Public Engagement Report

A CATALYST FOR CHANGE
How the chemical sector is getting to grips with net zero

Defending digital rights

Creating value by addressing social injustice

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Welcome to our Public Engagement Report for Q1 2022. In our cover feature this quarter we take an in-depth look at the chemical sector and its difficult path to decarbonisation. Like steel, which we explored in our Q2 2021 Public Engagement Report, the chemical sector is considered a hard-to-abate industry. Engager Joanne Beatty guides us through some of the challenges and explains how the sector can play a key role in the low carbon transition.

In this issue we also shine a spotlight on some of our key social engagement themes. Nick Pelosi identifies some of the social harms posed by the internet and social media, the risks for companies, investors and individuals, and how we engage on these. In a related Q&A, Yu-Ting Fu explains China's new legislation covering data privacy and data security.

Finally, Diana Glassman and Emily DeMasi examine how social injustice polarises society and hinders economic growth, creating systemic risks. Addressing social inequities, including those exacerbated by the pandemic, can help to create long-term value for investors.

Our regular sections include our company engagement case studies and public policy highlights. We have also included an article from our sustainable food systems series on labour practices in the agricultural supply chain.

Claire Milhench
Communications & Content Manager, EOS

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Litmus test for chemical sector decarbonisation

The chemical sector is a 'hard-to-abate' industry seeking a clear pathway to decarbonisation. Joanne Beatty explains how we are engaging with companies in this sector, identifies some of the key challenges and opportunities, and signposts the road to a low carbon transition.

Setting the scene

The chemical sector accounts for 5.8% of global anthropogenic emissions.[1] It is the third largest industrial sub-sector for direct CO_2 emissions behind iron, steel and cement.[2,3] It is also the largest industrial consumer of oil and gas, due to its energy requirements and the need for feedstock for product synthesis.[4] The emissions resulting from the use of feedstock are later released downstream in other sectors such as agriculture and waste. The sector is also playing a key role in the low carbon transition due to the increased demand for chemicals in low carbon and energy-saving technologies.[5]

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British meat producers and soft drinks manufacturers warned of major product shortages back in September 2021, as wholesale gas prices spiked. Farmers feared having to slaughter their own animals as abattoirs closed, while consumers worried about a lack of turkeys for Christmas.[6]

The problem was partly due to a shortage of carbon dioxide, a by-product of fertiliser plants, which had been forced to close in the face of rising feedstock energy prices. CO_2 is needed to stun animals before they are killed, helps to keep food fresh for longer through its use in vacuum packaging, and puts the fizz into drinks. The crisis shone a spotlight on the hidden work of the chemical sector and underscored the fact that globally, over 95% of manufactured products rely on chemicals.[7]

Chemicals are essential inputs for many industries, with chemical use pervasive and entrenched in the modern world.[8]

[1] Slow-Reactions-Chemicals-and-Climate.pdf (shareaction.org)
[2] Abate and switch: steel seeks low carbon solutions | UK Institutional (hermes-investment.com)
[3] The Future of Petrochemicals (windows.net)
[4] Chemicals – Fuels & Technologies – IEA
[5] SBTi-Chemicals-Scoping-Document-12.2020.pdf (sciencebasedtargets.org)
[6] https://www.reuters.com/world/uk/uk-meat-industry-warns-some-firms-have-just-five-days-co2-supply-2021-09-20/
[7] Slow-Reactions-Chemicals-and-Climate.pdf (shareaction.org)
[8] Energy Information Administration (EIA)- Manufacturing Energy Consumption Survey (MECS) Steel Analysis Brief

Of the thousands of chemical products manufactured each year, fewer than 20 account for 80% of the chemical industry's energy use and 75% of its greenhouse gas emissions.[9] The energy-intensive chemical products used in plastics and synthetic fibres, fertilisers, paints and water treatment chemicals account for around two-thirds of the energy used by the global chemical industry.[10]

Like the steel industry, the chemical sector is considered "hard-to-abate", meaning that the solutions to reduce emissions are either technically challenging, prohibitively expensive, or both. As with all energy-intensive industries, the sector is under growing pressure to transform. ShareAction's 2021 report *Slow Reactions*, found that the sector had been slow to decarbonise despite NGO and investor pressure about the high emissions, which have barely fallen over the last 10 years.

To align with a net-zero emissions by 2050 scenario, the sector's direct emissions will need to peak as soon as possible and decline almost 10% from current levels by 2030.[11] This reduction needs to be achieved alongside a projected 25% increase in demand for primary chemicals over the same period.[12] According to ShareAction, fully decarbonising the production of chemicals by 2050 is technically feasible and is becoming more economically viable.[13] But getting to net zero will require the sector to decarbonise its energy consumption and feedstock inputs simultaneously.

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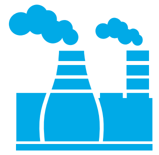

of the chemical industry's energy use

Decarbonisation challenges and risks

Decarbonisation of the energy sources used by the sector to generate the heat, steam and power needed for compression, cooling and other processes in chemical manufacturing will require access to abundant, reliable and cheap alternative sources of energy. However, alternatives to fossil fuels, such as green hydrogen and electrification, are not yet cost competitive compared with current production processes.

Feedstock use, whereby fossil fuels are incorporated into chemical products rather than consumed for energy, can lead to high end-of-life Scope 3 related emissions.[14] These are a challenge for the industry, with estimates dependent on assumptions such as the portion of materials that are recycled, incinerated or sent to landfill.

For example, plastic and chemical waste is often incinerated, releasing the embedded carbon in these products. The long and dispersed value chains associated with plastics make it challenging to reduce these emissions with more circular solutions. Few companies in the sector have a credible strategy to mitigate all Scope 3 emissions by 2050. The use of fossil fuels as feedstocks to create a wide range of everyday products such as plastics, fertilisers, detergents or tyres will require the sector to decarbonise these inputs, while developing strategies to manage the demand side for these products.[15]

The sector is also a substantial user of carbon-intensive grey hydrogen, which is produced using natural gas as an input, particularly in ammonia production and the refining industry.[16] A 1.5°C aligned world would mean eliminating the reliance on grey hydrogen in preference for more sustainable alternatives. Green hydrogen, produced by electrolysis, a process using an electrical current to split water into hydrogen and oxygen, is viewed as a viable alternative for the sector.[17]

For the chemical industry, 2050 is only one investment cycle away. Chemical plants have long lifetimes, typically 30-40 years, usually with a major refurbishment once they hit 25 years, to extend the lifetime of the plant. Most chemical plants will reach the end of their next investment cycle in the next 10-15 years.[18] Retiring plants early to switch to alternative technologies is expected to incur significant costs. The challenge is to ensure that the innovative near-zero emissions technologies currently at the scaled prototype and demonstration stage are ready for market in the next 10 years.

[9] Infographic: Chemical Industry's Energy Use and Emissions – Global Efficiency Intelligence
[10] Slow-Reactions-Chemicals-and-Climate.pdf (shareaction.org)
[11,12] Chemicals – Analysis – IEA
[13] Slow-Reactions-Chemicals-and-Climate.pdf (shareaction.org)
[14] SBTi-Chemicals-Scoping-Document-12.2020.pdf (sciencebasedtargets.org)
[15] The challenge of decarbonizing heavy industry (brookings.edu)
[16,17] Slow-Reactions-Chemicals-and-Climate.pdf (shareaction.org)
[18] https://www.iea.org/articles/the-challenge-of-reaching-zero-emissions-in-heavy-industry

Policy and regulatory certainty will be critical to help accelerate the sector's decarbonisation efforts. Access to abundant, reliable and cheap renewable energy will be key, along with an international level playing field, significant capital investment and demand shifts for end products and the way they are used.

The World Economic Forum's collaborative Low-Carbon Emitting Technologies Initiative (LCET) has identified key policy priorities to enable the development and upscaling of low-carbon technologies in the chemical sector and its related value chains.[19] The April 2021 paper Towards Net Zero signed by Air Liquide, BASF, Dow, Linde, and SABIC, among other leading chemical companies with which we are engaging, identifies seven policy areas as critical to supporting large-scale deployment of low carbon technologies.[20]

In addition to these challenges, the sector is facing the following risks:

- Upstream companies may face stranded asset risks if they retain assets with higher emissions.
- End markets for chemical products are committing to net-zero targets that apply across their supply chains due to changing customer behaviour and emerging technologies. This is increasing competitive pressure on the sector to supply lower carbon solutions for customers.
- The sector is at risk of escalating carbon prices. The UK Chemical Industry Association has reported that energy prices have increased by at least 500% for many companies since 2021, with raw material prices increasing by 30% on average amidst ongoing shipping delays.[21] At the same time, the EU Emissions Trading System (EU ETS) is seeking to phase out its free allocation of pollution permits for the industrial sectors. This is an attempt to align them with Europe's higher 2030 climate targets and Paris Agreement objectives.
- Regulatory requirements for net zero are occurring in many chemicals producing countries. The top five countries (China, US, Ireland, Germany and Switzerland) accounting for 44.2% of all chemicals exported in 2020 each have net-zero commitments in law, in proposed legislation or set out in a policy document.[22,23]
- Chemical companies are under increasing consumer pressure to accelerate the transition to the circular economy by enabling maximum durability in end-use products and by reusing and recycling existing molecules. Some 15 countries, including Switzerland, have proposed the creation of a science policy panel to deal with the threat of chemical waste and plastic pollution, which could lead to increased regulation and reduced demand in western economies.[24] The sector faces continued climate-related physical risks that could disrupt operations and supply chains as well as shifting customer demands. Other sustainability trends will affect the chemicals sector, such as issues linked to water scarcity, product toxicity and pervasiveness ("forever or persistent chemicals"), as well as waste.

Opportunities for the sector

Chemical companies face a challenging transition, although the sector may benefit by developing processes and products that are less carbon dependent or intensive. Many low-carbon technologies rely on innovations in chemistry to become more efficient, affordable and scalable – for example the sector provides materials for solar photovoltaic (PV) systems and wind turbines.

The use of chemical products and solutions downstream can help to address a wide range of climate-related challenges.

Other products, such as insulation, sealing barriers and composite materials, can improve the efficiency of new and existing buildings and of road transportation, including electric vehicles. The sector also has an important role to play in enabling the transition to a circular economy. Bio-based and renewable feedstocks, mechanical and chemical recycling and energy recovery are all actions that can reduce the sector's dependency on fossil fuels.

The use of chemical products and solutions downstream can help to address a wide range of climate-related challenges. A study by Ecofys estimated the chemical sector's contribution across key value chains could reduce emissions by over nine gigatons of carbon dioxide equivalent ($GtCO_2e$) per annum up to 2030, a reduction greater than the total annual emissions of the United States.[25]

Some

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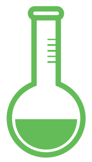

countries have proposed the creation of a science policy panel to deal with the threat of chemical waste and plastic pollution.

[19] Low-Carbon Emitting Technologies Initiative (LCET) | World Economic Forum (weforum.org)
[20] WEF_LCET_Policy_Priorities_2021.pdf (weforum.org)
[21] CO_2 supply agreement reached as chemicals sector suffers climbing costs – News – The Chemical Engineer
[22] Chemical Exports by Country 2020 (worldstopexports.com)
[23] Net Zero Coalition | United Nations
[24] U.N. draft resolution shows countries aim to create chemical waste body | Reuters
[25] Essential-Role-Chemicals-Quantifying-Global-Potential_Ecofys_Brochure-ICCA.pdf (cefic.org)

How we are engaging

We engage with some of the world's largest chemical companies on their decarbonisation pathways and ambitions. We co-lead collaborative engagement with LyondellBasell and Air Liquide as part of Climate Action 100+ and have participated in ShareAction's recent campaign to accelerate climate action for European chemical companies. We also engage with companies on end-market demand.

- **LyondellBasell** first published sustainability disclosures and CDP reports in 2017. These disclosures were useful but did not set targets. Given the company's reliance on hydrocarbon value chains, the materiality of energy expenses, and its role in scaling solutions to global plastics pollution challenges, we wanted the company to set ambitious climate targets.

  In 2019, we raised our concerns regarding the lack of forward-looking targets for energy efficiency, carbon emissions, effluents, water efficiency and waste, and any meaningful solutions for sustainable plastic use. In Q2 2020, in a meeting with senior executives, the company acknowledged our request for forward-looking targets, including science-based targets, and said it was investing in energy efficiency projects. Together with other Climate Action 100+ investors we met the company's CEO in Q2 2021 to discuss the company's progress in disclosing sustainability targets, including planned science-based targets and a net-zero ambition.

  In order to accelerate progress, EOS, as the Climate Action 100+ lead for the company, used a legal mechanism to propose a discussion on climate change at the company's 2021 annual meeting. EOS led contributions by a group of eight institutional investors who questioned the company's climate progress, leading to over 45 minutes of shareholder-board discussion on the company's climate change strategy. During the meeting the company indicated its willingness to make further commitments. A few months later, it set a net-zero goal and short, medium and long-term greenhouse gas reduction targets for Scopes 1 and 2. The company is yet to set a Scope 3 target.

- **BASF** – We have engaged on climate change as a material issue for this German chemical company since 2009. We escalated our engagement from 2020, calling for the company to set net zero 2050 targets and highlighting that it lagged its European peers on this issue. In meetings with the supervisory board chair in Q3 2020 and Q1 2021, we were pleased to hear that both the supervisory board and CEO were supportive of setting these targets and understood that the company wanted to identify a clear roadmap for achievement before publicly committing.

  There was further progress at its capital markets day in March 2021, where BASF announced 2050 net-zero carbon targets for Scopes 1 and 2 emissions and a new, more ambitious, 2030 carbon emissions reduction target for Scopes 1 and 2 (minus 25% compared with 2018, equivalent to minus 60% versus a 1990 baseline). We welcomed these targets and the underlying strategy, which is clear and appears feasible to deliver.

  Scope 3 emissions are not yet included, which we consider to be a material outstanding area for development. Addressing this requires the development of global standards and measurement of Scope 3 emissions for the industry, and the company has indicated that it will look to include Scope 3 once these barriers have been overcome. We are asking the company to add a Scope 3 2050 net-zero target and consider an interim Scope 3 reduction target for 2030 or similar.

- **Air Liquide** – We have engaged extensively with Air Liquide on climate change as a co-lead for the company under CA100+. We asked the company to make a long-term commitment to achieving net-zero emissions in line with the Paris Agreement, and to adopt the recommendations of the TCFD.

  Air Liquide announced its ambition to achieve carbon neutrality by 2050 while deploying low-carbon solutions for its clients and focusing on the development of hydrogen. It said that the inflection point would be reached in 2025 when absolute carbon emissions would start to reduce. The company also announced an absolute carbon reduction target of 33% by 2035 relative to 2020. It has begun to disclose against the recommendations of the TCFD. The company is yet to set a Scope 3 target or enhance its TCFD reporting, and we continue to engage with the company on these elements of the carbon transition.

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Theme lead: Corporate Reporting, Risk Management

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Theme co-lead: Climate Change

Green ammonia, which is produced from green hydrogen and renewable energy (a carbon neutral process), can be used as a fuel in shipping and aviation. It may also support the transportation of stored hydrogen, making it safer and more reliable.[26] The chemical sector has an opportunity to fully explore the use of such derivatives to support the decarbonisation of other hard-to-abate sectors.

Beyond the sector itself, changes in demand for products, such as shifts in agricultural practices with respect to the use of fertilisers and a more circular economy for plastics, will help to accelerate the transition.[27]

Our engagement approach

Our expectations of chemical companies to help address the climate crisis are as follows:

- **Net-zero emissions by 2050 at the latest** – Several companies, including BASF and LyondellBasell, have made this commitment following engagement.
- **Set short and medium-term targets** – Once a long-term goal is in place, short- and medium-term targets should be set, aligning with Paris Agreement goals along the journey to net zero. This is to avoid a disorderly, late transition and chemical producers continuing to pump out high levels of greenhouse gases up until 2050, baking in catastrophic levels of global heating for decades to come. LyondellBasell and BASF have set absolute Scopes 1 and 2 emissions reduction targets of 30% (relative to 2020 levels) and 25% (compared with 2018) respectively, by 2030.[28,29] BASF has outlined a clear pathway to achieving its net zero 2050 targets.[30]

We will look at companies' capital allocation decisions, to assess whether they are investing sufficient resources to achieve net zero.

- **A strategy for how these goals will be met** – Targets should be supported by a clear strategy for decarbonisation, indicating the technologies the company will be relying upon, such as green hydrogen, electrification, or renewable energy. Capex, and research and development spend, should be aligned with the goals of the Paris Agreement. These plans should be reflective of the company's chosen strategy and demonstrate its contribution to the commercialisation of key technologies.
- **Strong governance and aligned executive remuneration** – We expect strong oversight from board directors with the skills and experience to hold management to account for delivering on the long-term climate strategy; executive pay should be tied to successful climate strategy delivery.
- **Reporting in line with the Task Force for Climate-related Financial Disclosures (TCFD) recommendations, including scenario analysis** – Financial reporting and underlying risk management processes should be aligned with the four TCFD pillars; scenario analysis should be used to test the viability and resilience of business models under regulatory and market changes, including an EU Carbon Border Adjustment Mechanism and a 1.5°C scenario.
- **Paris-aligned lobbying and policy advocacy activity** – Companies should ensure that their lobbying and public policy activities are aligned with the Paris Agreement goals, including withdrawing from industry associations where views do not align.

Chemical companies that invest in reducing carbon emissions and capitalising on the opportunities presented by the climate transition will strengthen their position and sustainability. This includes solutions such as emissions neutral feedstock, electrification, renewable energy, and green hydrogen.

Looking ahead

Now that leading chemical companies have announced ambitious Scopes 1 and 2 targets, we will be encouraging them to set similarly ambitious Scope 3 targets, to ensure there is progress in the near term. The significant asset challenges facing the chemical industry mean that it must invest and innovate to achieve carbon neutrality, with appropriate support from regulators and policymakers.

We will look at companies' capital allocation decisions, to assess whether they are investing sufficient resources to achieve net zero, as well as collaborating with their supply chain and customers. In the coming years we will seek far greater clarity on the actions taken by each entity along the chemical value chain, and the resources they have invested in pursuing net-zero solutions.

[26] Green ammonia, the new superfuel that is going to disrupt the industry (energycapitalmedia.com)
[27] Slow-Reactions-Chemicals-and-Climate.pdf (shareaction.org)
[28] LyondellBasell Announces Goal of Achieving Net Zero Emissions by 2050 | LyondellBasell
[29] BASF presents roadmap to climate neutrality
[30] Our Carbon Management (basf.com)

The digital dilemma

The internet and social media have expanded rapidly over the last 20 years, changing many aspects of our lives. But regulation has failed to keep pace with the digital revolution, leading to social harms that pose risks for companies, investors and individuals.

Setting the scene

Over two-thirds of the global population now owns a smartphone or uses the internet.[1] The powerful internet communications and technology (ICT) sector has had significant transformative effects on nearly all other sectors and people's daily lives. But in addition to the positive impacts, such as increasing access to information and services, this has led to unexpected harms and new challenges.

These include the spreading of hate speech and the dissemination of false or misleading information, as well as violent, racist, or extremist content on social media, which can lead to devastating real-world outcomes. The commoditisation of data also creates risks to privacy rights. This has attracted the scrutiny of regulators, and poses financial, reputational and legal risks for companies and investors.

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The shares of Facebook parent Meta tumbled in early February, after the company said that privacy changes made by Apple in 2021 had begun to impact its earnings. Apple's update allowed users to prevent apps from tracking their online activity for advertising purposes, impacting advertisers' ability to target specific demographics.[2] The case highlighted that as tech giants tighten up on privacy rights, social media companies that rely on harvesting individuals' data for the bulk of their income may face headwinds.

Facebook was already on the backfoot following testimony[3] given to UK and US policymakers by whistleblower Frances Haugen, who alleged that the company prioritised profitability over its real world impact.[4,5] Facebook denied the allegations, saying they were "just not true".[6] The parent company was subsequently rebranded as Meta. The company is being sued by the Texas attorney-general who alleges that it harvested and exploited biometric data without proper consent, in violation of its privacy laws. Facebook said the claims were without merit.[7]

[1] Digital Around the World – DataReportal
[2] https://www.theguardian.com/technology/2022/feb/04/meta-rivalry-apple-inflamed-facebook-parent-company-share-price-plummets
[3] https://www.theguardian.com/technology/live/2021/oct/05/facebook-hearing-whistleblower-frances-haugen-testifies-us-senate-latest-news
[4] The Facebook Files – WSJ
[5] Facebook whistleblower Frances Haugen calls for urgent external regulation | Facebook | The Guardian
[6] https://www.theguardian.com/technology/2021/oct/06/mark-zuckerberg-hits-back-at-facebook-whistleblower-frances-haugen-claims
[7] Facebook owner Meta sued by Texas over facial recognition system | Financial Times (ft.com)

Social media companies, which have grown exponentially since their humble beginnings, have not been regulated in the same way as traditional publishers and broadcasters, with disturbing consequences for Western democracy,[8] civil society[9,10] and public health.[11] Hostile state actors and violent extremists have been able to harness the power of social media platforms so that hate speech and destabilising conspiracy theories proliferate quickly.

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With legislators now seeking to crack down on the unfettered virtual world, companies are facing fresh regulatory risk, while reputational and financial risks are likely to grow. Companies must be prepared to balance freedom of expression with their obligations to remove problematic content while addressing government demands, laws, and regulations imposing censorship.

The UN Guiding Principles on Business and Human Rights (UNGPs) outline the corporate responsibility to respect human rights, but digital rights were nascent when the UNGPs were first published in 2011. National regulations have also significantly lagged the pace at which the digital sector has evolved, and the uses to which the technology is being put.

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We have used the Ranking Digital Rights framework in our engagements with companies (see box), and have developed our own Digital Rights Principles. These build on our previous work in this area, including our white paper on responsible artificial intelligence and data governance.[12]

The principles identify the issues that ICT companies should consider when fulfilling their broader obligations to the UNGPs. We believe that companies whose business models misalign with the UNGPs have salient adverse impacts on peoples' lives and face material financial risks to long-term holistic value.

The Investor Statement on Corporate Accountability for Digital Rights

In 2021 we signed up to the Investor Statement on Corporate Accountability for Digital Rights, an initiative led by the Investor Alliance for Human Rights. This aims to tackle the online proliferation of misinformation and hate speech, increased levels of illegal surveillance, attacks on democracy, censorship of dissident voices, and discrimination of marginalised communities due to AI and algorithmic bias.

The statement outlines investor expectations for ICT companies and stresses the importance of the Ranking Digital Rights (RDR) Corporate Accountability Index. This index evaluates 26 of the world's most powerful digital platforms and telecoms companies with respect to their commitments and policies affecting privacy, and freedom of expression and information. It can be used as a tool to help companies meet their human rights and fiduciary responsibilities, and aids investors in assessing the digital rights risks in their portfolios.[13] As part of our support, we shared feedback on the RDR methodology for ranking companies, seeking indicators that enhance protections for children and young people online.

In signing up to the statement, and in our engagements, we call on companies to implement robust human rights governance, with strong board oversight, and comprehensive due diligence mechanisms that identify how freedom of expression, privacy, and user rights may be affected by the company's full spectrum of operations.

We also want companies to give users meaningful control over their data, including providing clear options for users to decide not just how their data is used, but whether it is collected in the first place, and for what purpose.

[8] Facebook appeal over Cambridge Analytica data rejected by Australian court as 'divorced from reality' | Facebook | The Guardian
[9] How The Storming of Capitol Hill Was Organized on Social Media – The New York Times (nytimes.com)
[10] Tech Tent: Did social media inspire Congress riot? – BBC News
[11] Social Media Caused the Anti-Vax Movement to Mutate. Now Tech Is Finally Fighting Back. (globalcitizen.org)
[12] https://www.hermes-investment.com/ukw/eos-insight/eos/investors-expectations-on-responsible-artificial-intelligence-and-data-governance/
[13] https://investorsforhumanrights.org/investor-statement-corporate-accountability-digital-rights

Our engagement approach

In this article we will cover three main areas – negative societal impacts, privacy rights and freedom of expression. You can read about the elements not covered here in our Digital Rights Principles.

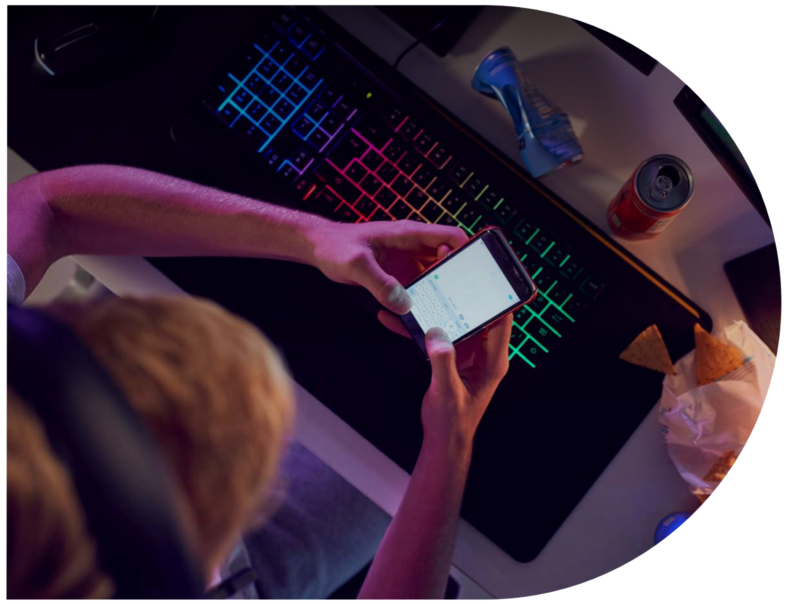
Negative societal impacts

These include 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. Companies should research negative societal impacts, be transparent about their findings and cede the appropriate authority to regulators. For example, the spread of problematic content on social media may be caused by business models correlating higher revenue with higher quantities of clicks, likes, posts, and shares.[14] Companies should not use insufficient or inconsistent regulation as an excuse for their failure to implement good practices.

Content moderation

We believe that companies should implement transparent content moderation rules on social media and report on their enforcement. In many countries, companies are granted broad powers and legal responsibilities for removing hate speech, false or misleading information, and violent, racist, or extremist content online. Companies should explain how they fulfil this role and allocate sufficient resources to personnel, including proper training and clear guiding principles.

Companies should disclose the processes and technologies used to identify content or accounts that violate the rules; report the volume and nature of the actions taken to restrict content or accounts; and offer users clear and predictable appeals mechanisms. Companies should apply more stringent standards to, and require visible labelling of, content or accounts produced, disseminated, or operated with the assistance of automated software agents (bots).[15]



Our engagement with Meta has focused on the fact that the company's business model is designed to drive hits and impressions, and on the risks related to this. While there are positive aspects to the company's products, hosting inappropriate and illegal content poses serious problems. Privacy rights are another concern.

We have set an objective for the company to conduct a human rights impact assessment for its most salient human rights issues, including emerging offerings such as the metaverse. We have encouraged the company to make its terms and conditions easier to find and understand, and to clearly obtain user consent for collection. We have also engaged with Meta in response to specific incidents. For example, we have pushed the company to be clear on how it is applying the UNGPs in reducing human rights harms and protecting human rights defenders in Myanmar.

CASE STUDY

Fujifilm

As part of our ongoing dialogue with Fujifilm, we first discussed the importance of data governance and using artificial intelligence (AI) responsibly in December 2019, highlighting the particular relevance to the company's imaging and healthcare businesses.

We said that in April 2019, the US Food and Drug Administration had published the Proposed Regulatory Framework for Modifications to Artificial Intelligence/Machine Learning-Based software as a Medical Device paper, and shared our *Investors' Expectations on Responsible Artificial Intelligence and Data Governance* white paper. In our call with an executive officer in April 2020, Fujifilm explained its work on data governance as well as its understanding of the risks related to the use of AI. We encouraged it to document this and publish a policy.

We were pleased that the company published a Fujifilm Group AI policy following our engagement, which addresses risks such as bias, lack of fairness and discrimination and the importance of monitoring the use of AI. The policy also discusses how the company handles personal information and how it will ensure transparency and accountability, with a commitment to providing training for relevant staff. When we met again in Q2 2021, the company thanked us for our suggestions.

[14] Its-the-Business-Model-Executive-Summary-Recommendations.pdf (rankingdigitalrights.org)
[15] Ranking Digital Rights Corporate Accountability Index – 2020 indicators

Children and young people

Children and young people are vulnerable to exploitation, cyberbullying, and other risks online. We believe that companies should comply with the "safety-by-design" recommendations within the Guidelines for Service Providers set out by the OECD Council on Children in the Digital Environment.[16] These include enhanced privacy measures such as ensuring that terms and conditions are accessible to children and young people; limiting data collection to the fulfilment of service; refraining from profiling underaged users without compelling reasons; and having the appropriate safeguards in place. Companies should establish minimum age requirements for digital products and services, and report on the enforcement of protections and the percentage of revenue derived from underaged users.

We have engaged with Alphabet on data governance and privacy choices, particularly where young people are concerned. Although the company has added videos to help users understand their privacy choices on Google, in practice it is still difficult for users to give free, prior and informed consent, or to exercise control over their own, or their children's personal information. We asked the company to enhance these videos and to estimate how many of its users are underaged children and not in a position to exercise informed consent.

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Privacy rights

The ICT sector collects, stores, and uses large quantities of data including contact information, financial information, locations, photos and videos, and web browsing activities. Data is used to provide core services and to generate additional revenue through targeted advertising and other personalised offerings. Data can be further monetised if it is shared with third parties such as data brokers that buy, repackage, and trade data for numerous purposes. Some business models depend fully on these functions, while others use data to generate revenue beyond their core purpose. The commoditisation of data creates risks to privacy rights, which may be infringed upon by governments, hackers, or the companies themselves.

Requests for information about users

Companies should maintain processes for responding to requests for information about users from governments, including law enforcement and intelligence agencies.[17] Requests may be justified in cases where authorities are seeking digital evidence against those accused of crimes, but there is a potential for misuse.

Under guidance from the Global Network Initiative, of which we are a member, companies should follow established domestic legal processes, but ensure that they screen for requests that violate basic norms or unduly infringe upon privacy rights. Where requests appear overly broad or unlawful, companies should request clarification or modification, seek assistance from outside expertise, or challenge them in the courts. Companies should keep proper records and notify individuals impacted by requests, to the extent that this is possible.[18]

We have engaged with Apple on data privacy compliance, data governance and broader human rights issues. Apple discloses data on the requests it receives from legal authorities for information about users, and for what purposes this information is sought.[19]

Many companies obtain consent by asking users to click that they agree with the terms and conditions. However, this may not meet GDPR stipulations.

User consent

Companies should obtain user consent for their own collection, inference, sharing, and retention of data. The EU's General Data Protection Regulation (GDPR) requires this of companies and stipulates that consent must be "freely given, specific, informed and unambiguous". Many companies obtain consent by asking users to click that they agree with the terms and conditions. However, this may not meet GDPR stipulations.

Companies should disclose the full range of purposes for which they collect, infer, share, and retain data, including core business purposes as well as other commercialisation purposes. In order for consent to be freely given, specific, informed and unambiguous, terms and conditions should be easy to find and understand for almost the entire user base. Written text may need to be supplemented with videos and images.

[16] OECD Guidelines for Digital Service Providers.pdf
[17] Data Beyond Borders – Mutual Legal Assistance in the Internet Age. Global Network Initiative
[18] GNI Principles Implementation Guidelines. Global Network Initiative
[19] Apple Transparency Report Privacy – Transparency Report – Apple
[20] 2020 Indicators – Ranking Digital Rights

Under the Ranking Digital Rights Corporate Accountability Index, companies score poorly in general on granting users access to and control over their data, but Alibaba receives partial credit.[20] We have engaged with Alibaba on consumer data protection and data privacy, including regarding e-payments and the sale of wealth management products (see Q&A for more details).

Freedom of expression

The Universal Declaration of Human Rights defines freedom of expression as the freedom to hold opinions without interference and to seek, receive, and impart information and ideas through any media and regardless of frontiers. Technology provides unprecedented platforms for freedom of expression as well as new avenues for restrictions. An estimated 67% of internet users live in countries where criticism of governments is subject to censorship.[21]

Censorship

Companies should maintain processes for responding to government demands, laws, and regulations that impact the freedom of expression. Norms and standards inevitably vary, but companies should work with governments to develop shared understandings and promote adherence to the idea that restrictions should not be imposed except in narrowly defined circumstances.

Under the Global Network Initiative's guidance, companies should encourage governments to be specific, transparent, and consistent in their requests to restrict content or communications.

Network disruptions or shutdowns

Companies should maintain processes for responding to government orders for network disruptions or shutdowns. Such orders may be used to stop protests, censor speeches, control elections, and silence people in other ways that infringe upon the freedom of expression and other human rights.[22] The UN Human Rights Council "unequivocally condemns" such orders.[23]

Under the Global Network Initiative's guidance, such orders almost always violate the principles of proportionality and necessity. Companies should challenge governments and refrain from complying with government orders for network disruptions or shutdowns where possible, and disclose where they have complied with such orders, and for what purposes.[24]

Europe

The EU's GDPR is considered one of the world's toughest data protection laws, giving regulators the power to levy meaningful fines on companies.

For example, Amazon was hit with a €746m fine,[25] announced in its July 2021 earnings, while WhatsApp has attracted a €225m penalty.[26] The EU has also proposed two new laws – the Digital Services Act and the Digital Markets Act.[27] These aim to tackle illegal content, creating a safer space for digital rights, and to establish a level playing field for competition. Violation of the laws would attract big fines, potentially exceeding those levied under GDPR. We have signed an investor statement supporting enhanced digital rights legislation in the EU, co-ordinated by the Investor Alliance for Human Rights.[28]

In the UK, the Online Safety Bill continues its progress through parliament, and has been strengthened with new criminal offences, to tackle domestic violence and threats to rape and kill. There is academic and anecdotal evidence that misogynistic online content correlates with real world violence against women.[29,30,31] Under the terms of the proposed bill, social media companies would also be forced to stamp out the most harmful illegal content and criminal activity on their sites more quickly.[32]

For example, telecoms company Telenor, which is not in our engagement programme, discloses processes for responding to network disruptions or shutdowns, and a commitment to push back on such orders.

[21] How bad is internet censorship in your country? World Economic Forum
[22] Disconnected: A Human Rights-Based Approach to Network Disruptions | Global Network Initiative
[23] Internet shutdowns now 'entrenched' in certain regions, rights council hears | UN News
[24] Network Disruptions | Global Network Initiative
[25] https://www.wired.co.uk/article/amazon-gdpr-fine
[26] https://www.tessian.com/blog/biggest-gdpr-fines-2020/#:~:text=The%20EU%20General%20Data%20Protection,financial%20year%E2%80%94whichever%20is%20higher.
[27] https://digital-strategy.ec.europa.eu/en/policies/digital-services-act-package
[28] Investor Statement in Support of Internet Regulations to Respect the Digital Rights of Users | Investor Alliance for Human Rights (investorsforhumanrights.org)
[29] https://journals.sagepub.com/doi/abs/10.1177/0956797620968529
[30] https://www.theguardian.com/world/2021/aug/14/plymouth-gunman-ranted-online-that-women-are-arrogant-days-before-rampage
[31] https://www.icfj.org/news/online-attacks-women-journalists-leading-real-world-violence-new-research-shows
[32] https://www.gov.uk/government/news/online-safety-law-to-be-strengthened-to-stamp-out-illegal-content
[33] 2022 will be the 'do or die' moment for Congress to take action against Big Tech (cnbc.com)

Q&A: Digital rights in China

Yu-Ting Fu
Sectors: Financial Services, Technology

In 2021 China brought in new legislation covering data privacy and data security. The Personal Information Protection Law (PIPL) is similar to the EU's General Data Protection Regulation (GDPR) and governs the collection of personal data. The Data Security Law (DSL) classifies and regulates the data that is collected and stored in China based on its potential national security impact.[34] The new legislation builds on 2017's Chinese Cybersecurity Law.

China's tech companies have expanded rapidly in recent years, mainly due to the limited restrictions on how they collect data, and on the algorithms they use.

Q. What are the aims of these new laws?

A. China's tech companies have expanded rapidly in recent years, mainly due to the limited restrictions on how they collect data, and on the algorithms they use. These new regulations will tighten up how personal data is collected, processed, stored and protected, with heavy fines for companies falling foul of the new rules.

For example, under the PIPL it is now illegal to collect excessive amounts of personal data. Also, companies are required to obtain an individual's explicit consent for the collection and use of their personal data. Authorities are obliged to investigate any complaint from consumers, and we have already seen the first legal case,[35] which was for leaking personal information on WeChat. That reached a settlement.

Q. Can you give examples of how we have engaged on these areas before?

A. We have already engaged with Chinese companies, such as Alibaba and NetEase,[36] on compliance with GDPR, so some of these areas are not new to us. These companies have established more transparent data policies and have mechanisms in place to mitigate customer grievances.

In our engagements we want to ensure that a company's approach is aligned with the requirements in the PIPL and that it is prepared to put in place responsible AI policies. We will also solicit a company's views on digital human rights, which should be fully disclosed, to reassure investors.

We suggested to Tencent that it could improve its standards further by offering more explicit information about user surveillance via methods including big data and artificial intelligence (AI).

For example, after the cybersecurity regulations came into force in 2017, Tencent made improvements to its privacy and security disclosures, providing more clarity on the underlying purpose of personal data collection and how it processes that information. We suggested to Tencent that it could improve its standards further by offering more explicit information about user surveillance via methods including big data and artificial intelligence (AI). We also suggested that it could provide more transparency on how the company implements and monitors privacy policies in offshore jurisdictions where local laws and regulations differ from Chinese legal standards, especially around human rights.

Authorities are obliged to investigate any complaint from consumers, and we have already seen the first legal case.

Q. What are the implications of the new data security legislation?

A. Under this law, companies must improve their data security measures and notify authorities and users of any breaches. Failures may be punished with fines, or the withdrawal of the company's operating licence. China has identified the networks and IT systems of telecommunications, energy, transportation, water, finance, public services and defence companies as critical information infrastructure (CII). Companies in these sectors are subject to much stricter data security and controls over cross-border data transfers.

Although similar requirements already exist under the 2017 Cybersecurity Law, the DSL will have a greater impact. As a result, we may encounter more resistance or hesitancy when we ask companies for more disclosure on sensitive topics.

Q. Have you seen any positive outcomes?

A. In the past, it was sometimes difficult to have a meaningful dialogue with Chinese big tech companies. However, we believe that the government's crackdown may have encouraged these companies to be more open to engagement. For example, we met Alibaba in June 2021 and January 2022. At the first meeting, the company acknowledged the need to enhance its focus on ESG and outlined plans to recruit experts and develop an ESG strategy. In January 2022 we were able to speak to a company representative appointed specifically to focus on ESG, and went into more details on the ESG strategy that the company had just launched.

During these meetings, we discussed corporate governance and shareholder engagement, human capital management, climate change, ethical AI and human rights issues. We were pleased to learn that the company had joined the United Nations Global Compact in 2021 and planned to improve its disclosure on data collection policies and processes.

We have also had useful discussions on AI ethics and data privacy with Tencent, building on the dialogue that we have had since 2015 on user privacy issues.

Many factors will have influenced these important corporate sustainability developments, including shareholder dialogue. However, we believe that the government crackdown also played a role.

Outlook

Our new Digital Rights Principles and our *Investors' Expectations on Responsible AI and Data Governance*, published in 2019, will form the basis of our engagement with the ICT sector in 2022. We want companies to apply these principles, aligned with the UNGPs, to identify and prevent the human rights risks involved in digital products and services, whilst also harnessing the opportunities that technology offers customers and communities.

In our engagements we will emphasise robust governance and policies for online privacy rights, online freedom of expression, and negative societal impacts. We will continue to liaise with other stakeholders such as the Global Network Initiative, the Investor Alliance for Human Rights, and fellow signatories of the investor statement, to advance respect for digital rights.

China has identified the networks and IT systems of telecommunications, energy, transportation, water, finance, public services and defence companies as critical information infrastructure.

[34] https://www.skadden.com/Insights/Publications/2021/11/Chinas-New-Data-Security-and-Personal-Information-Protection-Laws#:~:text=The%20Data%20Security%20Law%20(DSL,on%20the%20data's%20classification%20level.
[35] http://m.ce.cn/lv/fo/202109/03/t20210903_36878451.shtml (Chinese only)
[36] https://www.hermes-investment.com/ukw/eos-insight/eos/netease-case-study/

Creating value by addressing social injustice

The death of George Floyd and the ongoing pandemic have highlighted social inequities that were previously ignored. Board and workforce composition and the inequitable impacts of business practices on diverse communities reflect and perpetuate underlying racial and ethnic injustices that create systemic risk. But addressing social injustice can help to create long-term value.

Setting the scene

Social injustice occurs when people do not have access to the same rights and opportunities afforded to others, due to race, ethnicity, gender, sexuality, religion, disabilities or other characteristics. Examples include inequitable access to employment, education, housing, health services and finance; negative stereotypes; and poor and marginalised communities' greater exposure to pollution and climate change. These inequities contribute to widening income inequality and persistent, multi-generational gaps in family wealth, educational attainment and health indicators.

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Social injustice polarises society, frays democracy and hinders economic growth, as well as raising profound ethical questions. These forces create systemic risk that may impact the performance of the economy and markets. Inequalities created by social injustice pose a threat to long-term universal owner returns, similar to other long-term ESG issues such as climate change.

Social injustice polarises society, frays democracy and hinders economic growth, as well as raising profound ethical questions.

Addressing the financial risks of social injustice is therefore in investors' own financial self-interest – in addition to being the right thing to do. But the risks are poorly understood. While initiatives to create greater visibility, such as the Task Force on Inequality-related Financial Disclosures (TIFD)[2] and the World Economic Forum's inclusive growth benchmarks[3] are underway, they are still emerging.

[1] See, for example: https://www.borgenmagazine.com/difference-between-an-inequality-and-an-inequity/ and https://study.com/academy/lesson/social-justice-lesson-for-kids-definition-issues-examples.html
[2] https://thetifd.org/
[3] https://www3.weforum.org/docs/WEF_Inclusive_Growth_Development.pdf

Our systemic stewardship approach

We use engagement, voting recommendations and public policy advocacy to identify company-specific risks and opportunities and build momentum for broader societal changes conducive to long-term value creation. Our systemic stewardship approach to diversity, equity and inclusion (DEI) pushes boards and companies to create value by making three positive changes. First, build more inclusive boards, workforces and cultures that help to dismantle obstacles and enable all individuals to maximise contributions to their companies. Second, reduce harmful company practices that perpetuate injustice in society. Third, develop proactive strategies and products that reduce inequities.

Build more inclusive boards, workforces and cultures

We expect all companies to address inequities within their boards and workforces. DEI is an ethical and business imperative. Expanding and improving upon DEI, both at the leadership level and throughout the wider organisation, creates enduring value by improving decision-making, attracting talent, enhancing workforce satisfaction, and stimulating insight and innovation. A growing body of evidence supports the system-wide benefits of social and economic inclusion, by linking more diverse company leadership with greater financial performance.

We expect all companies to address inequities within their boards and workforces. DEI is an ethical and business imperative.

Many companies continue to fall short in terms of reflecting the diversity of society on their boards, in senior management and throughout the workforce. We strongly advocate for boards of diverse composition, in the broadest sense, and for the execution of meaningful workforce-level DEI strategies. Our expectations include meaningful CEO and board commitments and effective board oversight of a clear strategy accompanied by targets and disclosure of performance.

We expect companies to have moved beyond public statements towards actively building inclusive cultures. This should include the recruitment and career progression of members of underrepresented groups, including at the board and senior levels; training all employees in dignity and respect, plus unconscious bias and allyship; and increasing employee engagement, retention and development.

Through our engagement with US paint manufacturer Sherwin-Williams, we were pleased to see the company publish its first diversity, equity and inclusion report. This included a commitment from the CEO, numeric goals to increase diverse representation in management roles, and employee testimonials. And as part of a concerted effort to increase gender diversity across the Japanese companies in our engagement programme, we welcomed the significant improvement that plastics products manufacturer Nifco made in its disclosure of data on human capital management and gender diversity. While the company was unable to meet its target to improve the proportion of women managers to 8% by the date specified, it described various measures to improve this. For example, it has appointed a female executive officer from outside, changed its personnel system and has focused on identifying and developing young talent to become management candidates. It is also working to set a new target.

Covid-19 disproportionately impacted the health and employment of racially and ethnically diverse people and widened pre-existing disparities, as in developed markets these groups tend to be over-represented in frontline roles, such as retail, hospitality, healthcare and manufacturing. Companies with higher diversity among frontline workers versus more senior office-based roles need to be mindful of, and work to address, the disproportionate racial and ethnic safety implications that arise.

In a letter sent to over 40 companies as part of a collaborative initiative, we made the business case for permanent paid sick leave.

In the US, we have collaborated with the Interfaith Center on Corporate Responsibility (ICCR) and 150 institutional investors and their representatives to challenge companies on the growing reputational, financial, and regulatory impacts associated with the lack of comprehensive paid sick leave (PSL) benefits for all employees. According to the National Partnership for Women & Families, 70% of the lowest-waged workers in the US do not have paid sick days to care for their own health.[4]

In a letter sent to over 40 companies as part of the collaborative initiative, we made the business case for permanent PSL and asked companies for a written response providing more transparency around paid sick leave policies. We also urged companies to help make the pandemic recovery and the future operating environment more equitable by providing permanent paid sick time for all workers.

We also urged companies to help make the pandemic recovery and the future operating environment more equitable by providing permanent paid sick time for all workers.

[4] Quick Facts (paidsickdays.org)

CASE STUDY

Starbucks

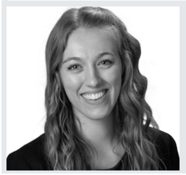
At coffee chain Starbucks, we were concerned that the company's anti-bias efforts had stalled since its initial 2018 US-wide training session, which followed the unjustifiable arrest of two African-American men in one Philadelphia store.[5]

In 2021, the company's chief inclusion and diversity officer and his team met with us and responded to our questions on the impact of its anti-bias training. He also explained the progress made on its global inclusion and diversity strategy. Starbucks appointed a global chief inclusion and diversity officer in 2020 and expanded its inclusion and diversity strategy in 2021, mandating anti-bias training for vice president levels and above. The company said it would continue to explore mandating training for all partners (employees) in practice, while tracking enrolment and completion rates for its expanded version of the open-source training.

The chief inclusion and diversity officer confirmed that the company had considered the experiences of racially-diverse customers by collecting feedback from external civil rights groups as a proxy for customer experience, plus taking feedback from customer helplines. Managers were expected to respond to concerns raised by partners through its anti-bias questions in the annual partner survey.

Additionally, we welcomed the company's commissioned Civil Rights Assessment, which has been conducted by a third party annually since 2019, and the company has expressed a commitment to sustaining a Third Place where everyone should feel welcome.

Velika Talyarkhan
Theme lead: Executive Remuneration



Sarah Swartz
Themes: Natural Resource Stewardship, Risk Management

DEI continues to feature prominently in our 2022 Corporate Governance Principles, where we have updated our expectations for North America. We will challenge companies with an aspirational target of 50% overall diversity and consider recommending voting against the chair of the nomination and governance committee where there is not at least 40% overall diversity on the board, with a minimum of 30% women and at least one person of a racially or ethnically diverse background.

We also believe that diversity and inclusion should go beyond gender and race to include diversity of skills, experience, networks, psychological attributes, and characteristics (including, but not limited to, race, ethnicity, gender, sexual orientation, age, disability, nationality, and socioeconomic background). Social inequalities and pay wage gaps persist for people with disabilities and members of the LGBTQ+ community.

We have started to incorporate the discussion of self-identification and aggregate disclosure of all diversity dimensions at the board level and will continue to engage on this topic in the 2022 proxy season. Self-identification at the highest level of companies exemplifies commitments to inclusion and belonging that can ripple throughout the organisation.

> **We have started to incorporate the discussion of self-identification and aggregate disclosure of all diversity dimensions at the board level and will continue to engage on this topic in the 2022 proxy season.**

Reduce harmful company practices that perpetuate inequities in society

Fixing the company internally is a pre-requisite for its ability to recognise and prevent harm to customers and stakeholders. Doing so requires understanding and addressing deeply-rooted and complex problems that inevitably impact both a company's workforce and the society within which it operates. The company must gain a clearer picture of the potentially inequitable impacts of its activities on external stakeholders, with effective oversight and performance evaluation.

For example, we have engaged with the Walt Disney Company, which has recognised the need to amplify underrepresented voices, and the importance of accurate representation in media and entertainment. The company created two senior leadership councils focused on DEI in the workforce and content.

In addition to these executive-led efforts, we were pleased that the board assigned oversight of workforce equity to the compensation committee. In the spirit of transparency, the company disclosed workforce diversity data (EE0-1) and added labels to negative stereotypes on its Disney+ service. Furthermore, we welcomed the company's intention to advance representation in front of and behind the camera and, as an example, we see this intention in its film *Encanto*, which depicts a Colombian family. We encouraged the company to set and disclose qualitative and quantitative DEI goals.

[5] https://www.theguardian.com/business/2018/apr/19/starbucks-black-men-feared-for-lives-philadelphia

We championed racial equity/civil rights audits in the US financial services sector in the 2021 voting season and at Apple in Q1 2022. We believe third-party audits enhance the quality of board oversight by providing expert insight into practices that have inequitable impacts on workforces and stakeholders. They can also help to identify the causes of deeply-rooted problems, and assess the effectiveness of company programmes. We know that meaningful shareholder support has already influenced companies. For example, during Q1 2022, one global bank said that sizeable shareholder support and engagement had helped it to decide to conduct an audit despite opposing the proposal during the 2021 proxy season.

> **We encourage companies to apply a DEI lens to innovate and create new products and services, including those that help to achieve the UN Sustainable Development Goals.**

The rise in income inequality is an important source of systemic risk.[6] We have long opposed excessive quantum of executive compensation on the basis of a lack of alignment with long-term investor interests. In engagements, we have also explained that excessive quantum contributes to income inequality, and highlighted that their compensation practices are creating some of the problems that other initiatives at those companies seek to fix.

In our public policy advocacy work we are increasing our focus on environmental justice issues. For example, our Q1 2021 response to the US Environmental Protection Agency's (EPA) proposed methane regulation in the oil and gas sector noted that methane leaks and flaring can be accompanied by toxic and particulate matter with deleterious local health impacts. We also pointed out that poor and marginalised communities are expected to experience disproportionately high negative impacts from climate change, which could exacerbate existing inequities and add another layer of investment risk.

Develop proactive strategies and products that reduce inequities

We seek to strengthen the health of the stakeholder ecosystem to reduce systemic risk. Poor and marginalised populations have many unmet needs, creating opportunities for companies. We encourage companies to apply a DEI lens to innovate and create new products and services, including those that help to achieve the UN Sustainable Development Goals (SDGs). These may open up new businesses, attract loyal customers, employees and business partners, and build brand value.

> **We seek to strengthen the health of the stakeholder ecosystem to reduce systemic risk.**

Providing access to finance, for example, can open up new customer sets that create financial value while addressing inequities. We have engaged with credit card provider Visa, which has achieved its goal of providing 500 million previously underbanked or underserved people with access to an account. It has also helped to support small businesses and digitise government disbursements.

We encourage telecommunications companies to help close the digital divide, supporting access to the internet and quality education (SDG 4), as this is critical to closing gaps in employment, income, healthcare and other needs. Bell Canada invests in closing the digital divide in rural and indigenous communities beyond where it receives Canadian government incentives to do so, as it sees the financial and social benefits of connectivity. In the US, we have engaged with Comcast, which agreed that closing the digital divide and race gaps in education are in its long-term financial interest. It is working with consultants and engaging with the US First Lady, Dr Jill Biden, on enhancing internet uptake in disadvantaged communities.

For the roughly 750 million people in extreme poverty around the world,[7] we tend to focus on public policy and access to medicine to help meet basic needs such as food and critical services. For example, we co-signed a global investor statement coordinated by the Access to Medicine Foundation in support of an effective, fair and equitable global response to Covid-19, which is consistent with SDG 3 (good health and well-being). It also reduces risk to people and economies around the world.

Outlook

Active investors can drive meaningful positive change that addresses injustice and creates financial value. We seek to play a catalytic role focusing investor and company attention on the systemic risks of injustice and, conversely, the benefits of a more inclusive society.

Looking forward, we will increasingly hold boards to account for the social impacts of practices that create risks for their own companies and the wider financial system. We will also continue to encourage boards to take ownership of company purposes that enhance the health of the stakeholder ecosystems that impact their own and investor returns.

[6] https://www.forbes.com/sites/bobeccles/2022/01/27/the-role-of-systemic-stewardship-in-addressing-income-inequality/?sh=4d6f96a42a88
[7] https://unstats.un.org/sdgs/report/2021/goal-01/

Company engagement highlights

A selection of short company case studies highlighting areas where we have completed objectives or can demonstrate significant progress.

Overview

Our approach to engagement is holistic and wide-ranging. Discussions range across many key areas, including business strategy and risk management, which includes environmental, social, and ethical risks. Structural governance issues are a priority too. In many cases, there is minimal external pressure on the business to change. Much of our work, therefore, is focused on encouraging management to make necessary improvements.

The majority of our successes stem from our ability to see things from the perspective of the business with which we are engaging. Presenting ESG issues such as climate change or board effectiveness as risks to the company's strategic positioning puts things solidly into context for management. These short company engagement updates highlight areas where we have recently completed objectives or can demonstrate significant progress, following several years of engagement.

Freeport-McMoRan

Engagement theme: Climate change

Lead engager: Nick Pelosi

In 2018, we encouraged Freeport-McMoRan to report in line with the Task Force on Climate-Related Financial Disclosures (TCFD). We raised the request in a call with the sustainability team and reiterated our position in subsequent meetings. In 2019, the company began mapping its sustainability report to relevant TCFD indicators. In 2020, the company published its first climate change report, based on 2019 year-end performance, which established 2030 Scopes 1 and 2 emissions intensity reduction targets for the Americas and committed to aligning future climate-related financial disclosures with the TCFD.

Acknowledging the progress, we encouraged the company to seek external verification that its targets were sufficiently ambitious, referencing its public assessment by the Transition Pathway Initiative. In 2021, the company's updated TCFD report established 2030 Scopes 1 and 2 emissions intensity reduction targets for Indonesia, announced 2050 net-zero aspirations, completed its first global scenario analysis, and enhanced its Scope 3 estimates. We were pleased that the company committed to submitting its 2030 Scopes 1 and 2 emissions intensity reduction targets to the Science-Based Targets initiative for external verification. We continue to engage on climate change with the company.

Rio Tinto

Engagement theme: Communities reporting

Lead engager: Bruce Duguid

We supported a group investor engagement with the chair and other company representatives on Rio Tinto's actions and reporting following the destruction of ancient rock shelters in the Juukan Gorge. We highlighted that the transparency and detail in the annual reporting lagged investor expectations and were pleased to hear that the mining company will begin reporting more against its broader trusted partnership plan in future.

We worked with two Australian superannuation funds and the Australian Council of Superannuation Investors (ACSI) to define investor expectations on the company's future reporting on community performance, which Rio Tinto accepted and put into action. In subsequent engagements we urged the company to produce reporting that accurately reflected the views of the traditional owner groups, through aggregating feedback and including direct comments where possible. We thanked the company for its work in seeking a market leading approach and reporting in this area.

The company's first dedicated communities and social performance report was published at the end of September 2021. We will continue to engage on the content of reporting, and the progress made in achieving best practices in community relationships and impact.

Boeing

Engagement theme: Separation of chair and CEO roles

Lead engager: Nick Pelosi

In June 2019, we asked aircraft manufacturer Boeing to separate the CEO and chair positions as part of our broader dialogue on governance and the board's response to the safety crisis. In October 2019, the company separated the roles to enable then CEO Dennis Muilenberg to focus full time on management, with the chair taking on a more public-facing role. We welcomed this move, but raised concerns about the fact that the company did not amend its corporate governance principles to institutionalise the split. The company said our concerns were seriously considered, but it preferred to retain flexibility, although a recombination of the roles was unlikely in the future.

The resolution received **54%** support and was implemented by the company in June 2020.

In December 2019, Muilenberg was replaced by former chair David Calhoun as part of the board's response to the safety crisis. In May 2020, we supported a shareholder resolution asking the company to amend its corporate governance principles to require an independent chair. The resolution received 54% support and was implemented by the company in June 2020.

Duke Energy

Engagement theme: Lobbying and political contributions disclosure

Lead engager: Velika Talyarkhan

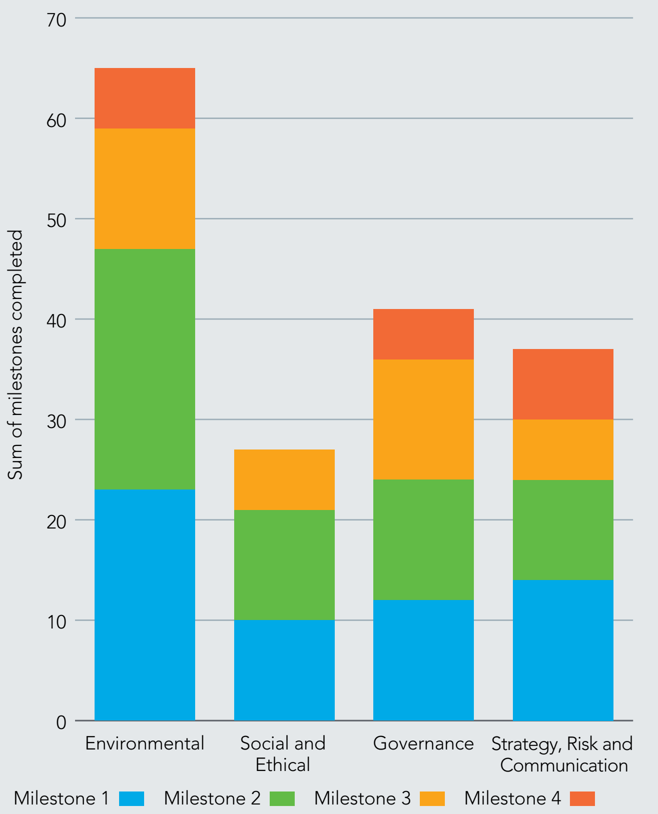
In 2019, we asked Duke Energy to explain how its stated public policy positions and aims aligned with those of the trade associations and grassroots organisations that it funded. The company faced a shareholder proposal on this topic and we raised concerns that indirect lobbying and political activity might be in contravention of the company's stated positions, particularly on climate change. The company responded by publishing more data on its trade association and grassroots organisation contributions.

We supported this enhanced transparency, but asked the company to go further by voluntarily publishing its trade association membership list and related expenditures and also to consider broader best practices. In late 2020, the company acknowledged our concern that its association memberships and lobbying may not align with its decarbonisation strategy, and the CEO/chair said the company would continue to evaluate which disclosures were appropriate.

In March 2021, the company published a trade associations climate review report, a first of its kind in the US. This report described Duke's governance around public policy, the company's climate position, its views on effective climate policy and a review of its trade association memberships. The review included a summary of each trade association's climate policy or mission, a judgement on alignment with Duke's climate policy, and a summary of Duke's engagement with the organisation.

While we acknowledged the company's enhanced disclosure, we recommended support for a 2021 shareholder proposal asking it to include payments to organisations used for election-related purposes and information about how trade associations may use the company's money for election-related purposes. We welcomed the lead independent director's confirmation in late 2021 that the company would increase the scope of its political expenditures report pursuant to all the proposal's requirements and the update to its Corporate Political Expenditures Policy.

Milestones completed by stage, Q1 2022



Source: EOS data

AbbVie

Engagement theme: Remuneration

Lead engager: Emily DeMasi

During a call with the engagement team in Q1 2019, we encouraged this pharmaceutical company to eliminate the Humira revenues as a metric in the executive compensation plan. We expressed concern that this not only incentivised price increases, but also risked not incentivising investment or a broader product portfolio if management was overly focused and reliant on one drug nearing the end of its current patent.

During a collaborative engagement with the Investors for Opioid and Pharmaceutical Accountability (IOPA) group in Q4 2019, the company acknowledged IOPA's concern and stated that it had decided to eliminate this metric, starting in the 2020 performance year. In a meeting with the director of executive compensation, division counsel, governance and vice president of corporate responsibility in Q1 2021, we expressed our appreciation for the company having followed through with this commitment.

The AbbVie team explained that the change reflected a shift in strategy towards a more diversified company with investment in the broader product portfolio. We were pleased that this change also addressed the concerns raised in the collaborative engagement with IOPA. For 2020, the company also adopted return on invested capital in place of return on equity to reflect the senior leadership's focus on debt reduction. We continue to engage the company on governance matters, including its combined chair/CEO and board independence.

Royal Bank of Canada

Engagement theme: Climate change

Lead engager: Emily DeMasi

We initiated engagement with Royal Bank of Canada on leveraging the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as the foundation for its evolving climate change strategy in Q3 2018. We met the independent chair to discuss the board's role in supporting management's efforts to finance a just transition in Q4 2018. In Q1 2019, we also met one of the bank's independent directors to discuss Canada's role in leading the global transition to a low carbon economy.

In Q2 2019, we met with the senior director of sustainability and others to provide feedback on the company's recent and first TCFD disclosure. While we applauded this initial step, we expressed disappointment in the brevity of the report and the lack of climate scenario analyses. While the next iteration of the bank's TCFD report showed progress, robust scenario analysis was still lacking.

In a meeting with the corporate secretary and investor relations team in Q3 2020, we expressed concern and encouraged further disclosures, including using the Partnership for Carbon Accounting Financials (PCAF) methodology to assess its lending portfolios. In Q1 2021, we met the bank's chair and elevated these concerns. She assured us that the board was actively discussing the bank's climate strategy.

Shortly after this meeting, the bank released its fourth annual TCFD-aligned report and announced a commitment to achieving net-zero emissions, including financed emissions, by 2050, joining PCAF and committing to disclosing its financed emissions in phases, starting in its 2022 TCFD report. With this latest report the bank has substantively addressed all the recommendations of the TCFD framework. We will continue to engage the company around disclosure of its sector-based decarbonisation targets and withdrawal of financing from high carbon assets.

CASE STUDY

Adidas

Adidas focuses on the design, distribution, and marketing of athletic and sporting lifestyle products. As a key player in the apparel sector, its approach to managing its environmental impacts is key to its competitive advantage.

Our engagement with Adidas intensified in late 2018, when we met the company's sustainability team to focus on the future trajectory of the sustainability strategy. We challenged the company on the environmental impact of its product range. We stressed that ambitious, science-based climate targets needed to be central to its 2025 sustainability strategy.

We returned to these discussions in March 2020 after Adidas's 2019 results announcement. We welcomed a public commitment from the company to address climate change but urged it to set a science-based emissions reduction target to demonstrate that its ambitions are in line with the 1.5°C trajectory of the Paris Agreement.

On resource use and circularity, we welcomed some positive steps – an improvement to its CDP water score and achieving 100% cotton sourced through the Better Cotton Initiative – as part of its commitment to steadily increase the use of more sustainable materials in its production, products, and stores. We pushed the company to go further and to set specific, time-bound targets for recycled materials in its products, as well as publishing a plastics footprint.

In early 2021, the company achieved certification from the Science-Based Targets initiative, affirming that its emissions reduction targets are in line with our engagement objective. Within that target, Adidas commits to reducing absolute Scopes 1 and 2 greenhouse gas emissions by 90% by 2025, from a 2017 base year. In March 2021, the company announced its ambition for nine out of 10 of its articles to be more sustainable by 2025.

We are encouraged by the company's commitment to intensifying its communication and marketing for products made from sustainable materials, and rolling out its product takeback programmes at a large scale. Technological and business model innovation is urgently needed to address climate change and the environmental impacts of apparel and footwear. We will continue to engage on how the company can make transformational changes to reduce its impact.

Engagement objectives:

Environmental:

- Set science-based emissions reduction target; develop circular strategy, including setting targets for use of recycled content and demonstrate progress

Sustainable Development Goals:

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Read the engagement case study in full at:

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

Lisa Lange
Theme lead: Pollution, Waste and Circular Economy

BLOG SPOTLIGHT

Working for a just food system

In the fourth article in our series on the social and environmental impacts of the global food system, Emily DeMasi looks at labour practices and human rights risks.

The agricultural supply chain can pose many human rights risks, including forced labour, child labour, low wages, poor health and safety, and physical abuse. From fisheries to plantations, working conditions throughout food value chains are vulnerable to climate impacts, the pandemic, and ongoing systemic issues stemming from past mismanagement of human capital risks.

Land and food justice

As part of a collaborative engagement led by the Access to Nutrition Initiative (ATNI), we sent letters to the CEOs of targeted food and beverage companies describing the company's Global Index 2021 score and outlining investor expectations on nutrition, diet and health. The collaboration asked these companies to develop a strategy for populations at risk of malnutrition and obesity; to conduct internal audits for delivery of the company's nutrition strategy; to develop targets around accessibility and the affordability of healthy products; and to set targets to reduce negative nutrients such as sugar, calories, salt or saturated fats.

Physical climate impact on worker health and safety

Agricultural work is labour-intensive, and farmworkers can endure very harsh conditions including a lack of sanitation, limited access to water, and exposure to heat.

We engage with Compass Group, the largest contract foodservice company in the world, on the treatment of its migrant workers in the Middle East. Extreme heat also impacts working and living conditions in this region. We called for an independent review of the journey made by migrant workers, to examine worker recruitment, onboarding, living conditions and offboarding. We have also engaged with Kuala Lumpur Kepong, a Malaysian multi-national, about the health and safety, protection, and wellbeing of migrant workers on its palm oil plantations.

Meat production workers and the pandemic

The pandemic exposed and exacerbated the fundamental and structural human capital risks in the animal farming industry. In 2021, EOS partnered with FAIRR, an investor network seeking to raise awareness of the material ESG risks and opportunities caused by intensive livestock production. In this collaborative engagement, the group targeted the seven largest protein producers globally, the aim being to empower workers and support risk mitigation in three key areas. These were health and safety, fair working conditions and worker representation.

EOS engaged directly with Tyson Foods, focusing on its policies and practices across six main areas: grievance mechanisms, sick pay, distribution of workers across employment contracts, oversight of the governance structure, worker representation, and the engagement of workers on industry trends, such as automation and climate change. In 2022, we will continue to engage Tyson on those areas of the FAIRR assessment where its human capital policies and procedures are lagging or lacking.

The disproportionate impact of Covid-19 on the meat industry is a cautionary tale of unexpected costs, shrinking production capacity, and disruption of operations and food supply chains.[1] But the growing reputational and financial impacts associated with poor labour practices are present throughout the agricultural supply chain. Therefore, investors should consider issues ranging from the working conditions of farmers in the field to the impact of Covid-19 on frontline workers in markets and grocery stores. Investors can and should engage with companies to encourage them to improve worker conditions and ensure that workers have a voice in the decisions and policies that impact them.

Read the EOS Insights article in full at:

https://www.hermes-investment.com/ukw/eos-insight/eos/working-for-a-just-food-system/

Emily DeMasi
Theme co-lead: Human Capital

[1] https://www.fairr.org/engagements/working-conditions-engagement/

Public policy and best practice

EOS contributes to the development of policy and best practice on corporate governance, sustainability and shareholder rights to protect and enhance the value of its clients' investments over the long term.

Overview

We participate in debates on public policy matters to protect and enhance value for our clients by improving shareholder rights and boosting protection for minority shareholders.

This work extends across company law, which in many markets sets a basic foundation for shareholder rights; securities laws, which frame the operation of the markets and ensure that value creation is reflected for shareholders; and codes of best practice for governance and the management of key risks, as well as disclosure.

In addition to this work on a country specific basis, we address regulations with a global remit. Investment institutions are typically absent from public policy debates, even though they can have a profound impact on shareholder value. EOS seeks to fill this gap.

By playing a full role in shaping these standards, we can ensure that they work in the interests of shareholders instead of being moulded to the narrow interests of other market participants, which may differ markedly – particularly those of companies, lawyers and accounting firms, which tend to be more active than investors in these debates.

Pre-COP15 biodiversity negotiations in Geneva

Lead engager: Sonya Likhtman

We attended the pre-COP15 negotiations in Geneva as part of the Finance for Biodiversity delegation. Finance for Biodiversity is an observer to the Convention on Biological Diversity, which means that it can formally participate in the negotiations. It was important for the financial sector to contribute to the process, especially given that its involvement has been limited in the past. Building on our recent white paper on aligning financial flows, and our previous contribution to the negotiations in August 2021, we continued to advocate for an ambitious Global Biodiversity Framework. We want the framework to stimulate action from all stakeholders, including the financial sector. Learning from the Paris Agreement, we think that calling for the alignment of public and private financial flows with biodiversity goals and targets is an effective way to do this.

We contributed to the negotiations by making suggestions for Goal D, which we think should be expanded in scope to cover reducing the negative impacts of existing financial flows, and aligning all public and private financial flows, as well as increasing financing for nature. We were pleased to have support from a member state for our proposal, which means that it can be considered alongside proposals from all member states. Our delegation also held several bilateral meetings with a range of country representatives to convey our position and to understand their priorities. We participated in several side events in Geneva, including speaking on a panel about the importance of aligning financial flows.

Feedback on CA100+ paper on 1.5°C aviation sector pathway

Lead engager: Joanne Beatty

The UN Principles for Responsible Investment (PRI) asked us for feedback on a new draft Climate Action 100+ (CA100+) white paper on the implications of the 1.5°C global heating scenario for the aviation sector. The white paper is intended to be an extension to the CA100+ Aviation Sector Strategy launched in January 2021. It forms part of the broader CA100+ global sector strategies work aimed at mapping and implementing the actions that need to be taken for carbon-intensive sectors to transition to net zero.

The paper was developed because a credible 1.5°C scenario was not available for the aviation sector at the time of the sector strategy publication. Since then developments related to 1.5°C pathways for the aviation sector have advanced, with the International Energy Agency publishing its Net Zero Emissions by 2050 report and key aviation sector bodies the International Air Transport Association (IATA) and the Air Transport Action Group (ATAG), each publishing their own 1.5°C scenarios. The PRI felt that the 1.5°C pathway should be elaborated upon to help frame investors' thinking on this topic and inform ongoing CA100+ engagements with aviation companies.

Our comments on the paper were positive, but we sought further clarification on the definition of sustainable aviation fuel given the different mixes that can be used and the safety implications. We also sought more clarity on the scale of emissions reduction by the sector in the short and medium term and the feasibility of the solutions for military aviation and commercial space travel. The paper is expected to be finalised in early 2022 after which CA100+ will move into its implementation phase, identifying actions that players across the aviation sector need to take in order for the industry to achieve net zero.

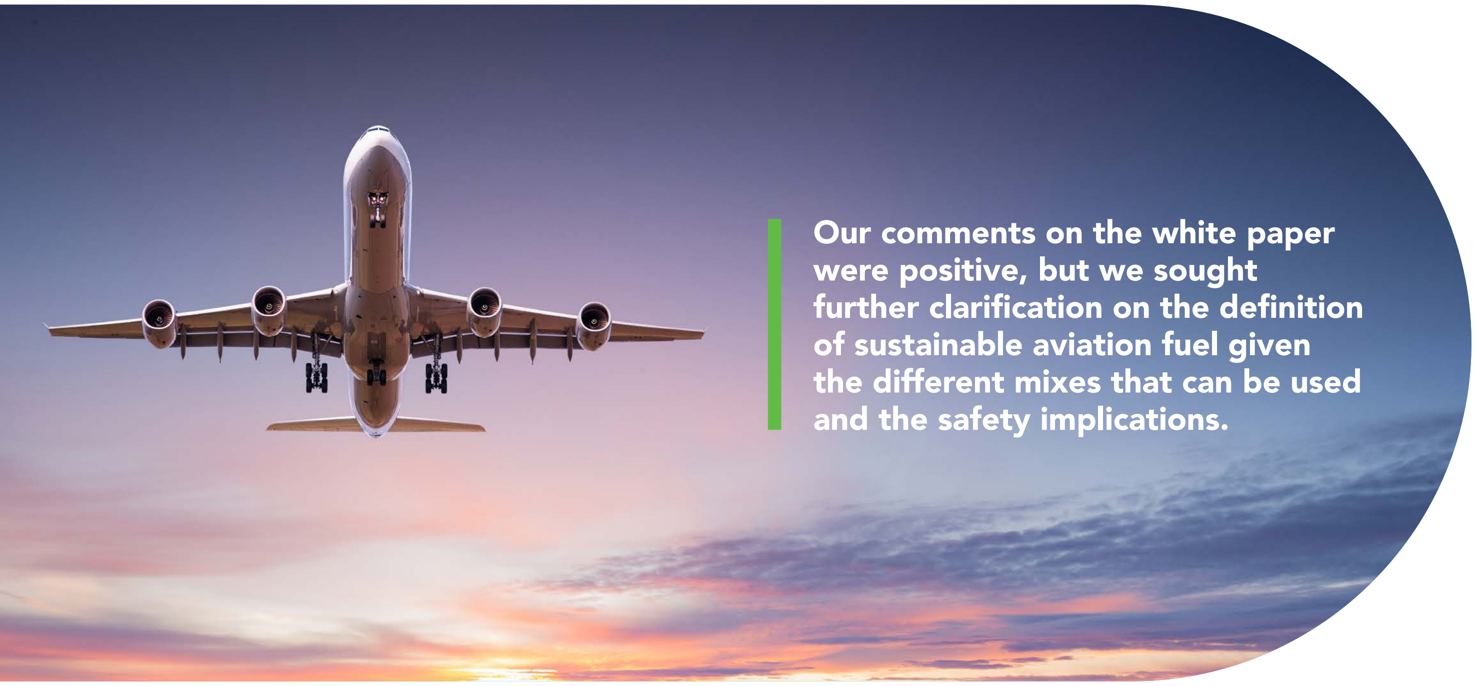
Letter on US EPA methane regulation

Lead engager: Diana Glassman

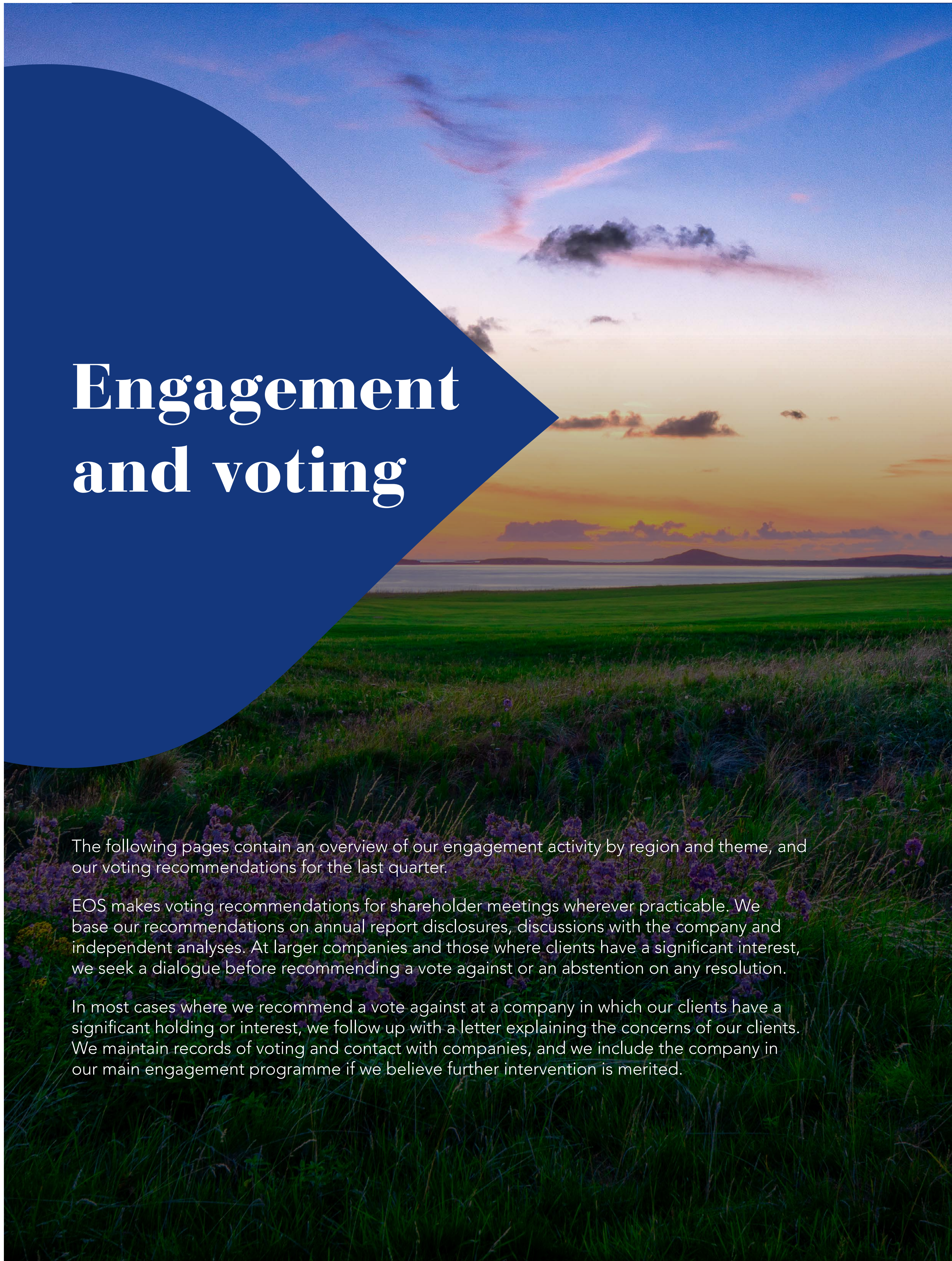
We submitted a comment letter on the US Environmental Protection Agency's (EPA's) proposed rule on US oil and gas sector methane emissions for new and existing sources. We expressed support for strong methane emissions performance standards. We said that methane emissions are an inconsistently reported investment risk and climate issue, noting that methane's global warming potential is over 80 times higher than that of carbon dioxide over a 20-year period. Making reductions in methane would also curb rising temperatures more quickly than carbon dioxide reductions in the short term, and immediate action is required to reduce methane emissions by 2030, in order to limit global heating to 1.5°C.

Reducing methane to mitigate climate change has environmental justice benefits, avoids exacerbating existing inequities and reduces deleterious health impacts. In the letter, we stated our principles-based position, including that the rule should enhance reporting transparency, credibility and comparability, and endorsed the Oil and Gas Methane Partnership 2.0 disclosure framework.

Regulation should promote best operating practices including reducing the wasteful practice of routine flaring, combined with advanced leak detection and the use of zero-emitting pneumatic controllers. It should also improve public health and safety and environmental justice, including addressing orphaned and abandoned wells, and requiring states to engage with the public and industry. We stated that our position is consistent with our commitments to the Net Zero Asset Managers Initiative, the One Planet Asset Manager Initiative Principles, the Partnership for Carbon Accounting Financial Principles and Climate Action 100+, among others.



Our comments on the white paper were positive, but we sought further clarification on the definition of sustainable aviation fuel given the different mixes that can be used and the safety implications.



Engagement and voting

The following pages contain an overview of our engagement activity by region and theme, and our voting recommendations for the last quarter.

EOS makes voting recommendations for shareholder meetings wherever practicable. We base our recommendations on annual report disclosures, discussions with the company and independent analyses. At larger companies and those where clients have a significant interest, we seek a dialogue before recommending a vote against or an abstention on any resolution.

In most cases where we recommend a vote against at a company in which our clients have a significant holding or interest, we follow up with a letter explaining the concerns of our clients. We maintain records of voting and contact with companies, and we include the company in our main engagement programme if we believe further intervention is merited.

Engagement by region

Over the last quarter we engaged with 468 companies on 1,524 environmental, social, governance and business strategy issues and objectives. Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously.

We engaged with 468 companies over the last quarter.

- Environmental **29.5%**
- Social and Ethical **20.1%**
- Governance **35.8%**
- Strategy, Risk and Communication **14.6%**

We engaged with 99 companies over the last quarter.

- Environmental **31.3%**
- Social and Ethical **16.6%**
- Governance **36.3%**
- Strategy, Risk and Communication **15.8%**

We engaged with 30 companies over the last quarter.

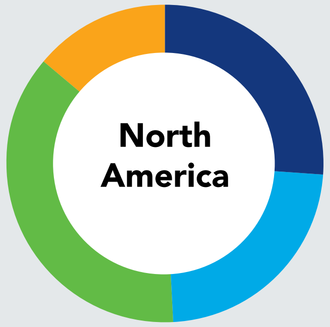
- Environmental **31.2%**
- Social and Ethical **26.9%**
- Governance **29.0%**
- Strategy, Risk and Communication **12.9%**

We engaged with 69 companies over the last quarter.

- Environmental **33.8%**
- Social and Ethical **15.8%**
- Governance **32.9%**
- Strategy, Risk and Communication **17.5%**

We engaged with 52 companies over the last quarter.

- Environmental **28.6%**
- Social and Ethical **20.4%**
- Governance **38.8%**
- Strategy, Risk and Communication **12.2%**



We engaged with 213 companies over the last quarter.

- Environmental **26.3%**
- Social and Ethical **22.9%**
- Governance **37.1%**
- Strategy, Risk and Communication **13.7%**

We engaged with 5 companies over the last quarter.

- Environmental **45.5%**
- Social and Ethical **9.1%**
- Governance **22.7%**
- Strategy, Risk and Communication **22.7%**

Engagement by theme

A summary of the 1,524 issues and objectives on which we engaged with companies over the last quarter is shown below.

Environmental topics featured in 43% of our engagements over the last quarter.

- Climate Change **85.1%**
- Forestry and Land Use **4.2%**
- Pollution and Waste Management **8.0%**
- Supply Chain Management **2.0%**
- Water **0.7%**

Social and Ethical topics featured in 18% of our engagements over the last quarter.

- Bribery and Corruption **1.3%**
- Conduct and Culture **9.8%**
- Diversity **21.9%**
- Human Capital Management **32.0%**
- Human Rights **28.4%**
- Labour Rights **6.5%**

Governance topics featured in 24% of our engagements over the last quarter.

- Board Diversity, Skills and Experience **28.4%**
- Board Independence **14.7%**
- Executive Remuneration **42.3%**
- Shareholder Protection and Rights **12.1%**
- Succession Planning **2.6%**

Strategy, Risk and Communication topics featured in 15% of our engagements over the last quarter.

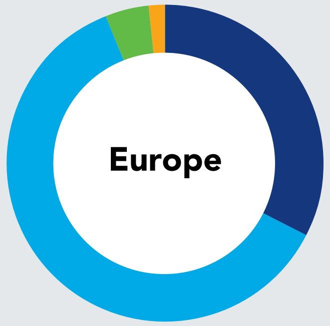
- Audit and Accounting **8.7%**
- Business Strategy **26.2%**
- Cyber Security **2.1%**
- Integrated Reporting and Other Disclosure **18.9%**
- Risk Management **22.0%**

Voting overview

Over the last quarter we made voting recommendations at 2,069 meetings (18,267 resolutions). At 1,050 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at 15 meetings and abstaining at 23 meetings. We supported management on all resolutions at the remaining 981 meetings.

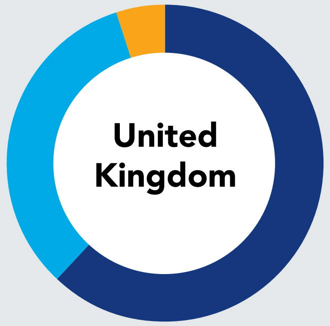
We made voting recommendations at **2,069** meetings (**18,267** resolutions) over the last quarter.

- Total meetings in favour **47.4%**
- Meetings against (or against AND abstain) **50.7%**
- Meetings abstained **1.1%**
- Meetings with management by exception **0.7%**



We made voting recommendations at **273** meetings (**4,979** resolutions) over the last quarter.

- Total meetings in favour **32.6%**
- Meetings against (or against AND abstain) **61.5%**
- Meetings abstained **4.4%**
- Meetings with management by exception **1.5%**



We made voting recommendations at **100** meetings (**1,200** resolutions) over the last quarter.

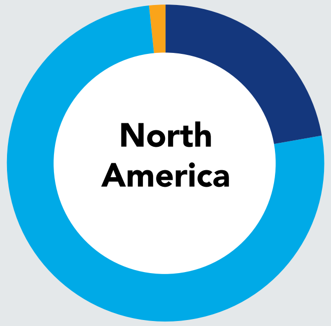
- Total meetings in favour **62.0%**
- Meetings against (or against AND abstain) **33.0%**
- Meetings with management by exception **5.0%**

We made voting recommendations at **822** meetings (**5,120** resolutions) over the last quarter.

- Total meetings in favour **53.5%**
- Meetings against (or against AND abstain) **45.5%**
- Meetings abstained **0.7%**
- Meetings with management by exception **0.2%**

We made voting recommendations at **587** meetings (**4,570** resolutions) over the last quarter.

- Total meetings in favour **52.8%**
- Meetings against (or against AND abstain) **47.2%**



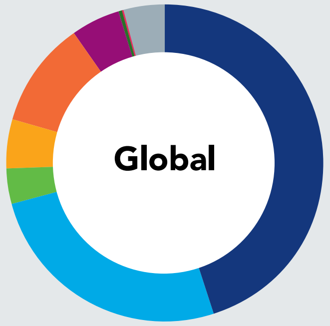
We made voting recommendations at **245** meetings (**2,245** resolutions) over the last quarter.

- Total meetings in favour **22.4%**
- Meetings against (or against AND abstain) **75.9%**
- Meetings with management by exception **1.6%**

We made voting recommendations at **42** meetings (**153** resolutions) over the last quarter.

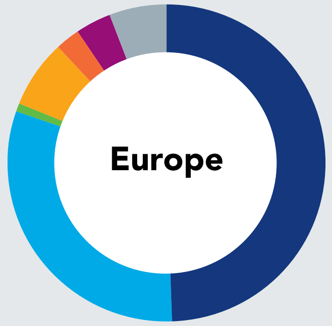
- Total meetings in favour **59.5%**
- Meetings against (or against AND abstain) **28.6%**
- Meetings abstained **11.9%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.



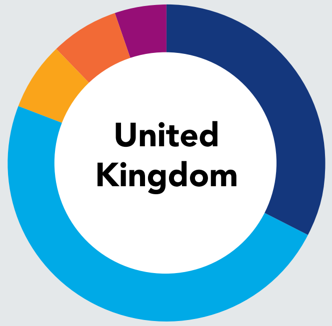
We recommended voting against or abstaining on **3,029** resolutions over the last quarter.

- Board structure **45.2%**
- Remuneration **25.7%**
- Shareholder resolution **3.8%**
- Capital structure and dividends **5.0%**
- Amend Articles **10.6%**
- Audit and Accounts **5.1%**
- Investment/MandA **0.3%**
- Poison Pill/Anti-Takeover Device **0.1%**
- Other **4.2%**



We recommended voting against or abstaining on **703** resolutions over the last quarter.

- Board structure **49.6%**
- Remuneration **30.9%**
- Shareholder resolution **0.9%**
- Capital structure and dividends **6.8%**
- Amend Articles **2.6%**
- Audit and Accounts **3.6%**
- Other **5.7%**

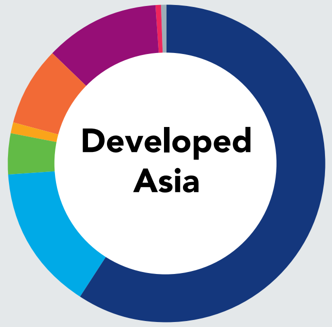


We recommended voting against or abstaining on **58** resolutions over the last quarter.

- Board structure **32.8%**
- Remuneration **48.3%**
- Capital structure and dividends **6.9%**
- Amend Articles **6.9%**
- Audit and Accounts **5.2%**

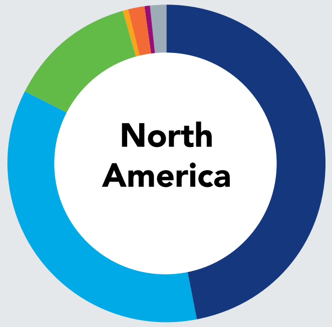
We recommended voting against or abstaining on **1,162** resolutions over the last quarter.

- Board structure **36.7%**
- Remuneration **22.5%**
- Shareholder resolution **1.8%**
- Capital structure and dividends **6.6%**
- Amend Articles **19.9%**
- Audit and Accounts **4.8%**
- Investment/MandA **0.9%**
- Other **6.7%**



We recommended voting against or abstaining on **571** resolutions over the last quarter.

- Board structure **59.2%**
- Remuneration **14.9%**
- Shareholder resolution **4.0%**
- Capital structure and dividends **1.1%**
- Amend Articles **8.2%**
- Audit and Accounts **11.7%**
- Poison Pill/Anti-Takeover Device **0.5%**
- Other **0.4%**



We recommended voting against or abstaining on **496** resolutions over the last quarter.

- Board structure **47.2%**
- Remuneration **35.3%**
- Shareholder resolution **13.1%**
- Capital structure and dividends **0.6%**
- Amend Articles **1.8%**
- Audit and Accounts **0.4%**
- Other **1.6%**

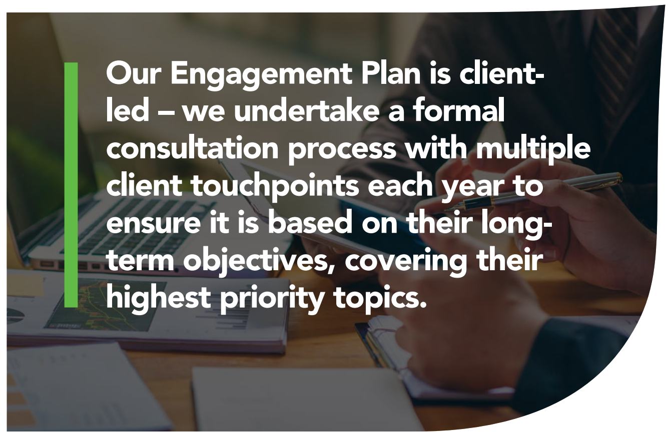
We recommended voting against or abstaining on **39** resolutions over the last quarter.

- Board structure **5.1%**
- Remuneration **30.8%**
- Capital structure and dividends **30.8%**
- Amend Articles **33.3%**

The EOS 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.

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.

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 US$1.6trn as at 31 March 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 team

Engagement


Leon Kamhi
Head of Responsibility


Joanne Beatty
Sector lead: Chemicals


Thomas Beresford-Smart
Sectors: Financial Services, Industrial & Capital Goods, Technology


George Clark
Voting and Engagement Support


Miguel CuUnjieng
Sectors: Financial Services, Oil & Gas, Technology


Emily DeMasi
Sector co-lead: Financial Services


Zoe de Spoelberch
Sectors: Consumer Goods, Financial Services, Oil & Gas


Bruce Duguid
Head of Stewardship, EOS


Yu-Ting Fu
Sector: Financial Services


Diana Glassman
Sector lead: Technology Hardware
Sector co-lead: Oil & Gas


Jaime Gornsztejn
Sector lead: Industrial & Capital Goods


Younes Hassar
Voting and Engagement Support


Laura Jernegan
Sectors: Financial Services, Pharmaceuticals & Healthcare


Lisa Lange
Sectors: Transportation, Financial Services, Consumer Goods


Pauline Lecoursonnois
Sector lead: Consumer Goods


Sonya Likhtman
Sectors: Consumer Goods, Retail, Mining & Materials


Emma Ledoux
Sectors: Chemicals, Consumer Goods, Technology


Earl McKenzie
Voting and Engagement Support


Claire Milhench
Communications & Content


James O'Halloran
Director of Business Management, EOS


Nick Pelosi
Sector co-lead: Mining & Materials


Hannah Shoesmith
Sector co-lead: Technology Software


Sarah Swartz
Sectors: Chemicals, Consumer Goods, Utilities


Velika Talyarkhan
Sector co-lead: Technology Software


Kenny Tsang
Sector lead: Consumer Goods


Owen Tutt
Theme: Climate change


Amy Wilson
Sector lead: Retail

Haonan Wu
Sectors: Transportation, Chemicals, Technology, Utilities

Michael Yamoah
Sectors: Technology, Retail, Consumer Goods, Pharmaceuticals & Healthcare

Tim Youmans
Sectors: Financial Services, Industrial & Capital Goods, Technology

Client Service and Business Development

Amy D'Eugenio
Head of Client Service and Business Development, EOS

Diego Anton
Client Service

Alexandra Danielsson
Client Service

Andrew Glynne-Percy
Communications and Marketing

William Morgan
Client Service

Alice Musto
Client Service

Mike Wills
Client Service

Federated Hermes
EOS

Federated Hermes

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

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

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

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

Our investment and stewardship capabilities:

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

Why EOS?

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

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

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