EOS Engagement Plan

2023-2025

Public version

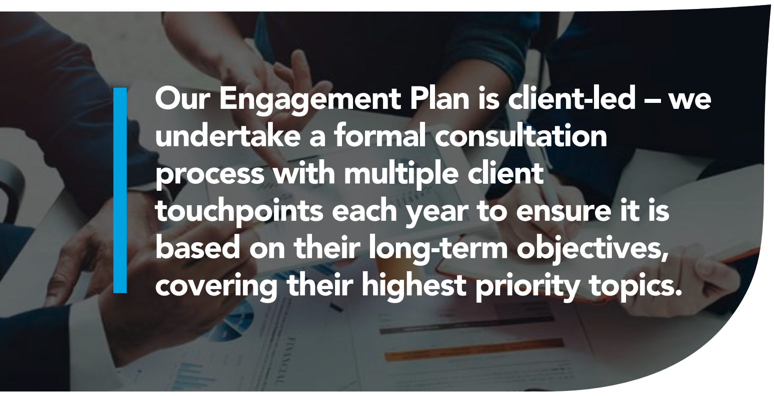
Federated Hermes
EOS

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 governance, business strategy and purpose including relevant environmental and social issues.

We believe this is essential to build a global financial system that delivers sustainable wealth creation: improved risk adjusted long-term returns for investors including through better, more sustainable outcomes for society and the environment.



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.

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 in the companies they invest in and where possible 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.

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.

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 over US$1.34tn as of 31 December 2022. 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 create long-term sustainable weath for clients and their ultimate beneficiaries.

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 wealth creation, which often involves improving the lives of employees, promoting diversity and supporting communities. Companies should do this while contributing to wider society by paying taxes and protecting the environment and health. When material and relevant, these factors should drive improved financial performance by companies to the benefit of investors.[1]

Good governance sets the foundation for managing long term risks and creating value for stakeholders. We seek robust board oversight and management by companies of the most material long-term drivers of sustainable wealth creation, from both a company value and societal outcome perspective. These outcomes include:

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 investor 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.

As a consequence of responsible governance, we seek specific environmental and social outcomes aligned to the UN's Sustainable Development Goals (SDGs). These include:

Climate change action: ensuring company strategies and actions are aligned to 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 anti-microbial resistance and managing water stress to enable more affordable access to food and clean water.

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

Human and labour rights: respecting all human and labour related rights linked to a company's operations, products and supply chains, 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, responsible payment of taxes and maximising the positive impacts of its products and services while reducing to the extent possible any associated harms.

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

Where effective and efficient, 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 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.

Our focus of engagement for 2023

The war in Ukraine, uneven global post-pandemic recovery and increasing severity of extreme weather events linked to global warming have contributed to an energy and cost of living crisis, increasingly disenfranchised employees, and increased risks of human rights violations worldwide. Society is also challenging corporate commoditisation of personal data and seeking protection for digital rights. Finally, not only are ecosystems services at risk of irreversible biodiversity loss through the impacts of climate change, land-use change and pollution, but funding for public services has also been stretched thin, raising the risk of further scrutiny of aggressive corporate tax practices. This turbulent geopolitical and economic landscape of 2022 has only served to solidify our existing engagement priorities, while placing them in a new context.

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: The current energy trilemma – an overlap of accelerating climate change, challenges for energy security, and rising costs and inequality in access to energy – is a potential risk to climate action in the short-term. In the medium term, however, the trilemma may help to accelerate the transition away from fossil fuel resources. The emphasis of our engagement remains focused on companies having a strategy and greenhouse reduction targets aligned to the Paris Agreement, seeking to limit climate change to 1.5C, together with aligned financial accounts and political lobbying. Under the broader Glasgow Financial Alliance for Net Zero, our own engagement-driven targets under the Net Zero Asset Managers Initiative will intensify engagement with banks, ensuring that their net-zero ambitions are aligned with those of asset managers. EOS will continue to lead or co-lead collaborative engagements across multiple sectors through the CA100+ and 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 will strengthen focus on the need for a 'just transition' and to address the human rights impacts of climate change.

> **The emphasis of our engagement remains focused on companies having a strategy and greenhouse reduction targets aligned the Paris Agreement.**

Human and labour rights: As we continue to engage on this enduring priority theme, we expect companies to acknowledge the likelihood that human rights impacts may be present within operations and supply chains and demonstrate appropriate board- and executive-level governance of human rights. Our engagement focuses on ensuring that companies do not infringe upon basic human rights, and provide effective remedy in the case of any harm, while taking steps to provide fair and equitable access to finance, healthcare, and nutrition. We will continue to focus on the protection of indigenous and community rights and human rights in high-risk regions such as disputed territories or areas of conflict. We will further focus on the protection of digital rights in the virtual world, such as challenges to the right to data privacy, the right to freedom of expression and protection from unfair biases arising from 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 or if the company lags on human rights benchmarks.

[2] OHCHR | UNGPs next 10 years project.

Human capital: In the wake of the 'great resignation', increased interest in amplifying worker voice through collective bargaining, and the cost of living crisis, we are intensifying engagement 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: In 2023 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, with the goal to achieve representation reflective of the diversity of the stakeholders it aspires to serve. We will also ask boards to demonstrate lessons learned post-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.

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. When we set an objective, we also identify the milestones that need to be achieved.

In addition to the above priority themes, we will continue engagement on three topics in 2023 and beyond as follows:

Biodiversity: We will focus engagement on halting and reversing marine and terrestrial biodiversity loss at companies that are involved in the production and retailing of food, as well as exacerbating anti-microbial resistance and in sectors with deforestation impacts. As we outlined in our white paper on biodiversity, published in February 2021,[3] 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, water-stress, regenerative agriculture, sustainable proteins and chemical runoff management.

Digital rights: We will engage companies on our Digital Rights Principles[4] (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 companies on negative societal impacts including problematic content on social media; misuse of artificial intelligence; health and safety impacts on children and youth; and environmental and social impacts in hardware supply chains and the growing digital divide. We expect companies to balance freedom of expression with obligations to remove problematic content and take actions to respect privacy rights online.

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 frequently under strain in the wake of the pandemic and inflation has only added more pressure. Companies that seek to aggressively minimise their tax payments may 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 Responsible Tax Principles and our engagement expectations will focus on four critical areas: tax policy, governance, stakeholder engagement and transparency

The above represent particular priorities in the years ahead. However, we continue to maintain a comprehensive engagement plan covering a broad range of other themes, including seeking to avoid the emergence of 'superbugs' through anti-microbial resistance, increasing resource efficiency through the circular economy, reducing all forms of harmful pollution, which generally leads to positive wider societal outcomes.

[3] Our Commitment to Nature (hermes-investment.com).
[4] EOS Digital Rights Principles.

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 sustainable wealth creation. 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.

Engagement themes for 2023-25

The icons below illustrate the number of engagement objectives and issues on which we have engaged in the last year,[5] which we believe are directly linked to an SDG (noting that one objective may directly link to more than one SDG).

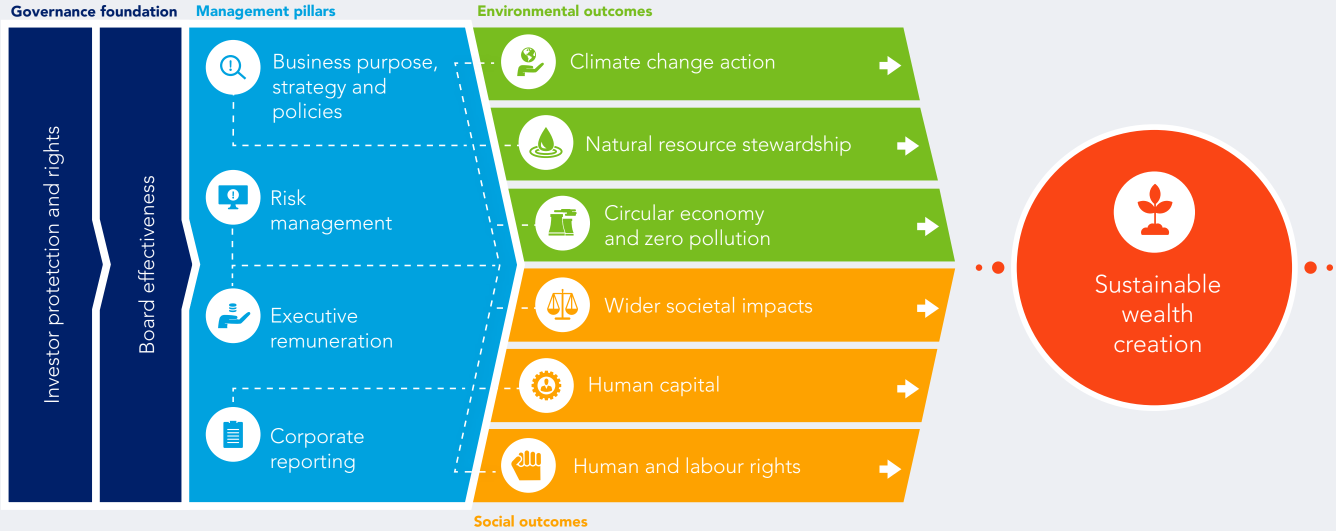
2,490

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

Climate action	886	Affordable and clean energy	275	Sustainable cities and communities	85
Responsible consumption and production	652	Peace, justice & strong institutions	225	No poverty	82
Reduced inequality	409	Good health and well-being	220	Clean water and sanitation	68
Decent work and economic growth	402	Industry, innovation and infrastructure	206	Quality education	33
Gender equality	392	Life on land	116	Partnerships to achieve the goal	22
		Life below water	87	Zero hunger	19

[5] year unreconciled rolling data as at December 30th 2022. Fully reconciled data will be published in the EOS Annual Review.

Engagement themes: Our stewardship process to achieve long-term sustainable returns on investment



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 action

Climate change poses one of the greatest threats to society and the economy. Global emissions must reduce to net zero by 2050 to limit temperature increases to 1.5°C above pre-industrial levels to avoid the worst impacts of climate change, with every avoided fraction of warming above this being critical. The delayed action by society, governments and companies has meant that instead of peaking, emissions have continued to rise and average temperatures have already increased by over 1.1°C since pre-industrial levels because of human activity. Society must dramatically reduce emissions over the next decade, by 40-50% compared to 2010 levels, to avoid the risk of catastrophic climate change. 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 transportation sector, with the shift to electric vehicles; the finance sector, with many investors now committing to achieve net-zero emissions in their investment portfolios; and the consumer goods and retail sectors, with a transition to more sustainable sources of food, sustainable land use, and zero deforestation.

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 or sooner, with emissions reduction in line with 1.5°C; a business model and asset base that are resilient to future climate change and associated physical risks; and board ownership of business purpose, strategy, public policy and lobbying position, each consistent with the goals of the Paris Agreement, together with full disclosure of progress.

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; assessment of exposure to the physical risks of climate change and development of adaptation and action plans to manage these risks; 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 including ensuring a just transition; 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.

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.[6] This theme covers all aspects of the protection, preservation and restoration of natural resources, including marine and terrestrial biodiversity, water, healthy soils, oceans 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; oceans; sustainable food systems, including supply and demand that supports a growing global population within planetary boundaries; decreased rate and spread of antimicrobial resistance (AMR); and access to clean water for all.

> **Our societies and economies depend on the availability and continued supply of natural resources and ecosystem services.**

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 in operations and the supply chain, especially in water-stressed areas.

Public policy and best practice

We have signed up to the Finance for Biodiversity Pledge, 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 network on sustainable use of antibiotics within animal farming and protein diversification. We will continue to participate in a range of collaborative investor initiatives that are focused on tackling deforestation including being a signatory to the Investors Policy Dialogue on Deforestation (IPDD). Additionally, we have signed on to Ceres' Valuing Water Finance Initiative through which we will engage with companies in high-risk water sectors collaboratively with financial sector peers.

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 persistent chemicals such as per- and polyfluoroalkyl substances (PFAS), air pollution, pesticides, 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; Continuing to support collaborative engagement and sector policy on hazardous substances through ChemSec's annual ChemScore ranking; 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

The nature of work is rapidly evolving. Through the 'Great Resignation', as it is now widely called, we witnessed over 47 million people voluntarily quit their jobs in the United States alone — an unprecedented mass exit spurred on by Covid-19.[7] At the same time, worker voice and unionisation efforts have grown exponentially.[8] In addition, racial equity and gender equality continue to evade our workforces. The backdrop of all of these challenges is the global rise in cost of living that is hitting our most vulnerable populations disproportionately.[9]

[6] Our Commitment to Nature (hermes-investment.com).
[7] hbr.org/2022/03/the-great-resignation-didnt-start-with-the-pandemic.
[8] A Look Inside This Year's Biggest U.S. Unionization Efforts (forbes.com).
[9] The Cost of Living in the U.K. Imperils Vulnerable Britons – The New York Times (nytimes.com).

Our engagement focuses on all of these 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, equity and inclusion (DEI); freedom of association, fair wages, incentives and benefits; types of employment contract; health, safety and wellbeing; employee engagement and culture; and employee skills and training.

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

Companies have a duty to respect human rights and they also underpin a company's wider corporate culture, business ethics, and enterprise risk management, all of which affect reputation and ability to create and preserve long-term holistic value. We expect companies to acknowledge the likelihood that human rights impacts may be present within operations and supply chains and demonstrate appropriate board- and executive-level governance of human rights. Policies and procedures to address human rights should be aligned with the UN Guiding Principles on Business and Human Rights (UNGPs). Human rights due diligence should be dynamic and include identification of salient human rights risks; human rights impact assessments; strategy to prevent, mitigate and address impacts; and provision of remedy. We expect human rights to continue to be a key consideration for stewardship and engagement globally and we focus on basic human rights, supply chain labour rights, digital rights, indigenous and community rights and high-risk regions.

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 finance, healthcare, and nutrition; full respect for human rights of all indigenous people, and in high-risk regions such as occupied territories; and respect for online privacy rights, online freedom of expression, and to mitigate negative societal impacts of digital products and services.

Near-term corporate objectives include: Expanding financial, healthcare and nutrition-related services to underserved populations; carrying out dynamic due diligence across supply chains to identify impacts such as forced labour, modern slavery, child labour, non-payment of living wages and gender-specific issues (e.g. lower pay, vulnerability to exploitation) and facilitating supply chain grievance mechanisms which incorporate true worker voice and ensure access to remedy; obtaining user consent for the collection, inference, sharing, and retention of user data; demonstrating the presence of agreements that indicate communities' free prior and informed consent in relation to proposed developments, including physical and economic displacement, that may impact communities and ensuring access to remedy with accessible, functioning, and transparent grievance mechanisms; and enhancing human rights due diligence processes for operations and supply chains related to the high risk regions.

Public policy and best practice

We will continue to promote adoption of policies and norms in support of our published Digital Rights Principles, which outline our expectations for boards and management with respect to human rights specific to digital products and services. We serve on the Steering Committee of the Investors and Indigenous People Working Group to improve understanding of best practices and participate in collaborative engagement on human rights under the Investor Alliance for Human Rights and the UN PRI Advance initiative. We will work with the Find It, Fix It, Prevent It investor collaboration to tackle modern slavery.

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: demonstration of robust business strategy alignment to material UN SDGs; corporate decision-making taken through an ethical lens, with development and maintenance of the highest ethical standards; 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 tax paid responsibly, putting an end to tax arbitrage and aggressive tax avoidance.

Near-term corporate objectives include: A linkage of material SDGs to business strategy and performance goals; a public statement and board responsibility to aspire to the highest ethical standards; clear strategy for responsible sales of harmful products, covering areas such as consumer warnings, restrictions on sales to minors; and a policy commitment to pay tax in each country in line with the spirit and intention of the law.

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

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, race and ethnicity, sexual orientation, nationality, background, skills, experience and personality) to improve decision making. Equally important is that boards contain enough independent directors to challenge management and that directors can 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 aspires to serve, 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; independent board evaluation conducted at least every three years, including an assessment of board dynamics and culture; and disclosure of succession processes including diversity and skills considerations and the application of the nomination policy.

Public policy and best practice

We will continue to promote our Guiding Principles for an Effective Board[10] 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 corporate governance principles and regional public voting guidelines available on the EOS library page[11] of our website, which set out our fundamental expectations of the companies our clients invest in.

[10] Guiding Principles for an Effective Board – Insights from Engagement | UK Wholesale (hermes-investment.com).
[11] EOS Library | Federated Hermes (International) (hermes-investment.com).

Executive remuneration

Pay structures are a critical tool for aligning the activities of management with a company's purpose, strategy and incentivising long-term sustainable wealth creation. In some markets we believe that compensation structures and practices are generally not fit for purpose. Widening income inequality, exacerbated by the global cost of living crisis and uneven post-pandemic recovery must be addressed by challenging boards' justifications of executive remuneration structures. The coronavirus pandemic demonstrated the limitations of pay schemes reliant on stock options or performance-based incentives schemes and the challenges in setting appropriate performance metrics. We believe pay outcomes should reflect outcomes for long-term investors and take account of falls in company value or reputation – this is best or most straightforwardly achieved through share ownership. We therefore wish to see simpler, more transparent pay schemes with the reduction of variable to fixed pay ratio, paid primarily in shares held for the long term.

Corporate engagement

The long-term outcomes we seek include: 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.

Near-term corporate objectives include: clear demonstration of the link between remuneration, long-term strategy and alignment to culture; 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; Increased minimum executive shareholdings; simple pay structures, seeking at most two forms of concurrent variable pay schemes; full disclosure of pay structures, including measurable 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 supporting 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 elect directors annually; propose candidates for election to the board, sometimes referred to as proxy access; proposing shareholder resolutions (whether advisory or legally binding) receive notice of and attend annual shareholder meetings; and express views on proposed changes to the constitution and articles. It is also important to protect minority rights of investors, through measures such as: the avoidance of anti-takeover defences, such as poison pill arrangements; 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 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.

Public policy and best practice

We will continue to: Oppose proposals to allow listing of companies with multi-class share structures at global stock exchanges; press 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

Business 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. Together these guide a company's key choices around how to deploy limited resources, including financial and human capital, curb unsustainable business practices as well as its chosen operating behaviours and underlying culture. The lasting impact from the pandemic and the North American-centric Enacting Purpose Initiative report #2 have intensified the focus on business purpose and the role of the corporation in society.

Corporate engagement

The long-term outcomes we seek include: an enduring business purpose that explains why the company exists and how it 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 will continue its support for the Enacting Purpose Initiative, including the development of best practice purpose governance and guidance for boards and the initiative's contribution to the British Academy's Future of the Corporation initiative. EOS will continue to support Chief Executives for Corporate Purpose (CECP) and Focusing Capital on the Long Term Global (FCLT Global), and we will support development of alternative corporate structures that explicitly mandate the consideration of key stakeholders alongside shareholders such as a B Corporation or Public Benefit Corporation.

Corporate reporting

Corporate reporting covers all aspects of reporting by companies to their stakeholders, whether financial or nonfinancial information, statutory or voluntary. High-quality, consistent, comparable and decision-useful reporting of company information and data is essential to enable shareholders and other 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 UN Sustainable Development Goals (SDGs), the Taskforces on Climate- and Nature- related Financial Disclosures frameworks (TCFD and TNFD) 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 and periodic reporting of all material elements of a company's impact on wider society and the extent to which it meets societal expectations and explains how value is created over the short, medium and long-term.

Near-term corporate objectives include: the adoption of prudent accounting standards; ensuring best practices in independence and quality including 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.

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.

Risk management

The management of risk is essential to creating and preserving sustainable long-term value. Geopolitical actions; economic fluctuations; the impacts of the COVID-19 pandemic; regulatory developments; and ESG expectations on items including climate, cybersecurity, human capital, and company culture all pose a risk to companies today. A failure to identify, analyse and manage emerging and existing risks is a threat to all businesses, and the nature of systemic, long-term, and interconnected risks have increased the attention to risk management by companies and their shareholders.

At the core of each risk are outcomes which will have varying levels of impact on stakeholders such as customers, employees, communities, regulators, and shareholders.

At the core of each risk are outcomes which will have varying levels of impact on stakeholders such as customers, employees, communities, regulators, and shareholders. 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.

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, cybersecurity 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 should aid in developing an organisation's risk profile, be embedded into risk management and be 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 provide input to policy which seeks to understand the specific process and disclosure for emerging risks. We will continue to support the PRI's collaborative initiative on cyber security.

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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 to contribute to positive outcomes that benefit the wider world.

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