

EOS Engagement Plan

2022-2024

Public version

**Federated
Hermes** 

EOS

www.hermes-investment.com
For professional investors only

EOS – Our approach to Engagement

EOS at Federated Hermes is a leading stewardship service provider. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance issues.

We believe this is essential to build a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.

Our Engagement Plan is client-led – we undertake a formal consultation process with multiple client touchpoints each year to ensure it is based on their long-term objectives, covering their highest priority topics.

Voting

We make recommendations that are, where practicable, engagement-led and involve communicating with company management and boards around the vote. This ensures that our rationale is understood by the company and that the recommendations are well-informed and lead to change where necessary.

Screening

We help 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 conventions.

Advisory

We work with our clients to develop their responsible ownership policies, drawing on our extensive experience and expertise to advance their stewardship strategies.

Our services



Engagement

We engage with companies that form part of the public equity and corporate fixed income holdings of our clients to seek positive change for our clients, the companies and the societies in which they operate.

Public policy

Engaging with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and investors can operate more sustainably.

The EOS advantage

- Relationships and access** – Companies understand that EOS is working on behalf of pension funds and other large institutional investors, so it has significant leverage – representing assets under advice of \$1.64tn as of 31 December 2021. 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.
- Client focus** – EOS pools the priorities of like-minded investors, and through consultation and feedback, determines the priorities of its Engagement Plan.
- Tailored engagement** – EOS develops engagement strategies specific to each company, informed by its deep understanding across sectors, themes and markets. It seeks to address the most material ESG risks and opportunities, through a long-term, constructive, objectives-driven and continuous dialogue at the board and senior executive level, which has proven to be effective over time.

EOS focuses its stewardship on the issues with greatest potential to deliver long-term sustainable wealth for investors and positive societal outcomes.

Stewardship outcomes

We believe the purpose of investment is to create wealth sustainably over the long term. Effective stewardship is the principal activity for institutional investors to deliver this for investors. Our engagement is therefore focused on ensuring 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 promoting improvements to, and safeguarding the environment and health. When material and relevant, these factors will drive improved financial performance by companies to the benefit of investors¹.

Specific environmental and social outcomes, aligned to the UN's Sustainable Development Goals (SDGs) that we seek include:

-  **Climate change action:** ensuring company strategies and actions are aligned to the goals of the Paris Agreement to limit climate change to as close as possible to 1.5°C.
-  **Natural resource stewardship:** protecting, preserving and restoring natural resources by transitioning to sustainable food systems, ensuring affordable access to food and clean water, while protecting biodiversity.
-  **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, 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, payment of fair taxes and reducing to the extent possible any harms resulting from its products or services.

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:

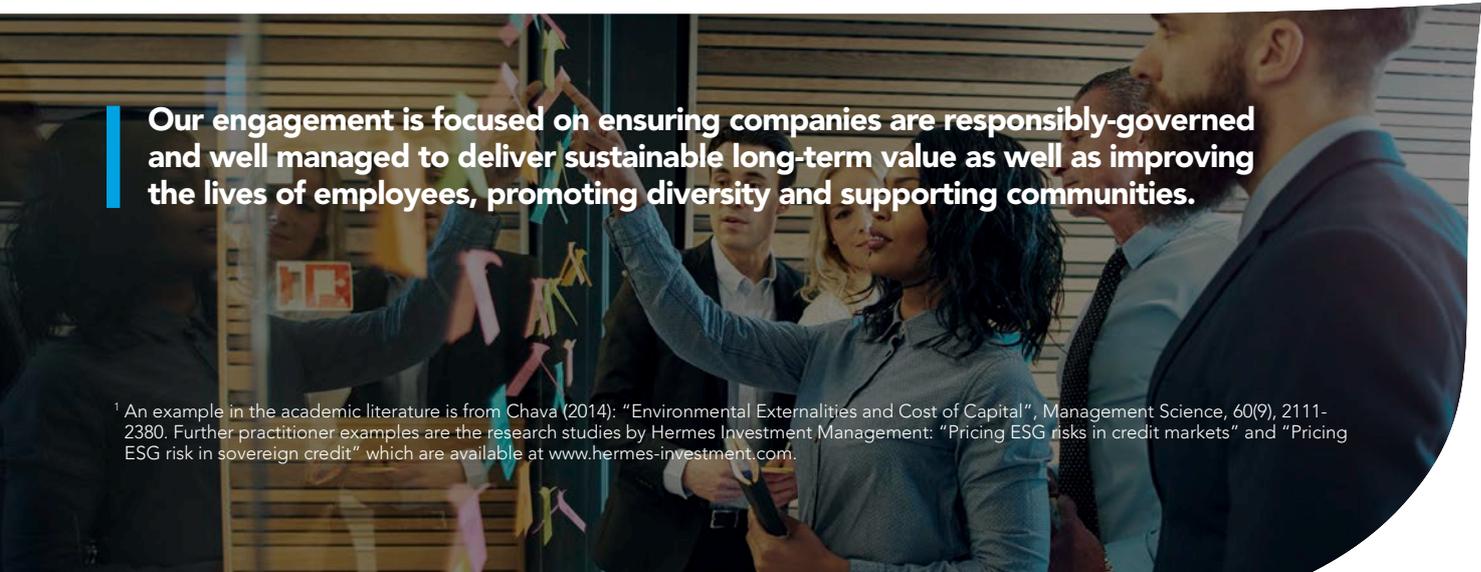
 **Corporate governance** – encompassing effective boards composed of primarily independent individuals representing the diversity of stakeholders the company serves; the alignment of executive remuneration with the creation of long-term value while paying strictly no more than is necessary; developing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

 **Strategy, risk and communications** – 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 informed decisions on long-term investment.

Achieving sustainable wealth creation requires investors to become active owners, fulfilling their stewardship responsibilities by:

- Monitoring companies' performance and identifying the most material issues to be escalated for action
- Engaging companies in pursuit of meaningful objectives, measuring and reporting on outcomes
- Exercising shareholder rights including voting on all relevant shareholdings
- Integrating stewardship into investment decisions
- Advocating for necessary changes in public policy and market best practice.

Where effective, investors should also work collectively in pursuit of shared objectives to improve outcomes for all.



Our engagement is focused on ensuring 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.

¹ An example in the academic literature is from Chava (2014): "Environmental Externalities and Cost of Capital", *Management Science*, 60(9), 2111-2380. Further practitioner examples are the research studies by Hermes Investment Management: "Pricing ESG risks in credit markets" and "Pricing ESG risk in sovereign credit" which are available at www.hermes-investment.com.



Our engagement plan

Our engagement plan identifies 12 key themes and 37 related sub-themes. We find this breadth of coverage is necessary to reflect the diversity of the issues affecting companies in our global engagement programme.

In 2021, the postponed UN COP 26 climate conference finally took place, keeping up strong momentum on climate change. The conference led to the fairly predictable outcome of mixed results, with a positive 'ratcheting' of pledges and commitments that could limit climate change to around 2.1°C, from a previous 2.6°C in 2020. This puts the world within touching distance of the 2°C goal, but falls short of the 1.5°C aspiration, which must now be regarded as in peril given the need for urgent action to halve global emissions by 2030. Human rights continued to be at the forefront of responsible investment, with continued engagement on supply chains affected by Xinjiang. In addition, we commenced human rights engagement with companies operating in or with value chains in Myanmar following the coup d'état against the democratically elected government. Meanwhile, the Covid-19 pandemic is far from over, with officially recorded deaths having risen to over 5m worldwide (up from approximately 2m at end 2020). Despite continuing lockdowns in many markets and severely curtailed international travel, economic activity has bounced back, revealing a labour shortage in many sectors and forcing companies to re-evaluate their employee value proposition in order to retain staff.

Over the next year, we will continue our focus on the most material drivers of long-term value, with a focus on four priority themes:



Climate change action: In the lead-up to COP 26, over 3,000 companies committed to achieve net-zero emissions. However, an analysis of the largest emitters in the world showed that while approximately 50% had net-zero goals, only 20% had short and medium-term emissions reduction targets and only 7% had targets aligned with the Paris Agreement goals. The emphasis of our engagement is therefore on matching long-term commitments with a Paris-aligned strategy and targets. We also support action to ensure that published financial accounts and political lobbying are similarly aligned. Engagement is now broadening out to include the banks, ensuring that their net-zero ambitions match those of asset managers. The Glasgow Financial Alliance for Net-Zero brought together a broad coalition of financial actors representing in aggregate \$130 trillion of financial assets, including \$57 trillion or approximately 50% of global assets under management. This broad commitment opens up the prospect of further collaborative and escalated engagements with companies. EOS will continue to support action at Climate Action 100 (CA100+), acting across multiple regions as a lead or co-lead at over 25 of the 167 focus companies across Europe, North America, and Asia. As the climate changes, and extreme weather events become more frequent and severe, it will be important for companies to demonstrate that they have a physical risk strategy.

EOS will continue to support action at CA100+, acting across multiple regions as a lead or co-lead at more than 20 companies.



Human and labour rights: As we continue to engage on this enduring priority theme, we will seek to ensure increased vigilance in the protection of human and labour rights during and following the coronavirus pandemic, which is exacerbating inequalities, increasing the risks of unacceptable working conditions such as modern slavery and low pay and limiting access to fundamental needs such as food and medicine, including effective coronavirus vaccines. We continue our focus on indigenous and community rights and on high-risk regions such as disputed territories or areas of conflict. We will further focus on digital rights in the virtual world, such as challenges to the right to data privacy, the right to freedom of expression and discrimination through the development of artificial intelligence. We will continue to promote corporate application of the UN Guiding Principles (UNGPs) on Business and Human Rights at 10 or UNGPs 10+² – the next decade of implementation of the UNGPs. We will also focus on escalated breaches of the UN Global Compact principles for human rights including considering voting against directors if not being adequately remediated.

² OHCHR | UNGPs next 10 years project.

Data from the Climate Action
100+ Benchmark shows that

52% of the world's largest emitters had net-zero goals, but only

20% had short and medium-term emissions reduction targets and only

7% had targets aligned with the Paris Agreement goals.



Human capital: The coronavirus pandemic has shone a light on employers' treatment and engagement of their workforce. In 2022, we will focus our engagement with companies on providing fair wages and benefits so all can afford a decent living standard, as well as development and implementation of a human capital management strategy to promote best practice physical (including health and safety) and mental workplace wellbeing. Furthermore, we will continue our focus on diversity, equity, inclusion and representation; asking companies to develop a strategy and action plan to close the ethnic pay gap and achieve proportionate ethnic and gender representation at all levels. We will also challenge companies to expand their consideration of diversity metrics to include representation and equity for the LGBTQ+ community and differently-abled. These strategies should include articulation of culture and employee proposition to improve workforce loyalty and wellbeing.

Board effectiveness and ethical culture: In 2022, to enhance the quality of board performance and corporate decision-making, we will focus on ensuring that boards make improvements to ethnic diversity that at least match the recent progress on gender diversity. The goal will be for the board to achieve representation that is reflective of the diversity of the stakeholders it aspires to serve. We will also ask 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 remain committed to improving a board's "software" (relating to how it functions), in addition to its "hardware" (relating to its composition and structure). The board should continuously monitor and assess the prevailing company culture to ensure it is in line with the company's purpose, strategy and values.

We will also ask boards to react to the lessons learned from the coronavirus pandemic, including the possibility for more internationally diverse board appointments, enabled by more effective remote working practices.

Expanding themes

In addition to the priority themes, we will pursue further engagement in these fast-growing areas:

Biodiversity: We will focus engagement on halting and reversing biodiversity loss at companies that are involved in the production and retailing of food, as well as exacerbating anti-microbial resistance. As we outlined in our white paper on biodiversity, published in February 2021³, as a priority 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, regenerative agriculture, sustainable proteins and chemical runoff management.

Fast fashion: We will engage with apparel companies on their environmental and social impacts. We will push companies to acknowledge the need to move to a circular business model and assess the risks to the business from its environmental impacts, including the supply chain and disposal. We urge companies to set science-based greenhouse gas emissions reduction targets and time-bound targets for sustainable materials. Furthermore, we will engage on the management of salient human rights risks in companies' value chain.

Digital rights: We will publish high-level expectations on digital rights 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 will engage with companies on negative societal impacts including problematic content on social media; misuse of artificial intelligence; health and safety impacts on children and young people; and environmental and social impacts in hardware supply chains. We expect companies to balance freedom of expression with obligations to remove problematic content and take actions to respect privacy rights online.

We urge companies to set science-based greenhouse gas emissions reduction targets and time-bound targets for sustainable materials.

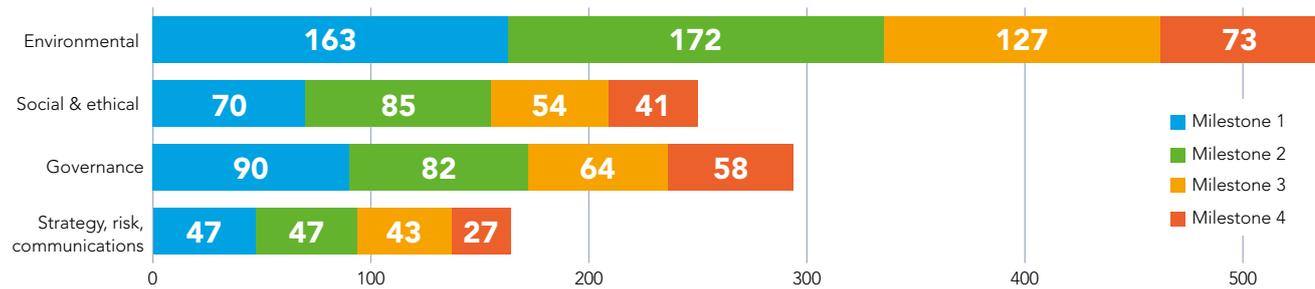
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³ Our Commitment to Nature (hermes-investment.com).

Engagement progress in 2021

During 2021, we engaged with 1,208 companies (2020: 1,245), covering 4,154 identified objectives or issues (2020: 3,965). In 2021, 835 objectives advanced by at least one milestone (2020: 738).

	# of companies engaged	# of issues and objectives engaged	# of objectives engaged	# of objectives completed
Engagement programme	374	2,014	868	158
Other companies	834	2,140	505	41
Grand Total	1,208	4,154	1,373	199

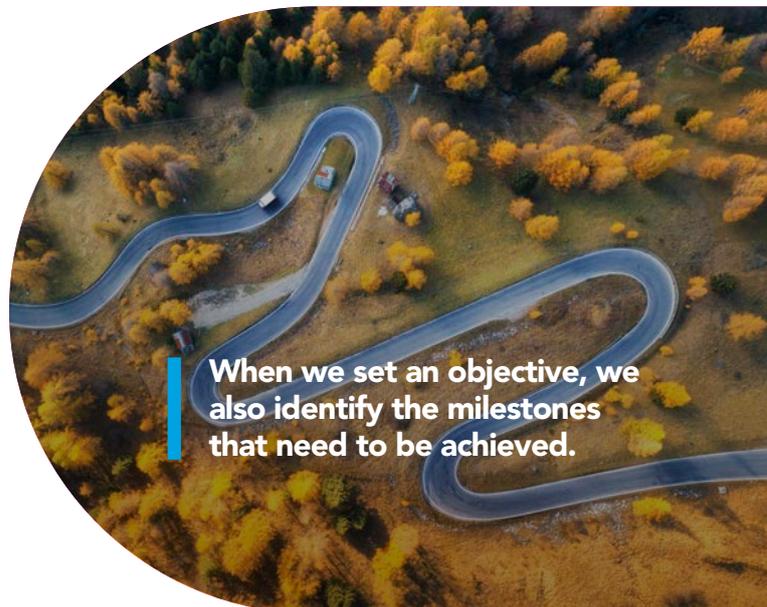


Corporate engagement objectives and progress 2021

In addition, in 2021 we made 64 public policy consultation responses or proactive equivalent such as a letter and held 71 discussions with relevant regulators and stakeholders.

Measuring progress – Milestones

Our four-stage milestone system allows us to track the progress of our engagement, relative to the objectives set for each company. When we set an objective, we also identify the milestones that need to be achieved. Progress is assessed regularly and evaluated against the original engagement proposal.



The Engagement Plan’s support for the UN Sustainable Development Goals

The UN’s 2030 agenda for sustainable development sets out 17 goals and 169 underlying targets, providing a blueprint for a sustainable world. The goals call for action by all countries to promote prosperity, economic growth and address social needs while also protecting the natural environment and have been adopted by all UN member states. Our view is that the long-term success of businesses and the success of the SDGs are inextricably linked. The SDGs help create a more sustainable economy in which businesses can thrive. Similarly, the contribution of businesses seizing market opportunities in line with the goals is vital to delivering the economic growth that is necessary to achieve them.

Our stewardship work has always focused on improving the sustainability of companies, to boost long-term wealth creation and achieve positive outcomes for society. We therefore believe that all of our engagement work is aligned to the delivery of the SDGs either directly or indirectly.

There is no universally accepted standard or benchmark for reporting on the SDGs, therefore, we have developed our own approach in alignment with our Engagement Plan.

This attributes a direct link between one of our engagement themes and an SDG if we believe our engagement objective at a company directly supports at least one of the UN’s targets underpinning the relevant goal or is aligned with the spirit of the goal. It does not include in our reporting the many engagements which would more indirectly support the ambition of other SDGs or corporate governance more broadly.

Here are some examples of our engagement in support of the SDGs:

- **SDG 3 Good health and wellbeing:** we engage across the pharmaceutical and healthcare sector on access to medicines and healthcare to support this goal.
- **SDG 5 Gender equality:** we engage to improve gender equality and increase female representation across all levels of organisations, in particular at board and executive leadership levels.
- **SDG 7 Affordable and clean energy:** much of our work under the climate change theme supports this goal, in particular, efforts to increase plans to invest in or purchase renewable energy.
- **SDG 8 Decent work and economic growth:** our engagement on human capital management and human rights in the supply chain supports this goal, particularly by addressing equal pay, labour rights and health and safety concerns.
- **SDG 10 Reduced inequalities:** engagements on diversity, equity and inclusion support this goal by addressing the needs of disadvantaged and marginalised populations.
- **SDG 12 Responsible consumption:** work to improve energy or natural resource efficiency, including efforts to build a circular economy, support this goal.
- **SDG 13 Climate action:** all our engagement under the climate action theme, in support of action aligned to the goals of the Paris Agreement, supports this goal.
- **SDG 16 Peace, justice and strong institutions:** engagements on human rights which aim to protect fundamental freedoms, reduce bribery and corruption and eliminate child and forced labour support this goal.

The Engagement Plan’s support of the UN SDGs

The infographic 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 or issue may directly link to more than one SDG).

Top 10 issues and objectives engaged in 2021 linking to the SDGs



2,457

of the issues and objectives engaged in 2021 were linked to one or more of the SDGs

Breakdown of other SDGs linked





We address the following themes in our Engagement Plan, covering environmental, social, corporate governance, and strategy, risk management and communication issues. We include a summary of the long-term outcomes we seek and examples of the near-term corporate objectives we pursue at individual companies and, more broadly, to improve public policy and market best practice. These example objectives are indicative of those set at individual companies, but each would be prioritised and tailored to the circumstances of the company.

Environmental themes

Climate change

Climate change continues to be the biggest single issue of concern for long-term investors. Global emissions must reduce to net-zero by 2050 to limit climate change to well below 2°C above pre-industrial levels, and ideally to 1.5°C. Yet currently the world’s economy is on track to deliver at least 2.1°C of warming. Society is facing a climate emergency, with only around a decade in which to take the necessary action to avoid the worst of the impacts which threaten societal welfare and stability. The required pace of transition brings many risks, as well as opportunities, to traditional business models through new forms of competition, regulation and physical risks. This is already affecting many sectors including the energy sector, with coal-based utilities being replaced by renewables; the shift to electric vehicles; and the transition to more sustainable sources of food.

Corporate engagement

Long-term outcomes we seek include: all companies to have a business model consistent with net-zero emissions and an effective transition plan to achieve this by 2050.

Near-term corporate objectives include: 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 Scope 1 and 2 and relevant and material Scope 3 emissions; a public policy position supportive of the Paris 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 Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

Public policy and best practice

We support the Climate Action 100+ investor collaboration by acting as the engagement lead for a considerable number of the top systemically important emitting companies. We apply escalated engagement techniques, including raising issues at annual shareholder meetings and supporting shareholder resolutions which support positive change. We also support effective policy making aligned to the goals of the Paris Agreement, including support of net-zero greenhouse gas reduction targets by national governments.

Society is facing a climate emergency, with only around a decade in which to take the necessary action to avoid the worst of the impacts which threaten societal welfare and stability.





Natural resource stewardship

Our societies and economies depend on the availability and continued supply of natural resources and ecosystem services. However, climate change and unsustainable land use, amongst other drivers, are causing the depletion of natural capital – one million species are at risk from extinction, increased incidence of drought and water stress, and significant environmental impacts from the current food system. This theme covers all aspects of the protection, preservation and restoration of natural resources, including water, healthy soils, biodiversity, tropical rainforests and other ecosystems. It also highlights the importance of transitioning to sustainable food systems and taking measures against antimicrobial resistance (AMR), including through diversification from animal to plant-based and sustainable protein.

Corporate engagement

Long-term outcomes we seek include: the protection and restoration of biodiversity, including the ambition to have a net-positive impact on biodiversity, and the long-term rehabilitation of landforms, such as tropical rainforests; sustainable food systems, including supply and demand that supports a growing global population with a healthy diet within planetary boundaries; and access to clean water for all.

Near-term corporate objectives include: assessment of impacts and dependencies on biodiversity and ecosystem services; the ambition to have a net-positive impact on biodiversity, including throughout the supply chain; strategies to eliminate contributions to deforestation and source high impact feedstocks (e.g. palm oil, soy, beef) sustainably; a long-term sustainable food strategy and supporting targets, including diversification from animal to plant-based protein and a plan to address AMR; and ambitious strategies to manage water use, especially in water-stressed areas, to maintain operational resilience and a social licence to operate.

Public policy and best practice

We have signed up to the Finance for Biodiversity Pledge and co-chair the Engagement Working Group, through which we will collaborate and share knowledge with financial sector peers on halting and reversing biodiversity loss. We will continue engagement and collaboration with the FAIRR Initiative network on sustainable use of antibiotics within animal farming and protein diversification. We have also signed up to the Investor Action on AMR initiative. We will continue to participate in a range of collaborative investor initiatives that are focused on tackling deforestation.



Circular economy and zero pollution

There is increasing need and opportunity for a shift from linear to circular business models, which is central to futureproofing businesses and reducing negative impacts on the environment. Key areas of concern are plastics pollution, fast fashion and electronic waste. Environmentally harmful pollution and waste, whether from operations, supply chains

or products is inconsistent with a long-term sustainable business model. Investor concerns, reflecting the threat of fines and loss of social licence to operate, as well as the harm done to wider society and investments including air pollution, the leakage of single-use plastics and chemicals into waterways and catastrophic oil spills or tailings dam leaks is rising.

Corporate engagement

Long-term outcomes we seek include: the establishment of fully circular business models which capture all materials, leading to zero waste; the prevention of contamination of the environment by harmful substances; and the avoidance of all industrial disasters such as oil spills, nuclear accidents and dam failures.

Near-term corporate objectives include: development of closed loop strategies to reduce net consumption of materials through smart product design and innovation; use of substitute materials that are commonly recycled or reused and have lower environmental impact; development and implementation of best practice strategies for harmful substance management or catastrophic spills.

Public policy and best practice

We will seek to improve investor engagement on this theme by promoting investor expectations for plastics and packaging in the chemicals, consumer goods and retail sectors and fast fashion in the apparel sector; encouraging companies to sign up to the Ellen MacArthur Foundation New Plastics Economy Global Commitment; continuing to be an active member of the PRI plastics working group; and encouraging mining companies to follow best practice tailings management and other pollution controls of the International Council on Mining and Metals.

Social themes



Human capital

In a knowledge economy where intangible assets such as human capital are estimated to comprise on average more than 52% of a company's market value (according to EY's Embankment Project for Inclusive Capitalism⁴), it is vital that companies look beyond physical assets to understand the sources of long-term value. The coronavirus pandemic and social movements such as Black Lives Matter have magnified the focus on how employers treat and engage their workforce, while the Great Resignation⁵ has highlighted the war for talent, the tightening labour market and the necessity to focus on employee wages, purpose and overall employee value proposition. Our engagement focuses on all aspects of employment and the future of work. The UN SDGs bring additional leverage through three goals focused on the pursuit of gender equality, reduced inequalities and decent work and economic growth. Important aspects of successful human capital management include: diversity, inclusion and full representation of workers; fair wages, incentives and benefits; and health, safety and wellbeing.

⁴ [ey-how-and-why-human-capital-disclosures-are-evolving.pdf](#).

⁵ [What is The Great Resignation and what can we learn from it | World Economic Forum \(weforum.org\)](#).

Corporate engagement

The long-term outcomes we seek are: equal representation and inclusion throughout the organisation across all dimensions of diversity; fair wages and benefits paid so all employees can afford a decent standard of living; zero serious work injuries and an emphasis on physical and mental wellbeing.

Near-term corporate objectives include: a strategy and action plan to close the gender and ethnicity pay gap and achieve appropriate representation at all levels of an organisation; implementation of a minimum real living wage across operations and the supply chain or evidence of an equivalent total reward package similarly valued by employees; a policy that permits freedom of association of workers in trade unions and protects labour rights recognised by the International Labour Organization; commitment to provide sufficient paid sick leave; and development and implementation of a human capital management strategy for the promotion of best practice physical and mental wellbeing in the workplace.

Public policy and best practice

We support government backed initiatives to increase the diversity of executive management, such as via the local chapter of the 30% Club, with a focus on developing markets. We will also support stakeholder collaboration to define useful standards, through active contribution to initiatives such as the Workforce Disclosure Initiative (WDI) and the US Human Capital Management Coalition.



Human and labour rights

Respect for human and labour rights is a priority on the investor agenda as it underpins a company's wider corporate culture, business ethics and enterprise risk management, all of which affect the creation and preservation of long-term value. All companies have a responsibility to respect human rights which can include decent work such as no forced labour, no child labour and payment of living wage; the

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safeguarding of indigenous communities and those living in high-risk environments (such as conflict zones); and the protection of basic human rights and digital rights, which are human rights specific to cyberspace.

Corporate engagement

The long-term outcomes we seek include: no company causing or contributing to human or labour rights abuses whether in their own operations or supply chain and effective remedy is provided in case of any harm; access for all people to basic human needs such as affordable nutritious food, healthcare and the internet; and full respect for the human rights of all indigenous people including those living in high risk zones such as occupied territories.

Near-term corporate objectives include: the development of a business model aligned to the elimination of human and labour rights abuses including modern slavery and fair pay; development of food product formulations that can support a balanced diet; and the adoption of human rights policies and procedures in line with UN Guiding Principles on Business and Human Rights.

Public policy and best practice

We will work with the Find It, Fix It, Prevent It investor collaboration to tackle modern slavery. We will support the adoption of guidance on how companies can implement higher wages aligned to their commitments to pay a living wage to supply chain workers and promote best practices in the use of technology to improve supply chain transparency and to provide data on working conditions. We will liaise with the Global Network Initiative on how we can integrate the Principles on Freedom of Expression and Privacy into our engagements with ICT companies.



Wider societal impacts

Companies have enormous impacts on society through their products, services, and practices. It is our strong belief that companies can only create and preserve long-term value for investors if they provide goods and services that satisfy pressing societal needs. When goods and services cause harms, these are often not properly priced or compensated in society, eroding sustainable wealth creation and possibly accruing future corporate liabilities. Therefore, we expect companies to carefully monitor the impacts their products and services have on wider society, ensure these are as positive as reasonably practicable and take rapid steps to mitigate and remediate any known harms.

Corporate engagement

Long-term outcomes we seek include: corporate decision-making taken through an ethical lens, with development and maintenance of the highest ethical standards and an end to corporate bribery and corruption and other non-compliance; safety features and responsible sales practices that avoid societal harms of product and services; and fair tax paid, putting an end to tax arbitrage and aggressive tax avoidance.

Near-term corporate objectives include: a public statement and board responsibility to aspire to the highest ethical standards; the introduction of responsible sales practices for harmful products such as tobacco, alcohol or firearms; and a policy commitment to pay tax in each country in line with the spirit and intention of the law.

There is considerable evidence that the performance of the board is vital to the long-term success of a company, with a range of factors contributing to this.

Public policy and best practice

We support the development of market best practices recommended by reputable corporate ethics organisations such as the Institute of Business Ethics and anti-bribery and corruption organisations such as Transparency International. We will continue to advocate public policy efforts at an international level and individual country levels to achieve greater tax transparency.

Corporate governance themes



Board effectiveness and ethical culture

There is considerable evidence that the performance of the board is vital to the long-term success of a company, with a range of factors contributing to this. Boards should be composed of directors with technical skills aligned with the strategic needs and direction of the company and a diversity of perspectives (including across gender, age, ethnicity, nationality, background, skills and experience) to improve decision making. Equally important is that boards contain enough independent directors to challenge management and that directors are able to dedicate sufficient time to fulfil their duties. Board effectiveness also requires robust supporting structures and processes, such as a proper induction upon appointment and ongoing training, a separate chair and CEO with clearly defined responsibilities, and effective committees with accurate, timely and clear information. An effective board should be involved in constructive dialogue with investors, the workforce and other key stakeholders. It should also be subject to regular independent evaluation. Furthermore, boards must take responsibility for the ethical culture of a company.

Corporate engagement

The long-term outcomes we seek include: a diverse board composition aligned to the strategic needs of the company, reflective of the diversity of the stakeholders it serves, including employees and customers; effective boards with meaningful participation of all members and appropriate allocation of time, verified by independent evaluation; and structured succession planning in place, accounting for strategic changes and unexpected situations.

Near-term corporate objectives include: additional female directors appointed with the goal of achieving at least 30% women on the board, or higher in relevant markets, with interim goals in place depending on the market context, such as at least 20% women on the board in Brazil, Russia and China, and at least one woman on the board in South Korea; board composition assessed to consider and improve ethnic diversity and racial equality; additional independent directors appointed to achieve at least 50% independence at dispersed ownership companies and 30% in concentrated ownership companies; improved focus on aspects of a board's "software" (rather than "hardware"), including the allocation of time to strategic versus operational issues; and independent board evaluation conducted at least every three years, including an assessment of board dynamics and culture.

Public policy and best practice

We will continue to promote our Guiding Principles for an Effective Board⁶ paper in different markets via conferences and local market best practice engagement. We support initiatives to promote board gender diversity, including initiation of local chapters of the 30% club. We will advocate for minimum levels of racial and ethnic diversity, as well as encouraging improved disclosure and ethnicity pay gap reporting, in local corporate governance codes and authoritative guidelines. We have developed 22 regional corporate governance principles available on the EOS library page of our website, which set out our fundamental expectations of the companies our clients invest in.



Executive remuneration

Pay structures are a critical tool for aligning the activities of management with a company's purpose, strategy and incentivising long-term value creation, including wider social and environmental outcomes. In some markets we believe that compensation structures and practices are generally not fit for purpose, with some recent practices, such as introducing structures to gear the majority of pay towards performance-based pay, may have been well-intentioned but have proved ineffective with unintended consequences such as escalating quantum and encouraging short-termism or financial engineering. The coronavirus pandemic has served as a reminder of the limitations of pay schemes reliant on stock options or performance-based incentives schemes. We therefore wish to see simpler, more transparent pay schemes with the reduction of variable, performance-based elements in pay, replacing these with higher fixed pay, paid primarily in shares held for the long term.

Corporate engagement

The long-term outcomes we seek include: executives being rewarded for behaviour aligned to the desired corporate culture; simple, understandable pay schemes that incentivise delivery of long-term sustainable value; clear disclosure explaining the nature and appropriateness of awards; and fair levels of pay that clearly align with performance and can be justified to employees, investors and other stakeholders.

⁶ Guiding Principles for an Effective Board – Insights from Engagement | UK Wholesale (hermes-investment.com).

⁷ EOS Library | Federated Hermes (International) (hermes-investment.com).

Near-term corporate objectives include: pay schemes designed to support the desired culture of the organisation, including consideration of whether behaviours and decisions incentivised are sufficiently long-term and aligned to fulfilling the organisation's purpose; alignment of incentive plans to the strategic drivers of long-term value, rather than overreliance on relatively short-term measures such as total shareholder returns or earnings; simple pay structures, seeking at most two forms of concurrent variable pay schemes; full disclosure of pay structures, including metrics and potential award size; and clear and timely reporting of targets, performance and pay outcomes, enabling investors to judge the appropriateness of awards.

Public policy and best practice

In the US and UK, we will work with groups such as the US Council for Institutional Investors and the UK Corporate Governance Forum to set best practice guidelines for higher shareholdings, reduced variable pay and the adoption of restricted stock models. In Europe, we will encourage further alignment on higher shareholdings and greater disclosure of pay structures and outcomes, particularly in France, Sweden and Denmark. In Asia and emerging markets, our focus is on improving disclosure, demonstrating a clear link between pay and performance and discouraging use of share options, particularly in China and Hong Kong.



Investor protection and rights

Protecting and enhancing shareholder rights is critical to the long-term success of companies, as it ensures that companies remain accountable to long-term investors. Shareholders exercise control over the future direction of a company through rights such as the ability to propose candidates for election to the board, sometimes referred to as proxy access; or proposing shareholder resolutions (whether advisory or legally binding). It is also important to protect minority rights of investors, through measures such as: the avoidance of poison pill arrangements that limit potential changes of control; the elimination of strategic cross-shareholdings between companies (common in Japan); and avoiding dual or multiclass share structures with unequal voting rights.

Corporate engagement

The long-term outcomes we seek include: the protection of basic shareholder rights to ensure confidence to invest capital over the long term with favourable returns; the protection of minority shareholder rights to ensure confidence to invest in companies controlled by larger shareholders; and good access for investors to boards and management, so as to influence companies to act in their long-term interests.

Near-term corporate objectives include: establishment of a regular dialogue between shareholders and non-executive directors; the removal of anti-takeover (poison pill) arrangements; the reduction or elimination of strategic shareholdings by Japanese companies; and the promotion of the one-share, one-vote principle, especially including at times of major change at the company, such as a change of control of ownership or major capital raising.

In Asia and emerging markets, our focus is on improving disclosure, demonstrating a clear link between pay and performance and discouraging use of share options, particularly in China and Hong Kong.

Public policy and best practice

We will continue to: resist proposals to allow premium listings of multiple class shares at various stock exchanges around the world without certain protections, for example a time-limit; push Japanese regulators for tighter disclosure requirements on cross-shareholdings; advocate for the US Securities and Exchange Commission to regulate proxy advice in a way that could increase the independence of such research; and encourage and support implementation of ambitious stewardship codes and effective EU member state transposition of the amended Shareholder Rights Directive.

Strategy, risk and communication themes



Purpose, strategy and policies

This theme covers all aspects of how a company creates and preserves value over the long term. It includes business purpose, long-term strategy and sustainable business model, and capital allocation policy. These then guide a company's key choices around how to deploy limited resources, including financial and human capital, and its chosen operating behaviours and underlying culture. Recent events, such as the pandemic and the 2019 US Business Roundtable Statement of Purpose, have intensified the focus on business purpose and the role of corporations in society.

Corporate engagement

The long-term outcomes we seek include: an enduring business purpose that explains why the company exists and which meets the needs of society profitably; a long-term strategy and sustainable business model that creates and preserves value for shareholders and wider stakeholders by delivering positive societal outcomes; and a capital allocation policy that delivers optimal returns over the long term for investors and wider stakeholders.

Near-term corporate objectives include: a published statement of purpose that defines the company's business purpose (why it exists) and which identifies the stakeholders most critical to long-term value creation through delivery of positive societal outcomes; a long-term strategy and sustainable business model (including forward-looking metrics and indicators) which shows how the company's stated purpose is operationalised, including how it delivers positive societal outcomes and long-term value to its critical stakeholders; a published capital allocation policy that includes policies pertaining to research and development; mergers and acquisitions; reinvestment in company growth; dividends and buybacks; and debt retirement.

Public policy and best practice

We identified over 60 potential corporate leaders in business purpose, and invited their board directors to join the steering groups of the Enacting Purpose Initiative, which will produce guidance on how business purpose should be formed and used to guide long-term strategy and capital allocation. In the US, we are asking companies how they plan to comply with the Securities and Exchange Commission's 8 April 2020 guidance on the need for disclosure of forward-looking health and welfare strategies.



Corporate reporting

Corporate reporting covers all aspects of reporting by companies to their stakeholders, whether financial or nonfinancial information, statutory or voluntary. Transparent reporting is essential to enable shareholders and wider stakeholders to understand and assess the companies in which they have an interest and to measure performance over time. Over the last decade, we have seen an increase in voluntary and mandatory reporting frameworks such as the guidelines of the TCFD and the Sustainability Accounting Standards Board (SASB) standards. Further regulatory requirements for enhanced non-financial reporting are expected.

Corporate engagement

The long-term outcomes we seek include: timely, reliable and comprehensive reporting which enables investors and other stakeholders to accurately appraise past performance and future prospects of a company; comprehensive reporting of all material elements of a company's impact on wider society; company explanations through integrated reporting on how value is created over time.

Near-term corporate objectives include: the adoption of prudent accounting standards; ensuring best practices in audit tendering and rotation; sustainability reporting aligned to best practice standards and frameworks such as the Global Reporting Initiative, the Value for Reporting Foundation's SASB Standards and Integrated Reporting Framework as well as the Financial Stability Board's TCFD recommendations; and analysis of how corporate activity is aligned to delivery of the UN SDGs.

Public policy and best practice

We will support the development and adoption of standardised reporting frameworks applicable to the most material long-term value areas, with particular emphasis on human capital, such as through the WDI.



Risk management

The management of risk is essential to creating and preserving sustainable long-term value. High-profile business failures (such as a harmful faulty product, an oil spill, a dam collapse and poor lending practices leading to major financial losses) and more recently the coronavirus pandemic have increased the attention to risk management by companies and their shareholders. Although pandemic risk was on the risk registers of many companies as a low-likelihood, high impact event, the pandemic has shown that companies were not prepared for the full magnitude of government interventions in response to this type of public health risk, including the full lockdown of economies.

A board and management team must first articulate to investors the level of risk appetite, and then monitor and manage risks within this boundary. Management has the responsibility to implement an effective risk management framework, designed to identify, assess and manage the company's strategic, operational, compliance (including legal and regulatory risks) and financial risks. We focus on management frameworks to avoid and, if necessary, remediate operational risks which include: serious operational risks (including catastrophic risks); product risks; and as digital technology is increasingly critical to a company's operations – cyber security risks in various forms.

Corporate engagement

The long-term outcomes we seek include: risks assessed from the perspective not only of financial impact, but also maintenance of a social licence to operate, which is underpinned by a corporate purpose centred on being sustainable and creating long-term stakeholder value; an effective risk management framework, designed to identify, assess and manage the company's strategic, operational, compliance and financial risks; and a culture that seeks to apply the board's chosen risk appetite and which is established across all parts of the organisation.

Near-term corporate objectives include: an authentic business purpose communicated externally and embedded internally with the board and senior management putting purpose into practice through the company's strategy; a risk management framework which reflects the activities and complexities of the business; the board and senior management, in their respective roles set clear expectations for the culture of the organisation with specific reference to the firm's overall risk appetite.

Public policy and best practice

We will continue to support the PRI's collaborative initiative on cyber security.

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