



# Public Engagement Report

## **GROWING PAINS**

**Why palm oil is becoming  
a planet-sized problem**

**Tackling aggressive tax practices**

**Voting season highlights from  
Asia and emerging markets**

**Q3 2022**

Welcome to our Public Engagement Report for Q3 2022. In our cover feature this quarter, we take an in-depth look at why palm oil production is having such a devastating impact on the climate and wildlife habitats. Palm oil's usefulness means that it is found in everything from food to personal hygiene products. As a result, the clearing of virgin rainforest for palm oil plantations is proving difficult to eradicate. We explain how we engage with companies on this challenging issue.

Public services are under immense strain in many countries in the wake of the pandemic, with soaring inflation adding to the pressure. Against this backdrop, it is vital that tax burdens are distributed fairly, rather than falling on the most vulnerable segments of the population. Joanne Beatty sets out our expectations on tax transparency and reporting, amidst a tightening regulatory landscape that seeks to tackle aggressive tax practices.

Finally, Shoa Hirosato and Judi Tseng bring us all the highlights from the voting season in developed Asia and emerging markets. This includes a look at some of Japan's key climate change resolutions and how investors in Brazil are increasingly using voting as a tool for stewardship.

Our regular sections include our company engagement case studies and public policy highlights. Also, we continue our sustainable food systems series with an article on the problem with ultra-processed and pre-packaged food.



**Claire Milhench**  
Associate Director – Communications & Content

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# Why cheap palm oil is a price the planet can't pay

Palm oil can be found in everything from food to soap. Strong demand and high yields make it an attractive crop for growers, but the clearing of tropical rainforest for palm oil plantations is a major contributor to climate change and biodiversity loss.

## Setting the scene

**Tropical rainforests are home to more than half<sup>1</sup> the world's plant and animal species. They also play a vital role in climate change mitigation by storing carbon and absorbing a third of the carbon released from burning fossil fuels every year. But the rate of deforestation rose in Asia, Africa and Latin America during the Covid-19 pandemic, with extensive monocropping for palm oil production one of the main causes of deforestation alongside urbanisation, cattle ranching, soybean production and logging.**

**Demand for palm oil continues to grow due to its cheapness and versatility, as it can be used in everything from household cleaning products to ice cream, while growers benefit from high yields. But the removal of tree cover from peatland, often carried out in Southeast Asia for palm oil plantations, releases highly concentrated carbon stores. Halting and reversing tropical deforestation is therefore essential if we are to avoid the consequences of severe climate change and biodiversity loss.**

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The UK supermarket chain Iceland had to temporarily revert to using palm oil in some of its own-brand products this year, after Russia's invasion of Ukraine sent the price of sunflower oil soaring.<sup>2</sup> Iceland has tried to remove palm oil from its staple products since 2018, but the difficulties it encountered have underscored the ubiquity of palm oil and the scale of the challenge.

Palm oil is used in 70% of cosmetic and personal hygiene products, including soap bars, toothpaste and face creams. It is also a key ingredient in staple foods such as bread and margarine, as well as treats such as chocolate, ice cream and biscuits due to its creamy texture and absence of odour. Its natural preservative qualities help to extend the shelf life of food products, reducing waste. It can be used in the production of biodiesel and biofuel for cars and power plants, and is a primary cooking oil in many Asian and African countries.

Palm oil is used in **70%** of cosmetic and personal hygiene products, including soap bars, toothpaste and face creams.



This diversified demand makes it an attractive cash crop for low and middle-income nations such as Indonesia and Malaysia. These two countries account for around 84% of all palm oil production globally, according to US Department of Agriculture data.<sup>3</sup>

It is also appealing to growers in tropical regions because palm trees produce between four and 10 times more oil than other crops per unit of cultivated land, and consume less water in the process. Alternatives such as sunflower or coconut oil are likely to result in even greater environmental damage as more land would have to be cleared to produce the same amount of oil.<sup>4</sup>

Palm oil's high yield makes it the cheapest vegetable oil on the market. This is important to food manufacturers trying to keep consumer staples within the reach of strained household budgets as the cost of living crisis continues. Eradicating palm oil from staple foods and household products may therefore be neither achievable nor desirable. But this \$64bn growth industry<sup>5</sup> poses an existential threat to life on earth.

Palm trees produce between four and

**10** times more oil than other crops per unit of cultivated land, and consume less water in the process.

## The climate and biodiversity impacts of deforestation

The insatiable demand for palm oil exacts a steep environmental toll, despite its more efficient use of acreage. In Indonesia and Malaysia, the clearance of tropical forests for palm oil plantations accounted for 47% and 16% of all deforestation respectively, between 1972 and 2015.<sup>6</sup> Deforestation fuelled by palm oil plantations has also expanded in some parts of Africa in recent years, as Ghana, Cote d'Ivoire and the Democratic Republic of Congo have embraced the crop.

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Of course, palm oil isn't the only contributor to deforestation. Over two-thirds of the habitat loss in Brazil and Argentina is driven by beef and soy production, with soy grown primarily for animal feed.<sup>7</sup> Deforestation in the Amazon rainforest surged to a 12-year high under Brazil's President Bolsonaro,<sup>8</sup> and the Amazon is now a net emitter of CO<sub>2</sub>.<sup>9</sup>

<sup>3</sup> <https://ipad.fas.usda.gov/cropeplorer/cropview/commodityView.aspx?cropid=4243000>

<sup>4</sup> <https://rspo.org/about/about-sustainable-palm-oil>

<sup>5</sup> Palm Oil Market Size & Share Report, 2022 - 2030 (grandviewresearch.com)

<sup>6</sup> ZSL

<sup>7</sup> <https://www.worldwildlife.org/magazine/issues/summer-2018/articles/what-are-the-biggest-drivers-of-tropical-deforestation>

<sup>8</sup> <https://www.theguardian.com/environment/2020/dec/01/amazon-deforestation-surges-to-12-year-high-under-bolsonaro>

<sup>9</sup> <https://www.theguardian.com/environment/2021/jul/14/amazon-rainforest-now-emitting-more-co2-than-it-absorbs>

<sup>10</sup> <https://www.ipcc.ch/srccl/>

<sup>11</sup> <https://www.worldwildlife.org/places/borneo-and-sumatra>

<sup>12</sup> <https://forest500.globalcanopy.org/>

<sup>13</sup> <https://www.consilium.europa.eu/en/press/press-releases/2022/06/28/council-agrees-on-new-rules-to-drive-down-deforestation-and-forest-degradation/#:~:text=The%20Commission%20published%20its%20proposal,the%20scope%20of%20the%20regulation;https://chainreactionresearch.com/report/eu-deforestation-regulation-implications-for-the-palm-oil-industry-and-its-financers/>

<sup>14</sup> <https://www.gov.uk/government/news/government-sets-out-plans-to-clean-up-the-uks-supply-chains-to-help-protect-forests>

<sup>15</sup> <https://www.gov.uk/government/news/over-100-leaders-make-landmark-pledge-to-end-deforestation-at-cop26>

**Alternatives such as sunflower or coconut oil are likely to result in even greater environmental damage.**

Deforestation contributes to climate change and biodiversity loss, with about 22% of anthropogenic greenhouse gas emissions coming from agriculture, forestry and other land use, according to the Intergovernmental Panel on Climate Change.<sup>10</sup> Forests absorb carbon dioxide from the atmosphere, providing a valuable carbon store, while producing oxygen during photosynthesis. Clearing and burning forests releases carbon dioxide back into the atmosphere.

Forests are also home to an estimated 80% of the world's plant and animal life, including endangered species such as the orangutan, Bornean elephant and Sumatran rhino.<sup>11</sup> Addressing climate change and biodiversity loss go hand-in-hand.

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of anthropogenic greenhouse gas emissions coming from agriculture, forestry and other land use, according to the Intergovernmental Panel on Climate Change.

Although the impacts of global heating and deforestation are clear, the 2022 Forest 500 report<sup>12</sup> found that too many of the most influential companies were still failing to act. The ranking by UK charity Global Canopy found that 72% of the 350 companies assessed did not have a deforestation commitment for all the forest-risk commodities in their supply chains.

Even when companies had made commitments, many failed to provide evidence of how they were implementing these, the report noted. The finance sector was a notable laggard, with 93 of the 150 most exposed financial institutions without a deforestation policy covering their investments and lending to companies in key forest-risk commodity supply chains.

<sup>1</sup> <https://education.nationalgeographic.org/resource/rain-forest>

<sup>2</sup> <https://www.theguardian.com/business/2022/mar/28/iceland-reverts-to-palm-oil-with-regret-as-ukraine-war-hits-food-prices>

**Regulatory risk**

As well as the twin systemic risks of climate change and biodiversity loss, companies could face regulatory, financial and reputational risks by failing to act. New EU<sup>13</sup> and UK<sup>14</sup> legislation will introduce mandatory due diligence rules, ensuring that operators and traders assess their exposure to illegal deforestation in their supply chains. We responded to the UK government’s consultation on this, supporting the proposal to ensure companies use forest risk commodities that have been sourced in accordance with the relevant laws in the country where they are grown.

But we stressed that the legislation should be applicable to a wide range of companies and not just a small number of large companies, which may already have a due diligence process in place. We also emphasised the importance of going beyond legality, referencing some countries where governments are attempting to deregulate, which may increase the risk of accelerating deforestation.

The critical role of nature in climate change adaptation and mitigation was recognised at COP26, with some

**130** countries agreeing to halt and reverse forest loss and land degradation by 2030.

**Our engagement approach**

The critical role of nature in climate change adaptation and mitigation was recognised at COP26, with some 130 countries agreeing to halt and reverse forest loss and land degradation by 2030.<sup>15</sup> In support of this pledge, Federated Hermes Limited (FHL) endorsed the financial sector’s commitment letter on eliminating commodity-driven deforestation, also released at COP26. This requires FHL to make best efforts to eliminate commodity-driven deforestation from its portfolios, principally through active ownership, ongoing stewardship, and other measures, including public policy advocacy.

**We expect companies to take responsibility for deforestation in their supply chains, including monitoring the risk and going beyond certification to trace commodities back to their source.**

To this end, EOS will engage with relevant companies including palm oil producers, processors, traders, consumer goods and retail companies, and banks providing financing. We already ask companies to ensure that the components for their products are not derived from deforested areas. We expect companies to take responsibility for deforestation in their supply chains, including monitoring the risk and going beyond certification to trace commodities back to their source.



**Forests are also home to an estimated 80% of the world’s plant and animal life, including endangered species.**

Companies that source palm oil, soy, beef, leather, pulp and paper, amongst other relevant commodities, must commit to clear timelines for eliminating deforestation from their supply chains. This commitment should cover all commodities, regions and suppliers, including indirect suppliers. We expect companies to communicate a clear strategy for how a deforestation-free supply chain will be achieved through implementation measures, monitoring, independent verification and collaboration. Companies that can achieve traceability of commodities back to source will be best placed to achieve a deforestation-free supply chain.

**Companies that source palm oil, soy, beef, leather, pulp and paper, amongst other relevant commodities, must commit to clear timelines for eliminating deforestation from their supply chains.**

For palm oil, we include a commitment to no deforestation, no expansion on peat and no exploitation (NDPE) in our expectations for companies and banks. No exploitation means addressing the risk that communities and workers may be exploited by palm oil producers. When land is cleared for palm plantations, disputes can arise with local communities over access to resources, meaning that companies may be directly or indirectly responsible for human rights violations.<sup>16</sup> It can be difficult to resolve legacy issues related to the absence of free, prior and informed consent (FPIC) in older plantations, so it is important to have a process to address land conflict where it is too late for FPIC.



Companies should also carry out human rights due diligence to monitor labour practices and working conditions to ensure that employees earn a living wage, there is good health and safety on site, and no modern slavery or child labour exists anywhere in the supply chain.<sup>17</sup> Palm oil produced under an NDPE policy may be described as sustainable, as NDPE<sup>18</sup> goes beyond legal or certification requirements (see box, page 9), although some leakage still occurs.

<sup>16</sup> <https://www.hrw.org/report/2019/09/23/when-we-lost-forest-we-lost-everything/oil-palm-plantations-and-rights-violations>  
<sup>17</sup> <https://www.washingtonpost.com/climate-environment/2021/10/09/png-palm-oil-undercover-sting/>  
<sup>18</sup> <https://chainreactionresearch.com/report/ndpe-policies-cover-83-of-palm-oil-refineries-implementation-at-75/>



## CASE STUDY

## Posco International

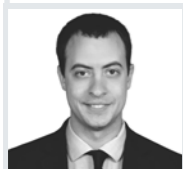


**We began engaging with South Korea's Posco International on sustainable palm oil in 2016. This followed a divestment by a major pension fund in 2015 and severe criticism of the company by NGOs over deforestation related to palm oil development in Indonesia.**

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

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

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



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## CASE STUDY

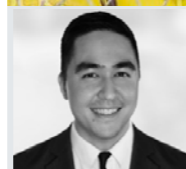
## DBS and palm oil financing



**We began engaging on palm oil financing with Singapore's largest bank DBS in January 2019. We urged the bank to demonstrate that its palm oil lending criteria were able to meet the latest Roundtable on Sustainable Palm Oil (RSPO) standard for all borrowers, and that it closely monitored implementation. The bank confirmed that its new borrowers were asked to demonstrate alignment with no deforestation, no peat and no exploitation (NDPE) or an equivalent.**

We continued to engage, urging the bank to ask its existing borrowers to obtain RSPO certification in September 2020, as this would help to ensure compliance with NDPE through its auditing process. In March 2021, we were pleased to learn that DBS had raised its ESG standards for the palm oil sector, encouraging its customers to apply an NDPE policy throughout the supply chain. Its clients are also asked to achieve full RSPO certification via a time-bound action plan that is communicated to DBS.

The bank pledges not to knowingly finance companies that are involved in the conversion of high carbon stock forests, planting on peat, or planting without securing both the legal right and community support to use all the land involved. DBS has adopted a zero-tolerance approach to forest burning.



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In addition to our in-depth, multi-year engagements on palm oil, we engaged with US food producer General Mills in June, asking if it would commit to being deforestation-free by 2025. The company said that it was working to eliminate deforestation from its key commodities such as palm oil and cocoa, and engages with suppliers to monitor land use change. We also asked Japan's Sumitomo to commit to NDPE, and encouraged it to source 100% certified RSPO palm oil. The company said that one of its consolidated subsidiaries SC Foods obtained RSPO supply chain certification in 2021.

Beyond palm oil, we have engaged with commodity trader Cargill on accelerating its efforts to tackle deforestation associated with soy production in South America. We asked the company to bring forward its time-bound deforestation- and conversion-free commitment from 2030, to 2025 at the latest, in line with best practice and peers.

We have also engaged with Brazilian meat producer JBS on traceability to eliminate deforestation. In 2021, JBS promised to have full traceability of its supply chain in the Amazon by 2025 and in other regions in Brazil by 2030. We followed up in 2022 to discuss the progress made, and learned that in its first year of operation, the tracking system processed 14.8% of the total number of animals. The CEO confirmed JBS's commitment to achieving 100% of the animals processed with full traceability by 2025.

### Deforestation considerations in our vote policy

We hold the chair or other responsible directors accountable through voting recommendations where we believe companies' actions are materially misaligned with the goals of the Paris Agreement or where companies are not responding sufficiently to the risks and opportunities posed by climate change. We include a focus on companies that are involved in activities that are clearly incompatible with limiting global warming to safe levels, such as causing deforestation.

In 2021, we recommended voting against directors at companies that were failing to address deforestation risks, including at Yakult Honsha and Li Ning Company. In 2022, we recommend votes against directors at TJX, Kikkoman Corp and WH Group. We also included financial institutions in our policy for the first time, which led to recommended votes against directors at Power Corporation of Canada, Malaysia's Public Bank and Industrial and Commercial Bank of China due to concerns about deforestation.

### Public policy advocacy

We are active participants in several industry working groups, including the PRI's Sustainable Commodities Practitioners Group, which explores how the finance sector can address deforestation by sharing best practice. We serve as co-chair of the Engagement and Public Policy Advocacy Working Groups within the Finance for Biodiversity Foundation, where participants commit to protecting and restoring biodiversity through their activities. With a small group of investors, we are also working to establish a Nature Action 100 initiative, which would facilitate collaborative engagements with companies that have the greatest impact on biodiversity.



### Certification schemes and their limitations

The Roundtable for Sustainable Palm Oil (RSPO)<sup>19</sup> is the main certification scheme for palm oil operations and supply chains. The strongest level of RSPO certification is Identity Preserved Certified Sustainable Palm Oil (CSPO), which can be traced back to a single certified mill and its supply base.

The Indonesia Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO) certifications are national schemes with less stringent sustainability criteria. NGOs have repeatedly raised questions about the effectiveness of certification schemes given the markets in which palm oil producers operate.<sup>20</sup>

### The Indonesia Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO) certifications are national schemes with less stringent sustainability criteria.

We have engaged with Bank Rakyat Indonesia Persero, which in 2022 confirmed it had implemented a mandatory requirement for all small, medium and corporate borrowers in the palm oil plantation sector to be ISPO or RSPO certified. It carries out site visits and checks that borrowers are not clearing land.

We said that we want to see the bank take a leadership position in palm oil financing. This would include a commitment to implementing robust palm oil requirements, in addition to the current standards, a policy of RSPO or NDPE, and free, prior and informed consent financing only. There should also be a requirement for supply chain transparency, the exclusion of leakage palm oil refiners, engagement with local communities, and grievance mechanisms. The company said it was planning to improve its focus in this area.

### We are active participants in several industry working groups, including the PRI's Sustainable Commodities Practitioners Group, which explores how the finance sector can address deforestation by sharing best practice.

<sup>19</sup> <https://rspo.org/about/our-organisation>

<sup>20</sup> [https://www.greenpeace.org/static/planet4-southeastasia-stateless/2021/10/85efa777-illegal\\_palm\\_oil\\_in\\_forest\\_estate.pdf](https://www.greenpeace.org/static/planet4-southeastasia-stateless/2021/10/85efa777-illegal_palm_oil_in_forest_estate.pdf)

 CASE STUDY

## Kuala Lumpur Kepong (KLK)



**Malaysia's KLK focuses on the production and processing of palm oil products and natural rubber. It sources primarily from its own plantations in Indonesia, Malaysia and Liberia, but also takes a proportion from suppliers.**

We began our engagement in 2012 following the company's lack of response to NGO and media reports alleging its involvement in deforestation in Indonesia, and poor labour conditions and wages. In our first meeting, the company was quite defensive and denied the allegations.

In 2013 further allegations were made about poor labour conditions in the company's supply chain, and we urged KLK to provide clarity on how it was investigating. While KLK was gradually more willing to discuss labour issues, details on policy implementation were still lacking. We continued to raise our concerns in calls and correspondence over the next few years.

Since our initial engagement, KLK has strengthened its labour standards and disclosure, training suppliers on labour standards compliance as part of its commercial contracts, and commissioning external audits of its supply chain. KLK also partnered with a reputable consultant for a human rights impact assessment of its Liberian operations.

The disclosure of the audit findings and action plans have provided greater clarity for investors and other stakeholders. In 2014, the company also achieved 100% Roundtable on Sustainable Palm Oil (RSPO) certification of its Malaysia operation.

In a September 2021 call, we heard that the company had made good progress in tracing mill and refinery third-party supply chains back to plantations. It was open about the challenge of getting to 100% due to the lack of visibility regarding smallholders and challenges in visiting sites due to Covid-19.

We sought more information about how the company ensures that its commitments to no deforestation, no peat and no exploitation (NDPE) are met, especially at third-party plantations. KLK said it has teams based at operating centres (estates) to monitor this. It is also working with a satellite imaging company to monitor plantations and any contravention of its no deforestation, no peat commitment.

**In a September 2021 call, we heard that the company had made good progress in tracing mill and refinery third-party supply chains back to plantations.**

KLK has carried out a third-party assessment of labour standards at some key sites, has published the results and is working on an action plan. It has also implemented improvements for migrant workers. Passports are not retained by the company and workers do not pay recruitment agency fees. It has monitored prevailing wages while waiting for the RSPO to complete the living wages benchmark.

In addition, we are part of the Global Canopy Aligned Accountability project, which seeks to bring together existing data sets on deforestation and package this in a more usable way for financial market participants. The aim is to develop a comprehensive, collaborative and open database on company performance on deforestation, aligned with the Accountability Framework, which will provide standardised data. We are supporting this project to refine the development of the database and ensure its relevance for end users.

**The aim is to develop a comprehensive, collaborative and open database on company performance on deforestation.**

## Outlook

Globally, sustaining efforts to halt and reverse deforestation will be critical over the next few years. For EOS, this will mean stepping up our engagement on deforestation and continuing to focus on this topic within our vote policy, escalating where necessary. This systemic issue requires extensive collaboration and political will, so we will continue to conduct advocacy on climate and nature-related topics. From 2023, FHL will disclose its assessment of deforestation risk in its portfolios and its mitigation activities, which will include ongoing engagement.

# Paying a fair share



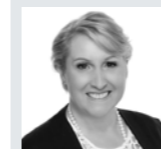
Companies that seek to aggressively minimise their tax payments will face increasing legal, financial and reputational risks as regulation tightens. Joanne Beatty explains why tax revenues are vital for cash-strapped public services, and how we engage with companies to ensure they pay a fair share.

## Setting the scene

**Tax payments underpin the functioning of vital societal services in developed countries and emerging economies. These include emergency services, health, education, infrastructure, welfare, justice, and environmental protection, including climate mitigation and ensuring a just transition. As a result, tax revenues represent the single largest source of funding for the UN Sustainable Development Goals.<sup>1</sup>**

**Investors need sufficient information to gauge a company's tax position and governance approach and anticipate any future risks to their holdings. Aggressive tax practices can lead to investigations by regulators, resulting in fines or retrospective clawback of underpaid tax. A company's reputation and social licence to operate can also be damaged if it is thought not to be paying its fair share.**

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Public services are under immense strain in many countries in the wake of the pandemic, with soaring inflation adding to the pressure. Against this backdrop, it is vital that tax burdens are distributed proportionately, rather than falling on the most vulnerable segments of the population. However, some multinational companies employ aggressive tax practices to minimise their tax payments, meaning that governments must make up the revenue shortfall by increasing the burden on individuals, or borrowing more.

Aggressive tax planning and practices are those where companies reduce their tax liability through arrangements that may be legal but are not in keeping with the intent of the law, and are often not transparent. These practices may increase profits in the short term, but pose significant risks that undermine investment returns in the medium and long term.<sup>2</sup> There are many ways that companies may seek to exploit tax loopholes and avoid paying their fair share of tax owed. The key strategies and practices deployed include:<sup>3,4</sup>

- Host country incentives to companies to locate in a low tax jurisdiction (eg tax havens, shell companies and other incentives)

<sup>1</sup> hermes-eos-public-engagement-report-q3-2019.pdf (hermes-investment.com)

<sup>2</sup> Microsoft Word – Exempt Solicitation Amazon 2022-04-14 (cictar.org)

<sup>3</sup> UNPRI Engagement guidance on corporate tax responsibility

<sup>4</sup> hermes-eos-public-engagement-report-q3-2019.pdf (hermes-investment.com)

- Exploitation of tax loopholes, for example transferring assets such as intellectual property from a subsidiary in a high-tax jurisdiction to a low-tax jurisdiction
- Base erosion of the national tax base through profit shifting. This is when multinational companies shift profits generated in the country into other jurisdictions, such as offshore financial centres with lower or zero tax rates, to minimise their tax burden. This can include the use of marketing services and trading company structures to shift profits.

Aggressive tax practices have wider financial impacts. Data from the Organisation for Economic Co-operation and Development (OECD) shows that tax avoidance costs between \$100-\$200bn in lost revenue annually.<sup>5</sup> This is significant when you consider the contribution this revenue makes to a government's ability to fund vital services. On average, corporate income tax is estimated to contribute 9% of government tax revenues in OECD countries, and over 15% in emerging markets.<sup>6</sup>

At the company level, aggressive tax practices can result in reputational damage and the loss of a company's social licence to operate. Over time companies avoiding tax may become increasingly vulnerable to changes in tax regulations. Aggressive tax practices attract the attention of tax authorities leading to non-compliance investigations. These practices also distort macroeconomic conditions (the avoidance of a tax is effectively a form of unintended subsidy), raising portfolio and systemic risks that undermine long-term value creation. From a portfolio perspective, aggressive tax practices undermine fair competition at the sector level and reduce the money available for government spending on necessary services and infrastructure.

Globally, regulatory changes to tax transparency rules are requiring companies and governments to disclose more financial and tax information at a country-by-country level.

These regulatory changes in the EU and US will lead to legal, reputational and financial risks for those companies that seek to aggressively minimise and avoid their tax payments.

### Tax burdens: size matters

Generally, small-to-medium-sized businesses (SMEs) have little choice but to pay corporate taxes in their home jurisdiction. But many high-profile multinational companies use aggressive tax practices to avoid paying their fair share.

The digitalisation of the economy has made it easier for multinationals to hold intangible assets such as patents, trademarks and copyrights in overseas affiliates in countries with a lower tax rate than the home country. Revenues are transferred into group companies where there is no or minimal physical presence, yet little ability to tax offshore income.<sup>7</sup> As a result, brick and mortar businesses, often SMEs, must shoulder an increased tax burden. This is at a time when inflationary pressures globally are impacting the viability of many SMEs.

Non-disclosure presents challenges to investors in terms of evaluating the risks to the company with respect to taxation reforms. It can be hard to assess whether a company is engaged in responsible tax practices that ensure long-term value creation for the company and the communities in which it operates.<sup>8</sup> Three years ago, we highlighted Starbucks, Apple and Vodafone as among those criticised for their tax practices. In 2019, research by Fair Tax Mark found that Amazon, Apple, Facebook (Meta), Google, Netflix and Microsoft had the poorest tax conduct.<sup>9,10</sup> Amazon, Alphabet and Facebook were also among eight companies considered 'unresponsive' by lead investors in the UNPRI's collaborative engagement on corporate tax transparency, which ran between 2017 and 2019.<sup>11</sup>



### Tax loopholes are tightening globally

Since our 2019 tax article we have seen increased regulatory and legislative momentum globally to improve the mandatory disclosure of company financial and tax information. A key recommendation of the UN FACTI high level panel on Financial Accountability, Transparency and Integrity was to introduce requirements that "all private multinational entities publish accounting and financial information on a country-by-country basis".<sup>12</sup> The Covid-19 pandemic has increased the urgency, as tax policy is a key mechanism through which governments can rebuild the economy and mitigate the economic effects of the pandemic.

Since 2020, G20 leaders and governments have enacted a sweeping range of reforms focused on companies paying a fair share of tax and improving transparency in tax reporting:

- In 2021 the European Union (EU) adopted legislation to require a degree of public country-by-country reporting.<sup>13</sup> This legislation was supported by investors representing over US\$5.6trn in assets under management.<sup>14</sup>
- The US House of Representatives in 2021 passed the Disclosure of Tax Havens and Offshoring Act, which proposed amendments to the Securities Act of 1934 to require country-by-country reporting. In 2020, we wrote to the US House Committee chairs and ranking members in support of the bill. The Act requires certain US companies to publicly disclose information related to the tax jurisdiction, income, and assets of their subsidiaries as well as country-by-country financial information annually.<sup>15</sup> This Act had wide support.<sup>16</sup>

- In 2021 the OECD-led reform of the international tax system was finalised ensuring that multinational enterprises will be subject to a minimum 15% tax rate from 2023. Unprecedented agreement was reached with more than 130 countries and jurisdictions representing more than 90% of global GDP.<sup>17</sup> This significant reform is focused on addressing the tax challenges arising from the digitalisation of the economy.<sup>18</sup>

The landmark deal to reform the international tax system is the first fundamental change in over 100 years and increases tax transparency. The agreement adopted a two-pillar solution, with both pillars being implemented concurrently by 2023.<sup>19</sup>

- **Pillar One** aims to ensure a fairer distribution of profits and taxing rights among countries with respect to the largest multinationals.<sup>20</sup>
- **Pillar Two** introduces a global minimum corporate tax rate set at 15% that countries can use to protect their tax base.<sup>21,22</sup> It does not eliminate tax competition, but it does set multilaterally agreed limitations on it. There are mechanisms to protect the right of developing countries to tax certain base-eroding payments such as interest and royalties.<sup>23</sup>

If implemented successfully the two pillars are expected to have a significant impact on profit shifting by multinationals as well as the role of tax havens.<sup>24</sup> The 15% tax rate will give countries a share of taxes on profits earned in their territory. Initially, it is expected to apply to the top 100 or so companies and is targeted at the most aggressive users of tax-reducing domiciles including many tech companies.

In keeping with this momentum, on 16 August 2022, US President Joe Biden signed the Inflation Reduction Act (IRA) into law.<sup>25</sup> This 15% minimum tax on the corporate profits of the largest most profitable companies creates a corporate alternative minimum tax or floor on the percentage of taxes that a filer must pay to the government regardless of how many deductions and credits are claimed.<sup>26</sup>

**The landmark deal to reform the international tax system is the first fundamental change in over 100 years and increases tax transparency.**

**Multinational companies may shift profits into offshore financial centres with lower or zero tax rates to minimise their tax burden.**

<sup>5</sup> The State of Tax Justice 2020 ENGLISH.pdf (taxjustice.net)

<sup>6</sup> Corporate tax remains a key revenue source, despite falling rates worldwide – OECD

<sup>7</sup> Microsoft Word – Exempt Solicitation Amazon 2022-04-14 (dictar.org)

<sup>8</sup> Microsoft Word – Exempt Solicitation Amazon 2022-04-14 (dictar.org)

<sup>9</sup> Public engagement report\_Q3\_2019.pdf (ppf.co.uk)

<sup>10</sup> Tax gap of Silicon Six over \$100 billion so far this decade – Fair Tax Foundation (fairtaxmark.net)

<sup>11</sup> Engagement on tax transparency: outcomes report 2020 (unpri.org)

<sup>12</sup> <https://www.factipanel.org/news/facti-panel-report-has-been-published>

<sup>13</sup> <https://www.europarl.europa.eu/news/en/press-room/20211108IPR16839/corporate-tax-transparency-meps-okay-new-country-by-country-reporting-rules>

<sup>14</sup> [https://dwtzyx6upkss.cloudfront.net/Uploads/u/m/t/investorsignonletteronpublicbcr\\_signatories\\_final\\_758353.pdf](https://dwtzyx6upkss.cloudfront.net/Uploads/u/m/t/investorsignonletteronpublicbcr_signatories_final_758353.pdf)

<sup>15</sup> The U.S. House Passes Two Axne Bills | The Iowa Torch

<sup>16</sup> <https://thefactcoalition.org/64-investors-with-nearly-2-9-trillion-in-assets-under-management-show-support-for-the-disclosure-of-tax-havens-and-offshoring-act/>

<sup>17</sup> International community strikes a ground-breaking tax deal for the digital age – OECD

<sup>18</sup> International community strikes a ground-breaking tax deal for the digital age – OECD

<sup>19</sup> Brochure: Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, October 2021 (oecd.org)

<sup>20</sup> Which include a mandatory and binding dispute resolution process for Pillar One but with the caveat that developing countries will be able to benefit from an elective mechanism in certain cases, ensuring that the rules are not too onerous for low-capacity countries

<sup>21</sup> International community strikes a ground-breaking tax deal for the digital age – OECD

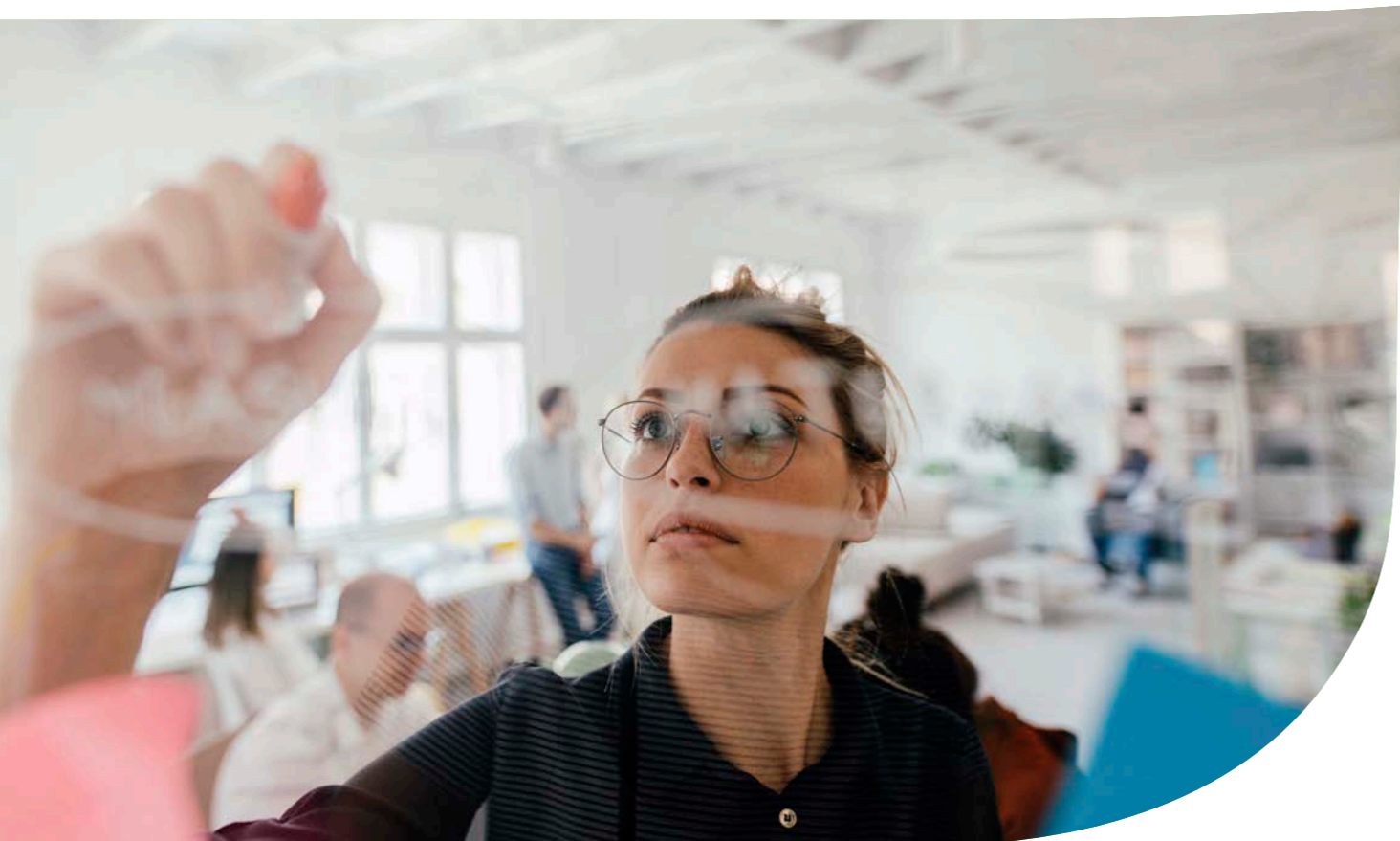
<sup>22</sup> Brochure: Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, October 2021 (oecd.org)

<sup>23</sup> Brochure: Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, October 2021 (oecd.org)

<sup>24</sup> New International Tax Reform: The end of tax havens? – The Oxford Strategy Review

<sup>25</sup> BY THE NUMBERS: The Inflation Reduction Act – The White House

<sup>26</sup> What Is the 15% Minimum Corporate Tax Senate Democrats Are Proposing? – Bloomberg



### Investors seek increased transparency

Increased transparency is also being driven by investors and stakeholders seeking more disclosure on tax through voluntary reporting. Effective from 1 January 2021, companies are encouraged to report their tax strategy, governance and tax payments on a country-by-country basis under the Global Reporting Initiative (GRI), one of the world's most used voluntary sustainability reporting standards.<sup>27</sup>

The GRI 207 tax criteria recognises the role that tax contributions have on sustainable development. The standard was developed in response to growing investor concerns and stakeholder demands for tax transparency, and sets expectations for increased disclosure of tax payments on a country-by-country basis, alongside tax strategy and governance.

Reporting against the GRI 207 tax criteria will improve transparency and comparability of tax information. It also paves the way for a more informed public debate as well as better policy and investment decisions. The development of the tax standard followed consultation with multinationals, accounting firms, academics, politicians, investors, and other stakeholders. It is the first global reporting standard to combine management approach disclosures on tax strategy with public country-by-country reporting of business activities, revenues, profit and tax.<sup>28</sup>

<sup>27</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf>

<sup>28</sup> <https://www.globalreporting.org/about-gri/news-center/backing-for-gri-s-tax-standard/>

<sup>29</sup> [GRI 207: TAX 2019, Global Reporting Initiative, 2019 \(PDF 250 KB\)](https://www.gri.org/2019-Global-Reporting-Initiative-2019)

<sup>30</sup> <https://www.angloamerican.com/-/media/Files/A/Anglo-American-Group/PLC/investors/annual-reporting/2021/anglo-american-country-by-country-report-2020.pdf>, p. 2; <https://www.results.philips.com/publications/ar20/downloads/pdf/en/PhilipsCountryActivityAndTaxReport2020.pdf>, p. 6; <https://www.randstad.com/s3fs-media/rscom/public/2021-02/randstad-annual-report-2020.pdf>, p. 238; <https://www.vodafone.com/sites/default/files/2021-10/vodafone-tax-report-19-20.pdf>, p. 11; <https://reports.shell.com/sustainability-report/2020/servicepages/downloads/files/gri-index-shell-sr20.pdf>, p. 11; <https://via.ritzau.dk/ir-files/13560592/4751/6293/Annual%20report%202021.pdf>, p. 123

Companies claiming to report in accordance with the GRI standards are required to make disclosures on all material topics. Investors consider a company's tax practices as financially material, that is, reflecting the organisation's significant economic, environmental and social impacts and capable of substantially influencing the assessments and decisions of stakeholders.<sup>29</sup> A number of companies are already reporting in line with the GRI 207 tax standard, including Anglo American, Apple, Philips, Randstad, Vodafone, Royal Dutch Shell, and Ørsted.<sup>30</sup>

**Investors consider a company's tax practices as financially material, that is, reflecting the organisation's significant economic, environmental and social impacts and capable of substantially influencing the assessments and decisions of stakeholders.**

For certain sectors, additional tax disclosure that goes beyond country-by-country reporting may be required, such as reporting at the state or municipal level. This has been a practice for companies in the extractives industry due to intensive community impacts and corruption issues.

### Our expectations

Companies should operate not only for their shareholders, but also for a wider purpose that benefits society. Ultimately, this will support savers and pensioners, who rely on sustainable returns in an economy and a society that is capable of providing them and their families with a secure future.

Our engagement expectations are focused on four critical areas: tax policy, governance, stakeholder engagement and transparency.

### Policy

We expect to see a clear set of principles on tax responsibility that include paying tax in line with the location of economic value generation and with the legislative intention of tax law. We look for policies that cover the company's tax-related approach to corporate structuring, transfer pricing, use of debt, due diligence, lower tax jurisdictions, tax havens and use of incentives. The company's tax policy and tax governance framework should be disclosed and should reference GRI tax standards. The disclosure should include the company's approach to tax risks, including how risks are identified, managed, and monitored; and how compliance with the tax governance framework is evaluated, including incidents of non-compliance.

### Governance

We believe that a company's tax strategy and practices are the responsibility of the board. We expect the board to oversee risk management and compliance, including in relation to tax. In particular, the audit or other risk committee should have oversight of tax risks and the implementation of tax policy. We will look for evidence that the remuneration committee has considered tax behaviour in the structuring of executive remuneration policies to ensure that remuneration does not incentivise overly aggressive corporate tax practices and personal income tax/capital gains behaviours.



**Rio Tinto is an example of a mining company publishing reports on annual taxes paid with lump sums at the country level.**

### Stakeholder Engagement

We believe a company should be aware that its tax practices are of interest to various stakeholders and that by engaging with them, it has the potential to influence its reputation and position of trust. We believe that an organisation's approach to stakeholder engagement on tax can enable it to understand the evolving expectations related to tax, including potential future regulatory changes, enabling it to better manage its risks and impacts.

### Transparency

We seek clear disclosure of the company's approach to tax and the consideration of tax in corporate activities. This should accompany a clear explanation of taxes paid on a country-by-country reporting basis. The company's description of its tax approach and results should be aligned with its purpose, its reporting disclosures and our engagement.

### Our engagement approach

We have been engaging with companies on tax transparency and fairness in line with our engagement plan since 2016. These include companies in the technology, mining, consumer staples and pharmaceuticals sectors. We assess company tax practices and disclosure in our engagement research and look for tax transparency, including reporting under GRI's 207 tax criteria. We urged the Danish healthcare company, GN Store Nord, to improve its tax reporting, including providing country-by-country reporting. We expect to see improvements in its disclosure in 2023.

Rio Tinto is an example of a mining company publishing reports on annual taxes paid with lump sums at the country level as well as aggregated disclosure. Such information is key to ensuring that companies demonstrate their long-term social licence to operate, empowering communities to make informed decisions about resource extraction in their backyards. In our engagement with Marathon Oil, we encouraged the company to publish the taxes it pays in Equatorial Guinea in line with the standards of the Extractive Industries Transparency Initiative (EITI).

In 2022, ahead of the company's annual meeting, we engaged with Amazon on a shareholder proposal that publicly highlighted the company's tax avoidance strategies. An exempt solicitation filed with the Securities and Exchange Commission by co-filers Pensions & Investment Research Consultants (PIRC), OIP Trust and Greater Manchester Pension Fund, stated that Amazon does not disclose revenues, profits, or tax payments in non-US markets in its standard reporting and has faced increased attention from tax authorities.<sup>31</sup> With management opposing the proposal it was defeated, although according to our calculations it gained 17.5% of the dissident vote.<sup>32</sup> It is worth noting that the last tax transparency shareholder proposal at a major multinational (Google in 2014) received support of only 1%.<sup>33,34</sup>

<sup>31</sup> [Microsoft Word – Exempt Solicitation Amazon 2022-04-14 \(cictar.org\)](https://www.sec.gov/Archives/edgar/data/1013017/000110465922065872/d18rn0p25nwr6d.cloudfront.net)

<sup>32</sup> [0001104659-22-065872 \(d18rn0p25nwr6d.cloudfront.net\)](https://www.sec.gov/Archives/edgar/data/1013017/000110465922065872/d18rn0p25nwr6d.cloudfront.net)

<sup>33</sup> [Microsoft And Cisco Face Shareholder Pressure Over Public Disclosures \(forbes.com\)](https://www.forbes.com/news/2022/04/14/microsoft-cisco-face-shareholder-pressure-over-public-disclosures/)

<sup>34</sup> [Form 8-K \(sec.gov\)](https://www.irs.gov/efile/efile-form-8-k)



**Microsoft and Cisco are expected to face shareholder proposals on tax transparency this year.**

Microsoft and Cisco are expected to face similar shareholder proposals later this year. Nordea Bank and several Danish pension funds filed a shareholder proposal with Microsoft urging the company to disclose its public country-by-country tax information in line with the GRI tax transparency standard. Cisco faces an identical proposal filed by three shareholders. The proposal references the fact that the company's 2021 annual report is silent on whether it had conducted any intra-entity transfers of intellectual property to the US despite an increase in US profits.<sup>35</sup>

As we found in 2019, although tax transparency has improved in some sectors and geographies, in others it remains limited. Engagement on tax transparency and fairness can be challenging. Companies cite commercial sensitivity, the potential implications for competitiveness, or the prospect of misinterpretation by media or the public, for example in relation to legacy corporate structures in tax havens. In addition to our expectations, we reflect our concerns about a company's tax transparency in our vote recommendations – for example where a company has been unresponsive to investor concerns, or in support of certain shareholder proposals.

**Outlook**

We have developed a watchlist of high priority companies that will be the focus of our engagement efforts for the remainder of 2022 and into 2023. The list was developed based on our engagement with companies, research conducted by PIRC and the Centre for International Corporate Tax Accountability and Research (CICTAR), plus companies that have been named in the press for aggressive tax practices and/or tax avoidance.<sup>36</sup> We will engage based on our responsible tax principles to:

- Seek commitments from companies to pay fair tax on a country-by-country basis in line with the location of economic value generation and the spirit and intention of the law.
- Strengthen company global tax policies and principles particularly in relation to tax management, good governance and transparency.
- Ensure companies are balancing the interests of various stakeholders.
- Increase tax reporting and disclosure in accordance with GRI tax criteria 207.
- Consider vote recommendations in accordance with our Corporate Governance Principles where expectations fall short.

We will also continue to support the development of market best tax practices and advocate with public policymakers at an international level and individual country levels to achieve greater tax transparency.



<sup>35</sup> Microsoft And Cisco Face Shareholder Pressure Over Public Disclosures (forbes.com)

<sup>36</sup> Why 55 U.S. Companies Paid No Taxes Last Year (marketrealist.com); Big Companies Like FedEx and Nike Paid No Federal Taxes – The New York Times (nytimes.com); 15 Biggest Companies That Don't Pay Taxes (yahoo.com)

**Key voting season trends from Asia and the emerging markets**



**Shoa Hiroato**  
Themes: Board Composition and Effectiveness, Natural Resource Stewardship



**Judi Tseng**  
Themes: Corporate Reporting, Human Capital

The voting season in developed Asia and global emerging markets saw renewed attempts to improve board diversity and independence – as well as some surprising and positive shareholder action in Japan and Brazil. Shoa Hiroato and Judi Tseng identify the key trends.



**Climate change**

A disproportionately high number of companies in the region fell below the minimum requirements of our climate change vote policy, resulting in recommendations to vote against the most relevant responsible director due to climate-related risks. For example, concerns about coal expansion plans, or slow timelines for phasing out coal-fired power, led us to recommend voting against the chairs at Nippon Steel, Itochu, Marubeni, Sumitomo and Mitsubishi.

We recommended votes against relevant directors at Kikkoman and WH Group because of concerns about their exposure to deforestation risks. We also included financial institutions in our policy for the first time. This led us to recommend votes against directors at Malaysia's Public Bank and Industrial and Commercial Bank of China due to deforestation concerns.

**We recommended votes against relevant directors at Kikkoman and WH Group because of concerns about their exposure to deforestation risks.**

However, progress at some companies, including Geely Automobile, meant that we were able to recommend support for directors there. In some cases where companies were captured by our climate vote policy, we recognised improvements to targets and strategies following engagement. This led us to recommend voting for the chair at companies such as CLP Holdings.

Generally, say-on-climate resolutions have not yet reached companies in developed Asia and emerging markets, but a say-on-climate vote featured at asset manager Ninety One's annual shareholder meeting in South Africa. We recommended voting against this proposal because of the lack of clarity on the company's coal financing and science-based targets approach, but it is encouraging to see the adoption of say-on-climate votes in new markets.



**Climate resolutions in Japan**

This year, NGOs such as Market Forces and international investors flexed their muscle on climate action at Japanese companies. Climate-related shareholder proposals were filed at three power utilities and two financial groups. These received strong support, topping 20% in some cases, and were the first of their kind filed by institutional investors in Japan – a significant development.

We were active in engagement in the lead-up to the voting in each case, expressing our views on the importance of aligning business strategies with the goals of the Paris Agreement and of meeting our expectations on coal policy improvements.

At J-Power, we recommended support for all three climate-related shareholder proposals. These included aligning the 2050 business plan with the goals of the Paris Agreement, which received almost 26% support.



<sup>35</sup> Microsoft And Cisco Face Shareholder Pressure Over Public Disclosures (forbes.com)  
<sup>36</sup> Why 55 U.S. Companies Paid No Taxes Last Year (marketrealist.com); Big Companies Like FedEx and Nike Paid No Federal Taxes – The New York Times (nytimes.com); 15 Biggest Companies That Don't Pay Taxes (yahoo.com)



### Climate-related shareholder proposals were filed at three power utilities and two financial groups.

There were also calls for the company to align its capital expenditure and remuneration policies with its emissions reduction strategy, both attracting support of over 18%. At Tepco and Chubu Electric, we recommended support for proposals asking the companies to disclose how their energy assets would be affected by a net zero by 2050 pathway, with the Chubu proposal winning almost 20% support.

Shareholder proposals brought in previous years have subsequently influenced commitments by major Japanese banks and trading houses to pull back from financing new coal projects. Mizuho attracted the first in 2020, followed by Mitsubishi UFJ and Sumitomo Corp in 2021. This summer, Japan suffered through its worst heatwave since records began, spurring impetus for change.<sup>1</sup>

At Sumitomo Mitsui Financial Group this year, we recommended support for one shareholder proposal asking the bank to disclose short- and medium-term emissions reduction targets and set an appropriate strategy in line with the goals of the Paris Agreement. This attracted 27% support. We did not support the second climate-related proposal on aligning the bank's financing policy with the International Energy Agency's net-zero emissions by 2050 scenario, as shareholder proposals in Japan are legally binding and we believed this was too prescriptive.

Finally, we recommended support for both climate-related shareholder proposals at Mitsubishi Corp this year. The first was a proposal for setting and disclosing short- and medium-term emissions reduction targets aligned with the Paris Agreement goals, which won over 20% support. The other called on the trading house to disclose its capital expenditure alignment with a 2050 net-zero emissions reduction target.

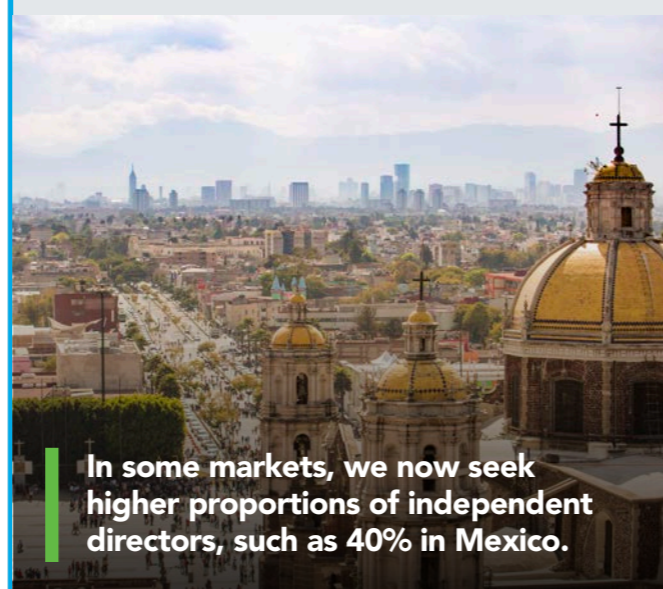
### Independence

We continued to push for improved board independence this year. In some markets, we now seek higher proportions of independent directors, such as 40% in Mexico and 50% in Brazil for the Novo Mercado listing segment, where corporate governance requirements are more stringent. Through our engagements, we are able to consider not just the proportion of independent members but also how they function in practice. Some boards fulfil the independence criteria at a technical level, but this does not always result in sufficient genuinely independent thought on the board.

In the case of South Korea's Hyundai Steel, we recommended voting against a new executive director despite an independent majority. As two fatal industrial accidents<sup>2,3</sup> occurred in March at two separate plants, we raised our concerns about the board's effectiveness in overseeing management performance on critical issues. This highlights the importance of having more independent directors with diverse expertise on the board to hold management to account.

However, there are times when engagement remains the best way forward, even if there are some concerns about independence. For example, at Samsung Electronics, nearly half the board are executives, reducing the proportion of independence directors. However, we ultimately supported the election of proposed executive board members, given a range of recent positive governance developments, including the implementation of a new compliance framework. We will continue to engage for an increase in the proportion of independent directors.

We recommended opposing directors at companies in India and Hong Kong where their long tenure weakened board independence. For example, at Hong Kong's Power Assets, we recommended voting against the chair, who had been in place for 37 years.



### In some markets, we now seek higher proportions of independent directors, such as 40% in Mexico.



### In Japan, we were pleased to see progress on gender diversity in companies such as Chubu Electric Power and retailer Seven & i.

### Gender diversity

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

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

In Japan, we were pleased to see progress on gender diversity in companies such as Chubu Electric Power and retailer Seven & i. However, other companies are lagging, including Shin-Etsu Chemical, Canon, Toyota Industries and Toray Industries, which led us to recommend votes against the responsible directors.

Since 2016, Japan's gender gap performance has declined in terms of economic participation and opportunity, according to the World Economic Forum.<sup>4</sup> This led us to step up engagement on gender diversity. At Chugoku Electric Power, we recommended voting for a non-executive female director, despite her long tenure, in order to achieve improved gender diversity.

### Stewardship in Brazil

Investors in Brazil are increasingly using voting as a tool for stewardship. This year we saw several shareholder candidates proposed for board elections, in response to a lack of independence and diversity.

Interference by the Brazilian government, the controlling shareholder of Petrobras, resulted in two board elections in four months at the oil company. We opposed the proposed slate due to the deterioration in independence and diversity. We used the cumulative voting system to recommend support for the election of an independent director at Klabin, in addition to the independent director elected at the 2021 annual shareholder meeting under the separate election system.

The legislation allowing candidates to be nominated by minority shareholders has been in place for a long time but was rarely used. It is a positive sign that domestic, as well as international, investors are prepared to act because they see the value of diverse and independent boards.

The lack of a structured process for board succession and the action taken by minority shareholders to nominate candidates in parallel with the controlling shareholder nomination does not always lead to good outcomes in terms of independence and diversity of skills. However, the market is going through a learning curve, and we expect stewardship to lead to better boards.

### Progress report

We were pleased to see some companies performing well this year. The board of India's Tech Mahindra, for example, is now 60% independent and 40% female. Developments in shareholder activism in Brazil are positive signs that this could spread to other emerging markets.

However, there is still room for improvement on independence, diversity, and climate commitments. At a national level there has been progress on gender diversity requirements, but some backsliding in other areas. For example, the Indian regulator has revoked a requirement to separate the roles of CEO and chair, after pressure from major companies.

Through voting and engagement, we will continue to scrutinise board effectiveness and translate this into voting recommendations. We have recently tightened expectations on independence and diversity in some markets, such as Brazil. We will now focus on enforcing these tighter expectations.

<sup>1</sup> <https://www.bbc.co.uk/news/world-asia-61976937>

<sup>2</sup> [https://www.koreatimes.co.kr/www/tech/2022/07/129\\_324820.html](https://www.koreatimes.co.kr/www/tech/2022/07/129_324820.html)

<sup>3</sup> <https://en.yna.co.kr/view/AEN20220305003700320>

<sup>4</sup> [https://www3.weforum.org/docs/WEF\\_GGGR\\_2022.pdf](https://www3.weforum.org/docs/WEF_GGGR_2022.pdf)



# 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.

## Volvo

Engagement theme:  
TCFD-aligned reporting  
Lead engager: Amy Wilson



As part of our ongoing engagement on climate change with Volvo, we pressed for better disclosure of the risks and opportunities relating to the low carbon transition, given the materiality of this issue for the company, which manufactures commercial vehicles including trucks, buses and construction equipment. In a meeting with a corporate social responsibility representative (CSR) in Q1 2018, we asked for reporting aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

We reiterated our request in a letter to the chair in Q1 2019, along with concerns about the company's low score on the Transition Pathway Initiative (TPI). In its response, the company clarified some inaccuracies in its TPI assessment and confirmed that it had begun implementing some TCFD recommendations. We sought a progress update in a call with the CSR representative in Q2 2019 and at the company's capital markets day in Q3 2020. We were pleased to hear a formal commitment to align its reporting with the TCFD recommendations.

## Outcomes and next steps

We welcomed the company's first TCFD-aligned section in its 2020/21 annual report, which includes risks and opportunities along with a corporate strategy explicitly aligned to decarbonisation targets. Climate change remains a material issue for the company, and we continue to engage on the progress of its electrification strategy, as well as its anticipated circular economy strategy.

## Gilead Sciences

Engagement theme:  
Pricing strategy  
Lead engager: Laura Jernegan



Following an update in Q2 2020 from the chair and CEO on remdesivir, a medicine for treating Covid-19, we emailed this US biopharmaceutical company. We urged it to provide more clarity on its Covid-19 response and to demonstrate its willingness to act more in the public interest. Shortly after our initial communication, the CEO wrote a public letter outlining the company's pricing strategy for remdesivir in the US and developing markets, including its plans to enter into agreements with generic manufacturers, which would substantially reduce costs in the developing world.

In a Q4 2020 call, we pushed for greater disclosure on its pricing and access strategy for remdesivir in the US and global markets. The company said that setting a single developed market price helped to ensure fair distribution. It added that it determined generic version eligibility for countries based on their gross national income per capita.

## Outcomes and next steps

In its 2020 year-in-review report, published in Q2 2021, we were pleased by the disclosure around its expanded production for remdesivir and non-exclusive voluntary licensing agreements with generic manufacturers. This further expanded the supply of remdesivir in 127 countries, nearly all of which are resource limited. In its report, Gilead noted that the licences, which were royalty-free, reflected its commitment to enabling broad patient access to the medicine.

In Q4 2021 we again encouraged more transparency on drug pricing combined with the value it provides to patients, especially for Covid-19 treatments. The company continued to donate remdesivir in regions hard hit by the Covid-19 crisis, such as Indonesia and Armenia. These efforts, supported by increased transparency, substantially demonstrate Gilead's willingness to act in the public interest. While we will monitor its pricing of remdesivir and other drugs going forward, we are satisfied with Gilead's communication on remdesivir.

## E.ON

Engagement theme:  
Business strategy  
Lead engager: Lisa Lange



We first encouraged this German energy utility company to develop a compelling consumer-focused retail strategy in 2016. We continued to engage on this issue in subsequent years in discussions with the chair of the supervisory board, including questioning how this was being incentivised through executive remuneration schemes.

The company has undergone fundamental changes over this period including a major asset swap in 2019 between RWE and E.ON, leaving E.ON to concentrate on a combination of energy networks and customer solutions. E.ON now clearly articulates its customer focus in its corporate communications.

## Outcomes and next steps


In its fiscal year reporting in March 2021, the company communicated its strategy for the customer solutions business and its targets for related earnings before interest and tax. Its Q3 2021 reporting provided further updates on the implementation of its customer-focused retail strategy, which now appears to be on course.

At its capital markets day in November 2021, E.ON announced that it will invest €27bn in the energy transition until 2026, of which around €22bn will go towards expanding its energy networks and €5bn towards accelerating the growth of its customer solutions business.

In Q4 2020, we engaged with the CFO and corporate counsel on low board diversity. The board had two female directors and 22% overall board diversity, below our best practice threshold of 30% gender, racial and ethnic diversity. While the board did not have an explicit diversity policy at the time, we were encouraged that it was discussing this subject and that the board's nominating and governance committee considered gender, race, and ethnicity among other director qualifications. In January 2021, we re-emphasised the importance of board diversity when we sent our 2021 US Corporate Governance Principles.



**PetroChina**  
**Engagement theme:**  
**Methane emissions disclosure**  
**Lead engager:**  
**Haonan Wu**



We first raised our expectations for methane emissions disclosure, reduction targets and adaptation in 2017 as part of our ongoing dialogue with PetroChina on climate change. We were concerned by the lack of targets or any clear disclosure by the company on methane emissions and we encouraged it to attend the UN Principles for Responsible Investment methane collaboration group.


**Outcomes and next steps**

Following our meeting in 2019, the company established a greenhouse gas accounting and reporting information system for greenhouse gas emissions, covering fuel combustion and methane emissions. During our discussion with a senior engineer, the company acknowledged that controlling methane emissions was key to tackling climate change. PetroChina has been conducting on-site methane leakage investigations as a member of the Global Methane Initiative (GMI), working with Canada-based Clearstone Engineering to develop innovative technologies to combat emissions and air pollution.

We welcomed that the company disclosed its methane emissions reduction plan in its 2020 ESG report released in 2021. PetroChina has committed to a methane emissions control action plan and the goal of reducing methane emissions intensity by around 50% by 2025 versus the 2019 level. The China Oil and Gas Methane Alliance, of which PetroChina is a member, will incorporate methane emissions control into its carbon emissions reduction plan, aiming to reduce the average methane intensity in natural gas production to below 0.25% by 2025.

We continue to engage on other aspects of climate change such as setting intermediate targets, and for the company to adopt reporting aligned with the Task Force on Climate-related Financial Disclosures framework.

**Ventas**  
**Engagement theme:**  
**Science-based targets**  
**Lead engager: Joanne Beatty**



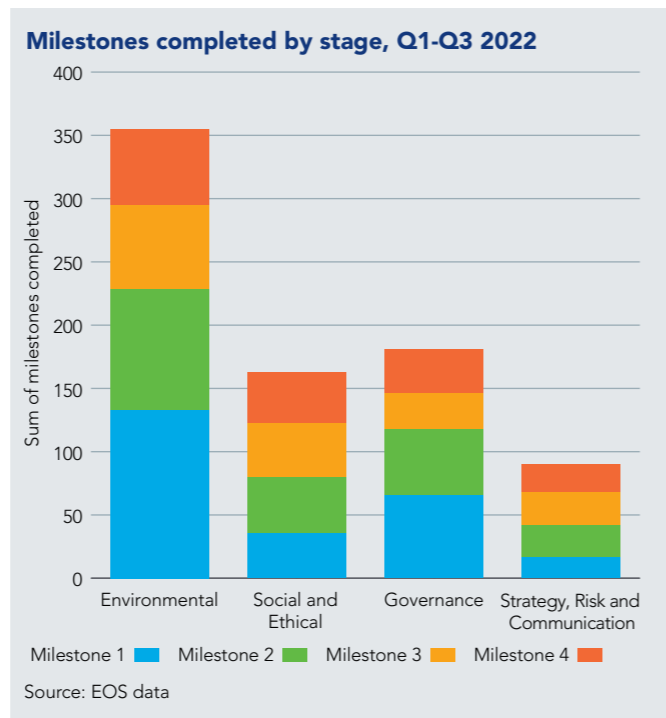
As part of our ongoing climate engagement with Ventas, a US healthcare real estate capital provider, we encouraged the company to increase the ambition of its greenhouse gas emissions reduction targets. At the time of the company's 2018/2019 report, these only covered Ventas-owned properties and were not science-based. In January 2020, the director of sustainability acknowledged our request to set a science-based target and anticipated setting such a target in the next two years.



**Outcomes and next steps**

In April 2021, we were pleased that the company's new target to reduce Scopes 1, 2 and 3 emissions on an absolute basis by 30% by 2030 from 2018 was approved by the Science-Based Targets initiative. In Q3 2021, Ventas confirmed that facilities outside its operational control were included in its Scope 3 emissions, so its new target covers both operated and owned assets as we had requested. The company announced its new science-based goal in its 2021 Corporate Sustainability Report published in September 2021.

In a Q4 2021 meeting with us, the chair of the compensation committee said that climate change is now a top ESG priority for the company. Going forward, we will continue to engage Ventas on climate change mitigation, asking for alignment with the Task Force on Climate-related Financial Disclosures.



**CASE STUDY**  
**Delta Electronics**



**Outcomes and next steps**

After our first engagement, the company stated in its August 2020 Corporate Social Responsibility report that foreign migrant workers in Taiwan were not required to pay fees incurred for agents, passports, visas or transportation. In the next report, published in August 2021, the company disclosed the care it provides to foreign migrant workers, such as training workers in their own language, providing religious venues or information, and hosting foreign worker forums and social events.

In response to our letter on gender diversity, the chair acknowledged the benefits of a diverse board and confirmed that from 2021, the board planned to include female candidates. The company added its first woman to the board in 2021 and two more female directors in 2022. Board gender diversity has increased from zero to 25% since we first engaged on this issue.

In June 2022 the company formally announced its commitment to net zero emissions by 2050. We will continue to engage with the company on supply chain human rights issues such as cobalt sourcing, as well as TCFD reporting and supply chain emissions reductions.

**Taiwan's Delta Electronics has committed to net-zero emissions by 2050 and has improved board gender diversity from zero to 25%. When we first engaged with the company in 2020, it had not yet committed to a longer-term net-zero target. It also employed a significant proportion of migrant workers from Southeast Asian countries and we were concerned about the recruitment process.**

Delta Electronics is a power electronics and automation provider, which is expanding rapidly in the electric vehicle charging market. We started engaging with the company on migrant workers, board gender diversity and long-term climate targets in May 2020.

We asked the company to conduct due diligence on indirect labour and the recruitment of direct employees, and how it ensured that workers were not being charged recruitment fees. We emphasised that the recruitment process for blue-collar workers could pose risks to labour and human rights.

In terms of climate action, Delta had already set science-based targets for 2025 but had yet to commit to a longer-term net-zero target. We encouraged the company to commit to such a target for its operations and value chain, and asked if there were any obstacles that prevented it from making this commitment. We suggested managing supply chain emissions as part of the Scope 3 emissions reduction targets.

In May 2020, we sent a letter to the chair stating our principles on corporate governance in Taiwan, stressing our concerns about the all-male board. We also asked the company to disclose the gender of nominated directors in the proxy materials, even though this is not yet a requirement in Taiwan. In 2022, we said that we had raised our expectations for board gender diversity to at least 20%, and that we wanted to see an improvement at Delta before the next election.

**Engagement objectives:**

- Environmental:**
  - Net-zero emissions strategy
- Social and Ethical:**
  - Supply chain human rights
- Governance:**
  - Board gender diversity

**Sustainable Development Goals:**



**Judi Tseng**  
**Themes: Human Capital, Business Purpose & Strategy**

**Olivia Lankester**  
**Responsible Investing & Sustainability, Federated Hermes Limited**



## BLOG SPOTLIGHT

## The modern meal deal: a constant craving



In the sixth article in our Insights series on the social and environmental impacts of the global food system, Zoe de Spoelberch examines the supersized problem with ultra-processed and pre-packaged food.

Our global food systems are dysfunctional – obesity has nearly tripled since 1975, yet undernutrition and micronutrient deficiencies remain. In developed countries, unhealthy, ultra-processed food can be cheaper than healthy, raw ingredients, while Russia's invasion of Ukraine has sparked food price inflation that is squeezing household budgets around the globe. However, the growing demand for healthier and plant-based diets makes health and nutrition an area of opportunity for companies.

### The problem with Western diets

People who eat a lot of ultra-processed food high in salt, sugar and saturated fats are never properly sated because their diet is low in vital nutrients. Foods with health risks may also have negative environmental impacts:

- **Processed foods and palm oil:** Processed foods contain preservatives, fats, sugar and salt to prolong shelf life. These ingredients have been linked to heart disease and cancer. Plus, the manufacturing of processed food generates carbon emissions, and it often uses more packaging than non-processed alternatives.
- **Red meat:** Eating red meat is associated with an increased risk of cancer. Raising livestock is also harmful to the climate, with 14% of global greenhouse gas emissions coming from meat and dairy production.
- **Fertilisers and pesticides:** Our food retains small amounts of the fertilisers and pesticides used in its production, making it less nutritious and potentially causing harm to those who consume it. The excessive use of pesticides can also lead to biodiversity loss.

- **Heavy metals:** Lead has been found in water and baby food, arsenic in rice, cadmium in cereals, vegetables, nuts and seafood, and mercury in fish. These are all metals that impair brain function (especially in children) and are linked to cardiovascular diseases.

### How to address this through engagement

Transitioning to plant-based diets could cut food-related greenhouse gas emissions by 70% and reduce the risk of land use change, deforestation and biodiversity loss.

EOS engages companies and policymakers to promote good health and nutrition. We ask for protein diversification, the reformulation of product portfolios towards healthy alternatives, and a clear articulation of a health and nutrition strategy, with associated targets and metrics. We assess the governance behind a company's nutrition strategies, the accessibility and affordability of food, responsible marketing and product labelling, and consumer and government engagement.

We also participate in collaborative engagements focusing on health and nutrition, and plant-based proteins. For example, we worked with ShareAction's Healthy Markets Initiative to send a letter to Nestlé asking it to articulate its long-term health strategy. We met UK supermarket Tesco to discuss its nutrient profiling methods. We were pleased to see it commit to selling 300% more plant-based products by 2025, versus a 2018 baseline, while encouraging other food and beverage companies to follow this lead.

We also engaged with contract food service company Compass Group, asking for more plant-based meals, and were pleased to see this included in its decarbonisation strategy as part of its meal reformulation plans. We met US food manufacturer General Mills to discuss sugar reduction in its products and support for organic farming, while through the Access to Nutrition Initiative we have engaged with Danone, Mondelez and others. We supported the Farm Animal Investment Risk & Return (FAIRR) Initiative by co-signing letters to companies seeking a transition to sustainable plant-based proteins, and we have engaged Sainsbury's on developing metrics to track healthy and plant-based food sales.

### Read the EOS Insights article in full at:

<https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/the-modern-meal-deal-a-constant-craving/>



**Zoe de Spoelberch**  
Theme lead: Natural Resource Stewardship

# 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.**

### PRI working group on plastics

#### Lead engager: Zoe de Spoelberch

We participated in a Principles for Responsible Investment working group on plastics with the Ellen MacArthur Foundation (EMF). It was reassuring to hear that the use of virgin plastics has peaked for the companies that signed up to the Global Commitment and its 2025 targets.

The Global Commitment is an initiative led by the EMF in collaboration with the UN Environment Programme. This has united more than 500 organisations in a commitment to develop the circular economy by reusing, recycling and composting plastics. However, the progress to date towards eliminating plastic has been driven by recycling, with more effort needed in terms of redesign and reuse. The EMF explained that best practice in plastics reporting is to disclose the full scope of plastic packaging and the weight.

We discussed investor expectations in terms of corporate strategy and agreed that we should expect robust strategies to eliminate plastic. We also covered flexible packaging, a growing plastic type that is not easily recyclable and is a big source of ocean pollution. We asked the EMF if targets beyond the Global Commitment for 2025 had been developed and understood that it needs to do more work on this. We also asked about the impact of the forthcoming UN treaty on plastic pollution.

The EMF has a positive outlook on this treaty because it analyses the lifecycle of plastics, and its legally binding aspect will have an impact. In our engagements, we will continue to expect clear strategies from companies on plastic, monitor plastic reporting, and push for companies to replace flexible packaging with more sustainable materials.

### Drafting of oil and gas methane metrics letter

#### Lead engager: Diana Glassman

We worked closely with the Environmental Defense Fund (EDF) to draft and edit a letter to the International Financial Reporting Standards (IFRS) Foundation. This was a response to the International Sustainability Standards Board's (ISSB's) draft IFRS Climate-related Disclosures for oil and gas exploration and production companies, midstream operators, and electricity and gas utilities and distributors.

The letter laid out some specific methane-related disclosure enhancements for ISSB's consideration. EDF also obtained input from the UN Environment Programme. The final version of the letter was ultimately distributed through Ceres, the Institutional Investors Group on Climate Change and Climate Action 100+ for investor signatories. Potential investors were privately told that EOS was involved in drafting the letter. We were pleased that the letter ultimately attracted support from signatories with over US\$4tn in assets under management and advice.

### Council of Institutional Investors voting season webinar

#### Lead engager: Laura Jernegan

We participated in the voting season wrap-up webinar hosted by the Council of Institutional Investors (CII). We provided our perspective on the highlights from the 2022 season and our expectations for the 2023 voting season. The highlights included vote results from the climate reporting shareholder proposal that EOS co-sponsored at Berkshire Hathaway, where non-insider support increased from 60% to 61%, while many other resubmitted climate-related shareholder proposals encountered reduced support.

There was an increase in climate-related proposals overall, including shareholder proposals targeting no new fossil fuels at major North American financial institutions and annual say-on-climate or say-on-transition votes. We noted that some boards supported these shareholder proposals. We also highlighted the vote results from our exempt solicitation encouraging shareholders to oppose the chair of the sustainability and public policy committee at ConocoPhillips for its failure to act on a majority-supported shareholder proposal.

Other highlights included the statements we gave at the big five Canadian banks addressing gaps in their just transition strategies and our general support for racial equity and inclusion audits. For 2023, we said that we want to see more stewardship action taken around social issues, including pushing for a just transition, living wages, indigenous rights, worker rights, and other social topics, where these are material.

### IIGCC Banks Working Group meeting

#### Lead engager: Miguel CuUnjieng

As a part of our co-chair responsibilities for the Institutional Investors Group on Climate Change (IIGCC) Banks Working Group, we co-facilitated the IIGCC catch up with investors to discuss successes, failures, and upcoming priorities for the collaborative. Multiple investors noted the increasing expertise required to assess the banks' medium-term financed emissions reduction targets, and to compare the relative robustness of peer approaches.

We underscored the utility of the Transition Pathway Initiative and the IIGCC Net Zero Assessment Framework to assess bank climate strategies. We also encouraged further engagement with banks on the transaction-level tactics and practices that enable a bank to make progress against its climate ambitions.

### Survey response on UK food policy

#### Lead engager: Zoe de Spoelberch

As part of our work with the Food Foundation, we responded to an investor survey on the UK's food policy. We demonstrated our support and alignment with the goal of the coalition to ensure mandatory reporting against a wide set of metrics, such as the sales of foods high in fat, sugar or salt, the sales of fruit and vegetables, and the sales of protein by type.

In addition to pushing for mandatory reporting and addressing marketing legislation on unhealthy and unsustainable foods, we proposed that we engage with the UK government for more work to be done around incentivising the production and consumption of alternative, plant-based proteins.

We signalled our interest in being directly involved in the group's engagements with the Food Data Transparency Partnership, which has been launched to consult on mandatory public reporting against health metrics. We also showed support for the proposed structure of the Investor Coalition on UK Food Policy and expressed our interest in being part of the advisory and working groups.

**We demonstrated our support and alignment with the goal of the coalition to ensure mandatory reporting against a wide set of metrics, such as the sales of foods high in fat, sugar or salt, and the sales of fruit and vegetables.**

# 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.

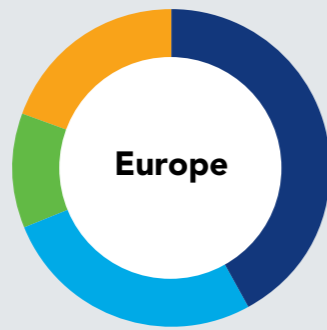
## Engagement by region

Over the last quarter we engaged with 228 companies on 777 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.



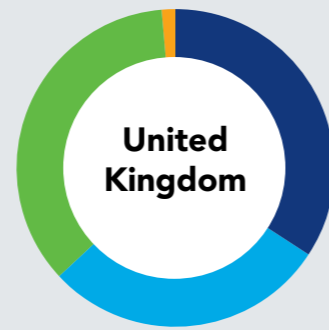
We engaged with 228 companies over the last quarter.

- Environmental 39.3%
- Social and Ethical 27.3%
- Governance 19.3%
- Strategy, Risk and Communication 14.2%



We engaged with 51 companies over the last quarter.

- Environmental 42.1%
- Social and Ethical 26.9%
- Governance 11.7%
- Strategy, Risk and Communication 19.3%



We engaged with 25 companies over the last quarter.

- Environmental 34.2%
- Social and Ethical 29.1%
- Governance 35.4%
- Strategy, Risk and Communication 1.3%



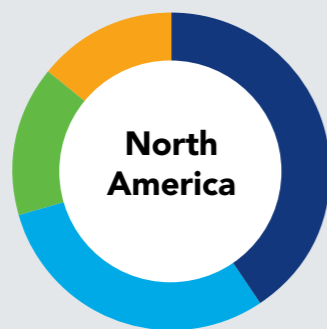
We engaged with 40 companies over the last quarter.

- Environmental 36.2%
- Social and Ethical 21.3%
- Governance 28.7%
- Strategy, Risk and Communication 13.8%



We engaged with 17 companies over the last quarter.

- Environmental 40.7%
- Social and Ethical 11.9%
- Governance 30.5%
- Strategy, Risk and Communication 16.9%



We engaged with 91 companies over the last quarter.

- Environmental 40.7%
- Social and Ethical 30.1%
- Governance 15.2%
- Strategy, Risk and Communication 14.0%



We engaged with 4 companies over the last quarter.

- Environmental 15.8%
- Social and Ethical 52.6%
- Governance 21.1%
- Strategy, Risk and Communication 10.5%

## Engagement by theme

A summary of the 777 issues and objectives on which we engaged with companies over the last quarter is shown below.



Environmental topics featured in 39% of our engagements over the last quarter.

- Climate Change 75.7%
- Forestry and Land Use 5.6%
- Pollution and Waste Management 12.8%
- Supply Chain Management 2.0%
- Water 3.9%



Social and Ethical topics featured in 27% of our engagements over the last quarter.

- Bribery and Corruption 1.4%
- Conduct and Culture 8.5%
- Diversity 17.9%
- Human Capital Management 21.2%
- Human Rights 42.5%
- Labour Rights 7.1%
- Tax 1.4%



Governance topics featured in 19% of our engagements over the last quarter.

- Board Diversity, Skills and Experience 34.0%
- Board Independence 18.0%
- Executive Remuneration 36.7%
- Shareholder Protection and Rights 8.7%
- Succession Planning 2.7%

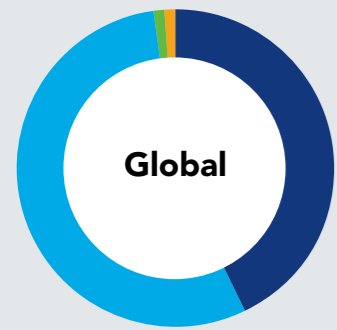


Strategy, Risk and Communication topics featured in 14% of our engagements over the last quarter.

- Audit and Accounting 5.5%
- Business Strategy 32.7%
- Cyber Security 2.7%
- Integrated Reporting and Other Disclosure 28.2%
- Risk Management 30.9%

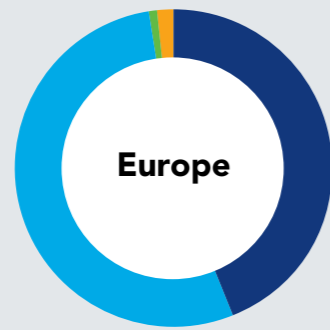
## Voting overview

Over the last quarter we made voting recommendations at 1,826 meetings (14,580 resolutions). At 1,007 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at 19 meetings and abstaining at 19 meetings. We supported management on all resolutions at the remaining 781 meetings.



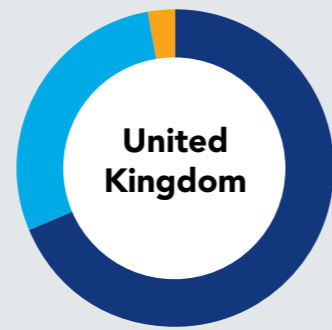
We made voting recommendations at **1,826** meetings (**14,580** resolutions) over the last quarter.

- Total meetings in favour **42.8%**
- Meetings against (or against AND abstain) **55.1%**
- Meetings abstained **1.0%**
- Meetings with management by exception **1.0%**



We made voting recommendations at **123** meetings (**1,393** resolutions) over the last quarter.

- Total meetings in favour **43.9%**
- Meetings against (or against AND abstain) **53.7%**
- Meetings abstained **0.8%**
- Meetings with management by exception **1.6%**



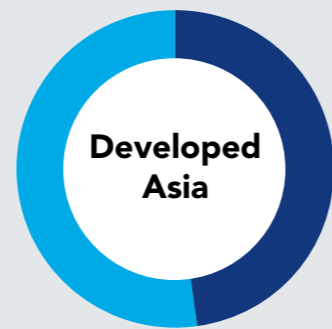
We made voting recommendations at **192** meetings (**2,620** resolutions) over the last quarter.

- Total meetings in favour **68.8%**
- Meetings against (or against AND abstain) **28.6%**
- Meetings with management by exception **2.6%**



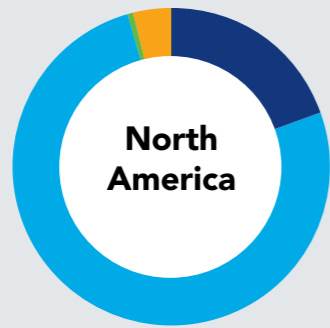
We made voting recommendations at **1,189** meetings (**7,988** resolutions) over the last quarter.

- Total meetings in favour **41.7%**
- Meetings against (or against AND abstain) **56.6%**
- Meetings abstained **1.3%**
- Meetings with management by exception **0.3%**



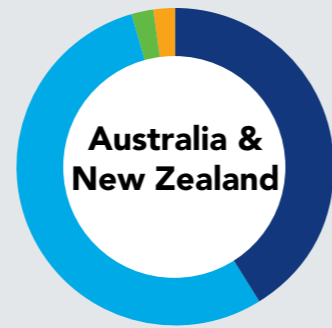
We made voting recommendations at **92** meetings (**644** resolutions) over the last quarter.

- Total meetings in favour **47.8%**
- Meetings against (or against AND abstain) **52.2%**



We made voting recommendations at **184** meetings (**1,653** resolutions) over the last quarter.

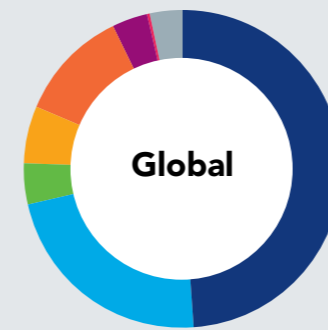
- Total meetings in favour **19.6%**
- Meetings against (or against AND abstain) **76.1%**
- Meetings abstained **0.5%**
- Meetings with management by exception **3.8%**



We made voting recommendations at **46** meetings (**282** resolutions) over the last quarter.

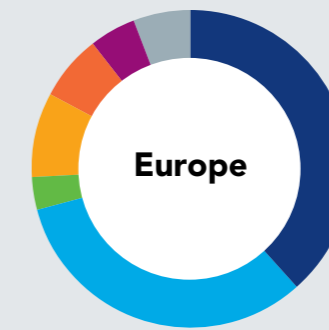
- Total meetings in favour **41.3%**
- Meetings against (or against AND abstain) **54.3%**
- Meetings with management by exception **2.2%**

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



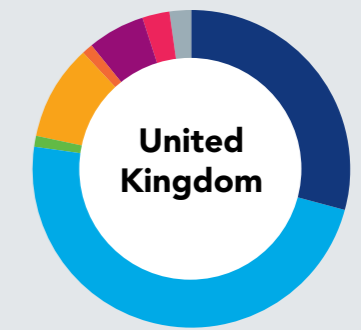
We recommended voting against or abstaining on **2,985** resolutions over the last quarter.

- Board structure **48.9%**
- Remuneration **22.7%**
- Shareholder resolution **4.2%**
- Capital structure and dividends **5.8%**
- Amend Articles **11.2%**
- Audit and Accounts **3.6%**
- Investment/MandA **0.1%**
- Poison Pill/Anti-Takeover Device **0.2%**
- Other **3.3%**



We recommended voting against or abstaining on **252** resolutions over the last quarter.

- Board structure **38.5%**
- Remuneration **32.5%**
- Shareholder resolution **3.2%**
- Capital structure and dividends **8.7%**
- Amend Articles **6.7%**
- Audit and Accounts **4.8%**
- Other **5.6%**



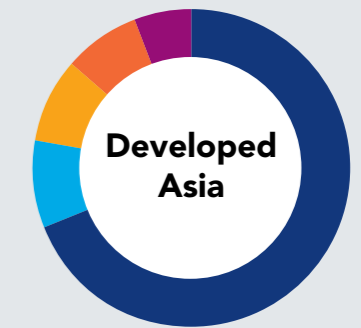
We recommended voting against or abstaining on **102** resolutions over the last quarter.

- Board structure **29.4%**
- Remuneration **48.0%**
- Shareholder resolution **1.0%**
- Capital structure and dividends **9.8%**
- Amend Articles **1.0%**
- Audit and Accounts **5.9%**
- Poison Pill/Anti-Takeover Device **2.9%**
- Other **2.0%**



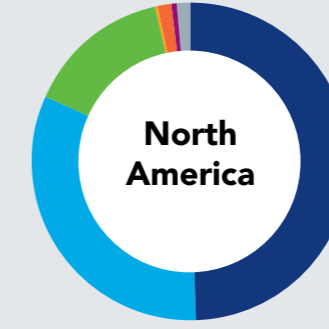
We recommended voting against or abstaining on **2,071** resolutions over the last quarter.

- Board structure **50.1%**
- Remuneration **18.5%**
- Shareholder resolution **3.0%**
- Capital structure and dividends **6.3%**
- Amend Articles **14.2%**
- Audit and Accounts **4.0%**
- Investment/MandA **0.1%**
- Other **3.8%**



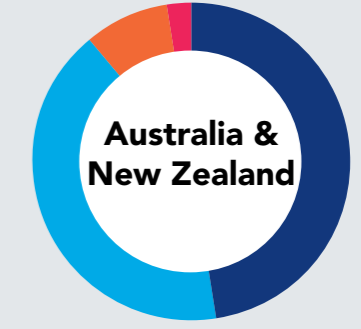
We recommended voting against or abstaining on **104** resolutions over the last quarter.

- Board structure **69.2%**
- Remuneration **8.7%**
- Capital structure and dividends **8.7%**
- Amend Articles **7.7%**
- Audit and Accounts **5.8%**



We recommended voting against or abstaining on **374** resolutions over the last quarter.

- Board structure **49.5%**
- Remuneration **32.4%**
- Shareholder resolution **14.7%**
- Capital structure and dividends **0.3%**
- Amend Articles **1.3%**
- Audit and Accounts **0.5%**
- Other **1.3%**



We recommended voting against or abstaining on **82** resolutions over the last quarter.

- Board structure **47.6%**
- Remuneration **41.5%**
- Amend Articles **8.5%**
- Poison Pill/Anti-Takeover Device **2.4%**

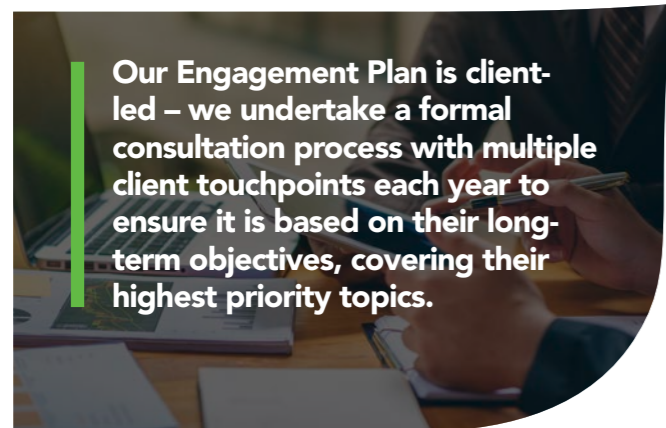




# The EOS approach to engagement

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\$1.5trn as at 30 June 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


 <p><b>Leon Kamhi</b> Head of Responsibility</p>	 <p><b>Dana Barnes</b> Theme: Wider Societal Impacts</p>	 <p><b>Justin Bazalgette</b> Sectors: Financial Services, Industrial &amp; Capital Goods</p>
 <p><b>Joanne Beatty</b> Sector lead: Chemicals</p>	 <p><b>George Clark</b> Voting and Engagement Support</p>	 <p><b>Miguel CuUnjieng</b> Sector lead: Financial Services</p>
 <p><b>Emily DeMasi</b> Sector lead: Pharmaceuticals &amp; Healthcare</p>	 <p><b>Zoe de Spoelberch</b> Sector co-lead: Retail &amp; Consumer Services</p>	 <p><b>Bruce Duguid</b> Head of Stewardship, EOS</p>
 <p><b>Diana Glassman</b> Sector lead: Oil &amp; Gas Sector co-lead: Technology</p>	 <p><b>Jaime Gornstzejn</b> Sector co-lead: Mining &amp; Materials</p>	 <p><b>Younes Hassar</b> Voting and Engagement Support</p>
 <p><b>Shoa Hirosato</b> Sectors: Financial Services, Transportation, Utilities</p>	 <p><b>Laura Jernegan</b> Sectors: Financial Services, Pharmaceuticals &amp; Healthcare</p>	 <p><b>Lisa Lange</b> Sector lead: Transportation</p>
 <p><b>Pauline Lecoursonnois</b> Sector co-lead: Consumer Goods</p>	 <p><b>Sonya Likhtman</b> Sectors: Transportation, Consumer Goods, Financial Services</p>	 <p><b>Emma Ledoux</b> Sectors: Consumer Goods, Retail &amp; Consumer Services, Technology</p>
 <p><b>Earl McKenzie</b> Voting and Engagement Support</p>	 <p><b>Claire Milhench</b> Communications &amp; Content</p>	 <p><b>James O'Halloran</b> Director of Business Management, EOS</p>
 <p><b>Navishka Pandit</b> Themes: Climate Action, Risk Management</p>	 <p><b>Nick Pelosi</b> Sector co-lead: Mining &amp; Materials</p>	 <p><b>Jaagrit Randhawa</b> Theme: Human Capital</p>
 <p><b>Howard Risby</b> Sectors: Financial Services, Mining &amp; Materials, Oil &amp; Gas</p>	 <p><b>Sarah Swartz</b> Sectors: Chemicals, Consumer Goods, Retail &amp; Consumer Services, Utilities</p>	 <p><b>Velika Talyarkhan</b> Sector lead: Utilities</p>



**Kenny Tsang**  
Sector co-lead: Consumer Goods



**Mark Turner**  
Voting and Engagement Support



**Owen Tutt**  
Sectors: Chemicals, Oil & Gas, Utilities



**Amy Wilson**  
Sector co-lead: Retail and Consumer Services



**Haonan Wu**  
Sectors: Transportation, Chemicals, Retail & Consumer Services, Technology, Utilities



**Michael Yamoah**  
Sector co-lead: Technology

**Client Service and Business Development**



**Alexandra Danielsson**  
Head of Client Service and Business Development, EOS



**Diego Anton**  
Client Service




**Amy D'Eugenio**  
Sustainability Director




**Andrew Glynn-Percy**  
Communications and Marketing



**William Morgan**  
Client Service



**Alice Musto**  
Client Service



**Sofia Tsarouchi**  
Client Service



**Mike Wills**  
Client Service

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

## Our investment and stewardship capabilities:

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

## Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of 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](http://www.hermes-investment.com) or connect with us on social media:



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