites in its supply chain. We welcome the company's move to take greater responsibility for its supply chain, which is also reflected in its approach to carbon, where it has extended its science-based carbon reduction targets to its scope 1, 2 and 3 emissions. We will continue our engagement on how the company adopts a robust approach to water stewardship across its supply chain, aligned with its with explicit reduction targets in its post-2020 strategy.

Diageo – published 23 March 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/diageo-case-study

EOS began speaking to Diageo about water management in 2012, raising concerns about the future impact that water stress could have on the business. We held regular meetings with heads of sustainability and, latterly, the chief sustainability officer. In 2015, the company set five-year targets and we continued to discuss progress, annually. Informed by a materiality assessment the same year, which confirmed water as one of its most material environmental impacts, the company set a number of water targets for 2020. We welcomed these goals and sought annual updates on progress against them in 2016, 2017

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and 2018 – when we heard the company had achieved 40% of its 50% target for water efficiency and was focused on how it could achieve the final and most challenging 10%. In 2019, in a meeting with the chief sustainability officer, we discussed the water risk assessments conducted by the company every three years, increasing its visibility of potentially stressed sites to 2030, enabling longer-term business planning. The company also employs various methods to reduce water use at stressed sites, enabled by new technologies and processes. We consider the initial objective of assessing and monitoring progress of Diageo's system to manage water risks across its supply chain, to be substantially completed. We continue to engage with the company on its water stewardship.

PetroChina – published 31 March 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/petrochina-case-study

In 2013, the Central Commission for Discipline Inspection in China announced that executives at PetroChina were under investigation for serious violations of discipline. In 2014, EOS met five of PetroChina's senior executives on the need to strengthen sustainability management, including anti-bribery and corruption compliance practices. Later that year we met the president and embarked on a two-day site visit, reiterating our concerns. In 2015 we presented our concerns and recommended practices to the chair of supervisory committee and over 20 senior executives. Later that year the company established a four-pillar compliance management mechanism covering prevention, control, supervision and accountability. It also developed its own: punishment regulations for management's violations and non-compliance; compliance management measures; and material supplier management measures. Between 2016 and 2018 we met with the assistant board secretary, head of sustainability and senior executives from compliance departments to press for improvements based on the compliance mechanism established, and to make progress in disclosures. In 2017, the company reiterated its resource extraction disclosure commitment through continued involvement in the Extractive Industries Transparency Initiative, the Organisation for Economic Co-operation and Development and G20's Base Erosion and Profit Shifting initiative, in addition to increased disclosure of its tax policies. In 2018, the company further improved its anti-bribery and corruption efforts by developing a joint surveillance information system across business areas and disclosed the number of complaints handled for the first time. In 2019 the company confirmed that no further bribery and corruption scandals have been reported. We continue to engage to improve other material ESG issues, primarily as co-lead of the collaborative engagement initiative, Climate Action 100+.

Fast Retailing – published 21 April 2020

https://www.hermes-investment.com/ukw/eos-insight/case-study/fast-retailing-case-study

In 2016 EOS began face-to-face meetings with Fast Retailing's director of investor relations, who directly reports to the CEO to recommend it improve investor communication and publish a sustainability policy. We suggested it become a signatory of

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the UN Global Compact and respond to the CDP climate change questionnaire. We also voiced concerns over the labour risks of its suppliers in China and the lack of disclosure on its supply chain management. This was in response to reports on excessive working hours regarding one of its factories in China, a subsidiary of a Japanese fabric supplier, Toray Industries. We continued our engagement by recommending a more engaged and diverse board. The company accepted our suggestion to respond to the CDP questionnaire and started implementing a group sustainability policy in 2017. In 2018 it became a signatory of the UN Global Compact and publicly committed to set a science-based target for greenhouse gas emissions in 2019. Regarding working hours, in 2018 and 2019, the company disclosed progress reports relating to its suppliers in question where it achieved its weekly target of no more than 60 hours for July-December 2018. In 2019, it also announced its plan to partner with the International Labour Organization. Regarding board structure, the company established a nomination and remuneration advisory committee in 2019 and made progress on diversity including through a partnership with UN Women. We continue to engage with the company to improve its board structure, our concerns over the founding family's influence and on climate change.

CTBC – published 11 May 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/ctbc-case-study

EOS began engagement with CTBC in February 2017, following a period starting in the mid-2000s where CTBC saw controversies related to alleged legal and regulatory breaches by now-former staff. Throughout our engagement, the executive vice president of financial management came to our office to discuss plans regarding restructuring the board and overall corporate governance – we agreed a focus should be separation of powers and stringent checks and balances. In January 2018, we engaged with the chief compliance officer and corporate secretary. In May 2019, we met with CTBC's insurance subsidiary's chief financial officer and chief strategy officer to discuss plans to adopt additional cybersecurity and technology training for the board. We met separately with a subsidiary's head of data intelligence research and development to provide details on the use of responsible big data and artificial intelligence (AI). CTBC established an ethics and integrity committee in April 2018 and published the committee charter online. The company now uses devices that enable directors to communicate and access information with comprehensive security protection. Its third party rating on business ethics outlook has been upgraded to category 2 (moderate risk), initially from category 4 (significant risk). As of Q2 2019, the new director onboarding process includes mandatory training on anti-money laundering and embezzlement and board members now participate in a variety of courses on topics including digital banking, fintech, US federal regulatory compliance, TCFD and fair dealing. The company published board evaluation guidelines in September 2019. In addition to annual board performance evaluations, an external and independent professional institution or a panel of external experts and scholars shall evaluate board performance at least once every three years. We aim to deepen our discussion on human capital management across the firm, including the board's gender diversity and nomination process, and the responsible use of AI.

G4S – published 21 May 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/g4s-case-study/

EOS first raised concerns regarding the high number of fatalities at G4S with its senior independent director / deputy chair in 2009. We reiterated our concerns: in 2011 at a corporate social responsibility (CSR) update, in 2012 in a meeting with the senior independent director and in 2015 with the CSR committee chair. We have since engaged on the issue each year including with the CEO, chair and CSR committee chair, and group health and safety director. In 2011 the company placed increased value on its impact on wider stakeholders by enhancing its board-level governance, upgrading its CSR committee to a full board committee. In 2013, the company launched its road safety programmes, implementing them globally in 2014 when it also introduced mandatory health and safety training for senior leaders and management staff. In 2015, the company started to disclose its lost-time injury rate, after we pressed for robust CSR data collection across the group. In 2016 the CEO introduced monthly performance reviews with the regional heads and the central executive team. Fatalities decreased significantly in 2017 following improvements in health and safety policies, practices and training performance. Notable progress has been made on road-related incidents and non-attack fatalities also decreased from 20 in 2012 to four in 2019. The improvement in the lost time incidence rate, from 8.5 per 1000 employees in 2015 to 5.7 in 2019, is also notable. We will continue to monitor the company's performance and seek continuous improvement.

Nintendo – published 18 August 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/nintendo-case-study

EOS began engaging with Nintendo on gender diversity on its board in 2016 and on board independence in 2017 with the head of legal and company secretary, meeting eight times between 2016 and 2020. The board composed only of men of Japanese nationality. Although it has progressed independence from a 100% insider board in 2013 to 33% since 2016, there remains room for improvement. Our concern was accentuated because the company did not have a nomination committee, adding opacity to the nomination process. We encouraged it to carry out an independent board evaluation and strengthen the search for female candidates. Following our engagement, Nintendo carried out its first self-evaluation of the board in 2016 and promised to consider an external evaluation. The company is working towards strengthening its talent management programme to establish a pipeline of senior female executives, which it expects to take 10 years from 2017. Following our recommendation to vote against the president in the 2019 AGM and further engagement to accelerate change in board composition, the company announced that it is establishing a nomination advisory committee in January 2020 – three out of the five directors are outside directors. In May 2020, the company also announced that it will appoint a woman to the board for the first time. We are pleased with the appointment and encouraged the company to improve disclosure of the nomination process and to publish the Terms of Reference of the nomination advisory committee so that investors can better understand the company's working objectives and accountability towards selecting board members, given that it has traditionally relied on the president to nominate candidates. We continue to engage as our expectations for diversity of a board go beyond these changes.

Repsol – published 21 August 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/repsol-case-study

Our engagement on climate action began in 2013 with the joint CEO and chair and other senior executives to discuss Repsol's sustainability strategy. From 2015 through 2019 we focussed on five key aspects of climate action: scenario analysis and the disclosure of resilience to Paris-aligned decarbonisation; the alignment of strategy and targets with the goals of the Paris Agreement; internal carbon price assumptions and their use in investment decisions; the disclosure of a carbon intensity indicator; and reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures. At its 2017 Sustainability Day, we welcomed Repsol's commitment to start using a single internal carbon price across the group. In 2018, we welcomed its strategic update, which set a path to climate transition by capping production and committing significant capex to low-carbon business. Since its 2018 integrated management reporting the company has disclosed a carbon intensity indicator for the energy it supplies, and a goal to reduce this intensity in line with the International Energy Agency's Paris-aligned Sustainable Development Scenario. In December 2019 Repsol became the first oil and gas company to commit to a net-zero goal, supported by a decarbonisation pathway with interim targets. In 2020, together with our co-lead for the company under Climate Action 100+, we submitted a statement to the company's annual meeting. We congratulated it on its net-zero commitment and asked whether the current oil price situation and pandemic would have a material impact on the climate strategy – we were reassured to hear the company reaffirm its commitment. The engagement between EOS at Federated Hermes, the broader Climate Action 100+ engagement group and the company now has a focus on implementation of the net-zero pathway.

Mizuho Financial Group – published 10 September 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/mizuho-financial-group-case-study/

EOS has engaged with Mizuho Financial Group's senior executives, including the CFO, the head of investor relations and head of sustainability since 2009. From 2017, we intensified our engagement on environmental-related disclosure and management. In early 2020, we shared emerging best practice and recommendations on climate change, responsible agribusiness financing and other topics. We also supported the climate-related shareholder proposal, the first one faced by Japanese financial institutions, at the shareholder meeting in June. It did not pass through but gathered a healthy support of 34.5%.

Following this, the company became the first Japanese financial services group to publish a TCFD report in May 2020. In August 2019, the company became a founding signatory of the UN Principles for Responsible Banking. In April 2020, it became the first Japanese bank to stop financing of new coal-fired power plants by 2050, and at the shareholder meeting, it announced an encouraging estimation to end its exposure earlier by 2040. On responsible agribusiness financing, in April 2020, the company mentioned its engagement with borrowers in the palm oil, lumber and pulp sectors on no deforestation, no peatland, no exploitation and free, prior, and informed consent standards for the first time in its environmental and social policy. We continue to engage on these topics and others.

Burberry – published 23 September 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/burberry-case-study/

In 2018, the BBC reported that Burberry destroyed unsold products worth £28.6m, so EOS raised concerns in a call with the company secretary. We followed up with multiple meetings and calls with the vice president of corporate responsibility and the vice president of investor relations in 2019. After initial disruption from the coronavirus, in a video call with the vice president of corporate responsibility and the vice president of investor relations in June 2020, we focused on the potential impact the pandemic could have on progressing towards sustainability targets and commitments.

Building on its commitment to become carbon neutral in its operational energy use by 2022, in June 2019 the company announced targets to reduce absolute scope 1 and 2 greenhouse gas emissions 95% by 2022 and absolute scope 3 emissions 30% by 2030, from a 2016 baseline. In 2020 it also reaffirmed its commitment initially made in September 2019 to finding alternatives to incinerating surplus stock despite the impact of the coronavirus, in our conversation with the vice president of corporate responsibility and vice president of investor relations. The company has promised that all its plastics packaging will be recycled, recyclable or compostable by 2025 and has relaunched its consumer-facing packaging. We continue our dialogue on environmental impact and circular innovation, as well as labour rights and protecting staff in the light of the pandemic.

Takeda Pharmaceutical – published 2 October 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/takeda-pharmaceutical/

In our meeting with the CFO at the Takeda Pharmaceutical's Tokyo headquarters in March 2019, we encouraged the company to enhance disclosure on executive remuneration. We followed up in a group meeting with the CEO and others in May 2019. We spoke with the general counsel in June 2019 shortly before the company's shareholder meeting and had extensive discussions on remuneration proposals. We subsequently recommended voting against the payment of a significantly increased cash bonus to executive directors and expressed our disappointment that the company failed to notify shareholders of such a change in advance, among other concerns. We recommended support for a shareholder proposal to introduce a clawback policy.

By the time of our meeting with the head of sustainability in November 2019, we were encouraged to hear that the company was addressing the results of the shareholder meeting. In our call in May 2020, we welcomed the introduction of a clawback policy and by the middle of 2020, we welcomed the company's disclosure of extensive details on executive remuneration, in line with our request. We continue to engage on this topic as well as other issues including board gender diversity and disclosure of more extensive climate scenario analyses.

HEINEKEN – published 8 October 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/heineken-case-study/

During a meeting with the head of sustainability in 2015, EOS highlighted that following the stream of acquisitions in emerging markets, several of HEINEKEN’s operating markets presented a high perceived level of public sector corruption, according to the Corruption Perception Index published annually by Transparency International. We followed up in 2016 and were pleased that our request had led to an internal review of its approach towards transparency and that it would conduct an integral review of its related policies. In 2017 the review was taking longer than expected and the head of sustainability escalated our concerns to relevant experts internally. A meeting in 2018 and the launch of its updated code of business conduct and underlying policies such as the policy on bribery, on responsible alcohol consumption, on human rights and the supplier code in the September gave us further reassurance that the company was taking the matter seriously. In 2019, Transparency International published a report assessing the whistleblowing framework of 68 Dutch companies. HEINEKEN ranked third with a total score of 82.7% compared to an average score of 45%. Since 2018, HEINEKEN has also been working to improve the working conditions of brand promoters and engaged with industry peers. Since we began our engagement, the number of “Speak Up” reports of suspected misconduct has significantly improved. This is generally the sign of a culture that encourages employees to raise concerns, feeling confident to report wrongdoing. We will continue to engage HEINEKEN on this topic and on other areas including health and safety, climate change and board effectiveness.

NetEase – published 13 October 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/netease-case-study/

EOS began engagement with the NetEase in 2018. We offered ideas to improve its communication on ESG to shareholders, and suggested publishing a sustainability report to describe key social and environmental impacts. On data privacy and protection, we highlighted the financial materiality and relevance of compliance with General Data Protection Regulation (GDPR), sharing best practices from the technology sector globally.

In March 2020, NetEase improved shareholder communication by establishing a Twitter account. By the end of June, it published its first ESG report which captures material topics recommended by us, investors, stakeholders, ESG professionals and some influential ESG rating agencies, such as human capital, privacy and data protection, cybersecurity, environment, and business ethics. The company acknowledges data privacy and protection as a fundamental human right within the report and references the applicable data protection frameworks to which it will comply in and outside of China, which include GDPR.

While its inaugural ESG report lays a good foundation, we encourage it to disclose details about a privacy impact assessment and how its different business units and mobile apps comply with China's new data privacy law. We also continue to engage with the company on topics including climate change, human capital management, board diversity, and board refreshment.

Baidu – published 30 October 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/baidu-case-study/

In August 2018, EOS met with Baidu's co-founder, chair and CEO, and the CFO. We voiced our concern over the risk of the company's lack of compliance with General Data Protection Regulation. Since 2019, we intensified our engagement and progressed our dialogue towards the responsible use of big data and artificial intelligence (AI) – between 2018 and June 2020, we had nine interactions on data privacy and protection. In 2020, our engagement highlighted the need to further disclose how the company supports its customers and integrates their feedback.

In 2019 the company introduced a preliminary three-lines-of-defence robust governance structure and further refined it in 2020 to ensure information security and data privacy. It introduced principles covering consent, clarity and control of data privacy protection. A privacy protection system was established, overseen by the Baidu data privacy protection committee, composed of Baidu's top executives. The company further established a data assets committee, safety committee, and a committee of professional ethics, which together indicate a data protection culture within the firm, aligned with our expectations raised in engagement.

A review mechanism has been introduced throughout the business which centres around privacy-by-design and privacy impact assessment. It has also established mechanisms which respond to our request for disclosure on how it supports its customers and integrates their feedback. We continue to engage on connected issues, such as AI ethics and content governance.

POSCO – published 12 November 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/posco-case-study/

EOS started engaging with POSCO in 2011 over human rights concerns. We also engaged with POSCO INTERNATIONAL on a gas project in Myanmar and child labour cases related to cotton picking in Uzbekistan. Lack of engagement progress led us to recommend a vote against one of POSCO's board directors in 2016. In the same year, we started dialogue on palm oil – following our suggestion, POSCO INTERNATIONAL began a discussion with the Roundtable on Sustainable Palm Oil (RSPO) to develop its sustainable pam oil strategy. In 2017 engagement intensified, including a meeting with NGOs asking POSCO INTERNATIONAL to commit to a no deforestation, no peat, no exploitation (NDPE) policy; preserve areas of high conservation value and high carbon stock; and contribute to reforestation. In 2018 we urged POSCO INTERNATIONAL for better practices and highlighted financial and reputational risk. It then became a member of the RSPO and

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committed to a plan to obtain the Indonesia Sustainable Palm Oil (ISPO) certification by 2020. In 2019 POSCO INTERNATIONAL's subsidiary achieved the ISPO certification. We broadened the conversation and engaged with POSCO group's sustainability team on climate change. In 2020 POSCO INTERNATIONAL committed to an NDPE policy and promised to preserve areas of high conservation value and high carbon stock and implement a programme outside its concessions on a scale that corresponds to the size of the developed plantation. EOS continues to monitor the company's progress in implementation.

Tesco – published 30 November 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/tesco-case-study/

In September 2014, Tesco announced that it had uncovered an overstatement of expected profit in its results. EOS met with the senior independent director in October 2014 to discuss. We continued to engage with the new CEO and CFO on the strategy for the company and addressing issues of supplier treatment, and with the new chair on board composition and effectiveness. We stepped up our engagement on its approach to risk management in January 2016, in a meeting with the chair of the audit committee. We sought an update on how the company was addressing broader strategic and cultural issues from the CEO and CFO in October 2017. We continued to monitor and in January 2019, we discussed the effectiveness of changes with the investor relations director.

In our discussion with the chair in February 2020, he confirmed that the company has worked hard to rebuild trust with stakeholders and reset its ways of working with suppliers. He believed changes made to financial risk management and audit have been effective. In our meeting with the audit committee chair in May 2020, he confirmed that the changes initiated in 2015 and 2016 were now established and working effectively and that he was satisfied that the specific issue of how commercial income is booked is unlikely to recur for the foreseeable future. The company's external auditor no longer raises it as a material concern, although it remains noted as a key audit matter.

We are satisfied with the effectiveness of the company's changes, emphasised through its response to the coronavirus pandemic in 2020. The link between strategy, conduct and culture, as well as human capital management and treatment of suppliers will remain important topics for our engagement with Tesco.

Alphabet – published 02 December 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/alphabet-case-study

In April 2018 we began engaging with Alphabet on how its technologies manage the prioritised content of Google Search and on YouTube, to avoid human rights concerns arising through the application of artificial intelligence (AI). We encouraged the company to go beyond publishing AI principles, to demonstrate how the principles are being applied. After multiple touchpoints we stepped up our engagement, including writing to the chair of the board, asking for further disclosure on content governance and recommending a feedback system in its AI ecosystem. At the 2019 annual stockholder meeting, in addition to supporting one of the shareholder proposals aimed at better addressing societal risks, we voiced our concerns relating to AI governance directly to the executives and board.

With regard to our request for demonstration of how the AI principles are being applied, in January 2019 the company published a 30-page white paper on AI governance. In January and February 2019, YouTube took a series of actions to improve transparency and accountability. Since 2019, the company has made improvements to tools to measure fairness, transparency and explicability of AI which also helped satisfy our request. It has also improved stakeholder engagement and communications with regard to how AI social impact is assessed and measured. In November 2020, Alphabet changed its audit committee to become an audit and compliance committee (ACC). The ACC's charter now includes sustainability, data privacy and civil and human rights risks as items which must be reviewed by it – becoming closer to meeting our request for enhanced board oversight. We continue to engage with the company through a human rights lens to encourage board accountability over the responsible use of AI.

Rolls-Royce – published 21 December 2020

https://www.hermes-investment.com/ukw/eos-insight/eos/rolls-royce-case-study/

A constructive dialogue between Climate Action 100+ signatories and Rolls-Royce has been ongoing since the launch of the initiative in late 2017, including with internal specialists, senior management and the chair of the board. EOS' engagement priorities with the company in 2020, as the lead signatory of the initiative, included: the setting of new interim targets, including goals to address scope 3 produce use emissions, in line with a pathway to net zero; gaining reassurance over climate-related scenario analysis undertaken and its integration; advancing its climate-related financial disclosure; and asking the company to consider tying executive compensation to climate performance metrics. Rolls-Royce continued to advance its reporting against the TCFD recommendations in its 2019 Annual Report, published in Q1 2020. In June 2020, it announced a commitment to net-zero emissions in its operations and facilities by 2030 (a science-based target) and to play a leading role in enabling the sectors in which it operates to reach net-zero emissions by 2050. Engagement in 2021 will cover the company's roadmap to net-zero and interim targets in particular in a post-coronavirus recovery in the aviation industry, the integration of climate-related scenarios and goals into business planning, further improvements to climate-related disclosure where necessary, the integration of executive compensation with the net-zero pathway and the governance of direct and indirect policy advocacy in line with the company's support for the goals of the Paris Agreement.

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