Public Engagement Report

HIDDEN HARMS

Why chemicals and pesticides pose an invisible but deadly threat

Can Japanese corporate governance reforms revive shareholder value?

Climate crisis and labour rights in focus as investor dissent grows

Q2 2023

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EOS

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Welcome to our Public Engagement Report for Q2 2023. In our cover feature this quarter, we take a deep dive into the risks posed by chemicals and pesticides.

Harmful substances have been used for decades in industrial processes, consumer products and agriculture, but concerns have grown about the dangers they present. So-called forever chemicals do not break down in the environment, and have worked their way into water courses and the food chain, with potentially disastrous consequences for human health and the natural world. Joanne Beatty, Sonya Likhtman and Zoe de Spoelberch outline how we are engaging with companies to address this.

Recent corporate governance reforms in Japan have raised investor hopes that companies there may have to improve their focus on shareholder value, following a series of high-profile scandals. Shoa Hirosato and Haonan Wu explain some of the key changes and the potential benefits for investors.

Finally, Richard Adeniyi-Jones and Joanne Beatty take a look at the 2023 vote season in Europe and the US, with some investors losing patience over company responses to the climate crisis as the northern hemisphere burned. Labour rights also remained in focus as inflationary pressures continued to erode workers' purchasing power.

Claire Milhench
Associate Director – Communications & Content

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Why forever chemicals aren't going away

The accumulation of harmful chemicals in the environment over time poses serious risks to wildlife, the food chain, and human health. Joanne Beatty explains the nature of forever chemicals and how we engage with companies on this topic.

Setting the scene

Chemicals and pesticides have been used for decades on an industrial scale, but 'forever chemicals' present a threat to the environment, wildlife and human health. These persistent substances – today mostly associated with non-stick pans and cosmetics - have been the focus of US litigation, while in the UK, concerns have grown about the degradation of rivers, lakes and other waterways due to agrochemical runoff from farms, industrial chemical flushing by manufacturers, and sewage dumping.[1] While substances such as DDT have been banned in the US since the 1970s, residues of concern remain. We look at pesticides in more depth in our second article.

We encounter a host of synthetic chemicals in our daily lives, although many of us are unaware how dangerous they can be to our long-term health. There is particular concern about the persistence of certain synthetic long-lasting chemicals called PFAS or per- and polyfluoroalkyl substances, which break down very slowly over time, if at all.[2]

> **PFAS production is a key regulatory, reputational, and financial risk for manufacturers and consumer goods companies.**

These substances contain a strong carbon-fluorine bond that is hard to break, meaning that other molecules slide off PFAS-treated surfaces. As a result of this useful characteristic, PFAS are often behind any product that boasts waterproof or stain-resistant properties, with manufacturers adding them to non-stick cookware, tapes, electronics, carpets, clothing, cosmetics, furniture and food packaging.

But this characteristic is precisely what makes PFAS so harmful, as the chemicals are virtually indestructible and do not fully degrade in the environment or within living tissue. Instead, they accumulate in the environment and in the bodies of animals and humans over time, posing health risks.[3] For this reason they are often referred to as "forever" chemicals.

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[1] https://www.theguardian.com/environment/2020/sep/17/rivers-in-england-fail-pollution-tests-due-to-sewage-and-chemicals
[2] PFAS Explained | US EPA
[3] What's the difference between PFAS, PFOS, PFOA, PTFE, and GenX? - EHN

Chemical pollution risks

PFAS were discovered in 1938 and have been used in different consumer, commercial and industrial products since the 1940s.[4] It is now virtually impossible to avoid them, with thousands of PFAS chemicals in circulation. The US Environmental Protection Agency (EPA) counts more than 12,000 different PFAS compounds.[5]

The ubiquitous and persistent nature of these chemicals means that they have been found in the blood of humans and animals, in the environment, including soil and water, and in food products.[6] A January 2023 study by the US EPA found dangerously high levels of PFOS (perfluorooctane sulfonate) in freshwater fish.[7]

PFOS and PFOA (perfluorooctanoic acid) are two of the most widely used and studied PFAS chemicals.[8] Because of their hazardous nature, US manufacturers agreed in the early 2000s to voluntarily stop using these chemicals, and the use of PFOA and PFOS in food packaging was phased out in 2016.[9] Unfortunately, new PFAS were created that fall outside the voluntary agreement, which are in use today. Concerns have arisen over their safety, most notably the PFAS linked to contamination in North Carolina.[10]

Chemical pollution has now breached the safe planetary boundary according to scientific studies, with research ongoing to understand how toxicity thresholds are breached by the combination and accumulation of chemicals within the body.[11]

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Well-studied PFAS compounds have been found to cause harm to the immune system, including the reduced effectiveness of vaccines. Other issues include liver problems, and harm to reproductive systems, with reduced birth weights and impacts on fertility.[12] According to ChemSec's *Investor's Guide to Hazardous Chemicals*, men's sperm counts have more than halved over the last 40 years due to the "chemical cocktail" to which they are exposed.[13] Exposure to toxic substances has also been linked to birth defects, cancer, obesity, attention deficit disorders and a range of other conditions.

What are regulators doing to tackle this risk?

PFAS production is a key regulatory, reputational, and financial risk for manufacturers and consumer goods companies. Regulatory requirements for PFAS are expected to increase, although there is an ongoing debate about whether the pace of regulation is fast enough or the restrictions sufficient to have the impact needed.

The EU Persistent Organic Pollutants Regulation restricts substances that are listed by the Stockholm Convention and the Aarhus Protocol, two international treaties aiming to restrict certain persistent organic pollutants, including PFOA and PFOS.[14] At the beginning of 2023, two pieces of legislation came into force in the EU to limit human exposure to harmful amounts of PFAS in food and drinking water.[15] In February, it also proposed other restrictions on PFAS substances.[16] If adopted, this would result in a ban on the manufacture, use and placing on the EU market of around 10,000 kinds of PFAS.[17] This would have global consequences, and there is already opposition from the chemical industry. The sector is pushing for a narrower definition, and arguing that not all PFAS should be regulated the same way.[18]

[4] Our Current Understanding of the Human Health and Environmental Risks of PFAS | US EPA
[5] CompTox Chemicals Dashboard (epa.gov)|New Report Calls for Expanded PFAS Testing for People With History of Elevated Exposure, Offers Advice for Clinical Treatment | National Academies
[6] Locally caught fish are full of dangerous chemicals called PFAS | CNN
[7] Locally caught fish are full of dangerous chemicals called PFAS | CNN
[8] The new generation of 'forever chemicals' – toxicity, exposure, contamination and regulation | Environmental Working Group
[9] PFAS: A guide to chemicals behind nonstick pans, cancer fears (usatoday.com)
[10] NCDHHS: DPH: Epidemiology: OEE: GenX and other PFAS in the Cape Fear River Basin
[11] Persistent Organic Pollutants (POPs) Regulation in the EU: A Summary (compliancegate.com)
[12] PFAS Testing in the EU: Overview of Regulations | Measurlabs
[13] Annex XV reporting format 040615 (europa.eu)
[14] Chemical pollution has passed safe limit for humanity, say scientists | Pollution | The Guardian
[15] The new generation of 'forever chemicals' – toxicity, exposure, contamination and regulation | Environmental Working Group
[16] The-Investors-Guide-to-Hazardous-Chemicals-1.pdf (chemsec.org)

We are asking companies to improve their transparency around the chemicals they produce globally, including by disclosing any action taken to improve their ChemScore rankings.

In the UK, which is a signatory to the Stockholm Convention and Aarhus Protocol, the regulatory landscape for PFAS is fragmented. PFAS falls within the scope of UK REACH, the framework for managing the risks from chemical substances in Great Britain, but PFAS are not presently subject to any UK REACH restrictions imposing controls on their use.[19] An April 2023 report set out in detail the extent to which forever chemicals are being used in the UK, and makes several recommendations including limiting PFAS in certain uses.[20]

A PFAS-free initiative led by Fidra, a UK environmental charity working to reduce chemical and plastic pollution in oceans and the environment, has prompted several UK supermarkets to commit to removing PFAS from their own-brand food packaging.[21] However some grocery chains continue to use PFAS in their food packaging and are yet to make a formal commitment.[22]

US and Canadian regulators have increased their focus on PFAS as public concern has grown. The fact-based 2019 legal drama *Dark Waters* helped to raise awareness about the dangers of chemical contamination, bringing PFOA to wider attention in the US. In 2023 the EPA proposed a national primary drinking water regulation for PFOA and PFOS, plus four additional PFAS and their mixtures.[23] This is a positive start, but environmentalists and scientists say that more needs to be done. They advocate for the regulation of PFAS as a single class in drinking water and the environment, as well as a complete phase out of PFAS except for essential uses.[24] The Canadian government is considering regulating all PFAS, rather than specific chemicals, and in May 2023 released a draft "State of PFAS" report, inviting public comment.[25]

In addition to regulation-related compliance risks, producers of persistent chemicals potentially face increased costs associated with reformulating products and modifying processes, which can have significant implications for company performance. But this is expected to generate opportunities to formulate safer chemicals and a reassessment of whether using PFAS is essential in every application.

Our engagement approach

EOS has been engaging on hazardous chemicals for over a decade. Recently this engagement has been in collaboration with the International Chemical Secretariat (ChemSec), an independent non-profit organisation that wants to see toxic and persistent chemicals replaced by safer alternatives.[26]

In 2023, we joined the Investor Initiative on Hazardous Chemicals (IIHC), as one of 50 signatories representing more than US$10tn in assets under management or advice.[27] The IIHC was formed primarily to encourage manufacturers through engagement to increase their transparency on hazardous chemicals and cease producing forever chemicals such as PFAS.

The IIHC builds on action from 2022 when collaboratively we wrote to over

50 companies regarding their involvement in the manufacture of hazardous chemicals.

The IIHC builds on action from 2022 when collaboratively we wrote to over 50 companies regarding their involvement in the manufacture of hazardous chemicals.[28,29] The companies were targeted based on their ChemScore, a system administered by ChemSec that ranks the world's 50 largest chemical producers on their work to reduce their hazardous chemical footprint.[30]

We are asking companies to improve their transparency around the chemicals they produce globally, including by disclosing any action taken to improve their ChemScore rankings. We also want them to set and disclose a time-bound commitment to phase out PFAS from production. In the first half of 2023 and in conjunction with IIHC signatories, we engaged with Bayer, DuPont de Nemours, Dow, Solvay, Sika, Shin-Etsu, and Umicore on their ChemScores, focusing on increased transparency, and eliminating PFAS and hazardous chemicals.

[17] Nothing lasts forever: Proposed ban of PFAS in the EU – Productwise (cooley.com)
[18] EU proposal would ban 10,000 PFAS (acs.org)
[19] PFAS: UK Regulatory Snapshot | Fieldfisher
[20] Regulator's report on "forever chemicals" published | HSE Media Centre
[21] PFAS-free Food Packaging - is your supermarket taking action? (pfasfree.org.uk)
[22] PFAS-free Food Packaging - is your supermarket taking action? (pfasfree.org.uk)
[23] Drinking Water Health Advisories for PFOA and PFOS | US EPA
[24] PFAS: A guide to chemicals behind nonstick pans, cancer fears (usatoday.com)
[25] Industry knew about risks of PFAS 'forever chemicals' for decades before push to restrict them, study says | CBC News
[26] About ChemSec
[27] Investors launch initiative to tackle chemical pollution crisis (chemsec.org)
[28] Investors with $8 trillion call for phase-out of dangerous "forever chemicals" – ChemSec
[29] Investors pressure top firms to halt production of toxic 'forever chemicals' | PFAS | The Guardian
[30] ChemScore (chemsec.org)

CASE STUDY

3M

We have engaged with US conglomerate 3M on hazardous substance management. It was one of the first companies to make a commitment, announcing in December 2022 that it was exiting all PFAS-manufacturing and that it would work to discontinue the use of PFAS across its product portfolio by the end of 2025.

The company said it would facilitate an orderly transition for customers in meeting that commitment, intending to fulfil its current contractual obligations during the transition period. It has disclosed the financial impact from the decision. Annual sales of manufactured PFAS were estimated at approximately US$1.3bn at the time of the announcement.

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3M will continue to innovate for new non-PFAS solutions for its customers and remains committed to ensuring that its products are safe for their intended use. Our engagement on PFAS and hazardous substances continues to be a priority focus for chemical sector companies.

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CASE STUDY

Umicore

We participated in a collaborative engagement with Belgium's Umicore on hazardous substance management. We were joined by four investors and the company's head of ESG. It was the first meeting for the new IIHC and followed our Q3 2022 letter to the company on the topic.

We reiterated IIHC's three requests to EU chemical companies, namely: increased transparency on the disclosure of hazardous substances; the phase out of persistent chemicals; and an overall improvement in the company's year-on-year ChemScore. The company had made a notable improvement in its 2022 ChemScore, boosting its ranking from seven out of 48 in 2020, to 16 out of 48 in 2022, and gaining a C-.

Umicore is seeking more certainty on EU eco-labelling regulations and is looking to do more with recycled content.

To improve its disclosure on hazardous substances, Umicore said that it had undertaken a gap analysis of the substances it uses and had discussed providing more transparency internally. The company added that it manufactures catalysts used in chemical processes and by disclosing the volume and use of these catalysts, it would reveal commercially sensitive information, a position other chemical companies have taken to limit disclosure.

We cited best practice disclosure examples and urged the company to review these. The company said that there were no PFAS in its end products, to the best of its current knowledge, although there were PFAS in some of the equipment it buys, and in some of its processes. Umicore is seeking more certainty on EU eco-labelling regulations and is looking to do more with recycled content, noting that there are limitations with respect to post- versus pre-consumer waste.

A deadly harvest?

While synthetic pesticides are designed to kill certain species, they can also have unintended consequences for the environment and human health. By Sonya Likhtman and Zoe de Spoelberch.

Setting the scene

Synthetic pesticides, including herbicides and insecticides, are designed to kill insects, weeds, fungi or other pests, to protect crops, increase food production and reduce the risk of famine. Over 1,000 different pesticides are used around the world.[1] However, the human health and environmental risks associated with particular chemical compounds have been well documented, perhaps most famously in Rachel Carson's 1962 book, *Silent Spring*. Carson's research highlighted the severe negative impact on insects, birds, fish and humans of the chemical DDT, which was widely applied as an insecticide. This ultimately led to the banning of DDT for agricultural use in the US.[2]

The degradation of British waterways has recently led news bulletins, with English water companies forced to issue an apology for repeated raw sewage discharges.[3] Meanwhile, the "nitrogen crisis" that has resulted from intensive animal farming in the Netherlands has become a political focus.[4] But it is not just sewage and manure that has eroded the health of rivers, streams and freshwater marshes – agricultural runoff has played a significant role.[5] But what is runoff and why are pesticides used in farming problematic for wildlife habitats?

While synthetic pesticides are designed to kill target species, they can also have unintended consequences for ecological and human health. The risk depends on the type of chemical compound, with some chemicals considered more toxic than others, the concentration and the level of exposure.

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[1] Chemical safety: Pesticides (who.int)
[2] DDT - A Brief History and Status | US EPA
[3] https://www.theguardian.com/environment/2023/may/18/uk-water-companies-offer-apology-and-10bn-investment-for-sewage-spills
[4] Nitrogen crisis from jam-packed livestock operations has 'paralyzed' Dutch economy | Science | AAAS
[5] https://www.theguardian.com/environment/2021/sep/15/pollution-is-damaging-uk-rivers-more-than-public-thinks-report-says

Some synthetic pesticides can lead to the death of insects, pollinators, birds and mammals besides those that were targeted as pests. For instance, neonicotinoids have been widely linked to colony collapse disorder in honeybees.[6] Pesticides also pose a direct risk to soil biodiversity by harming soil invertebrates and destroying organisms that perform key functions such as nutrient cycling, soil structure maintenance, carbon transformation, and the regulation of pests and diseases.[7]

A reduction in biodiversity above and below ground makes ecosystems less resilient and less effective at providing ecosystem services. The use of synthetic pesticides also reduces the potential for natural pest control and drives a cycle of further pesticide development and application, as pests develop resistance over time.

> **Beyond the direct impacts to biodiversity, pesticide runoff can cause widespread pollution and contamination of soils, water and air.**

Beyond the direct impacts to biodiversity, pesticide runoff can cause widespread pollution and contamination of soils, water and air. Pollution in itself is one of the five main drivers of biodiversity loss. In 2020, one or more pesticides were detected above safe thresholds at 22% of monitoring sites in rivers and lakes across Europe, while 83% of agricultural soils tested in a study conducted in 2019 contained pesticide residues.[8]

There is also a high potential social risk associated with pesticide use. The population that is most at risk from pesticides are those that are directly exposed, especially agricultural workers. In addition, our food retains small amounts of the fertilisers and pesticides used in its production, potentially causing harm to those who consume it.[9] A large-scale study in Europe across five countries detected at least two pesticides in the bodies of 84% of survey participants, with pesticide levels consistently higher in children than in adults.[10]

Although the toxicity of pesticides to human health is assessed, safety evaluations usually focus on individual chemicals. There is still limited understanding of how different types of pesticide residues on food may interact to potentially impact human health.[11] Given the significant known and unknown risks to both human and ecological health, the use of pesticides should become a greater focus for companies and investors.

Emerging policy and regulation

The policy landscape is evolving in response to the fact that the risks associated with pesticide misuse are becoming better understood. Target 7 of the Kunming-Montreal Global Biodiversity Framework (GBF)[12] explicitly mentions the need to reduce "the overall risk from pesticides and highly hazardous chemicals by at least half". Countries will now need to

[6] Neonicotinoids and Colony Collapse Disorder - Harvard School of Public Health (chgeharvard.org)
[7] Frontiers | Pesticides and Soil Invertebrates: A Hazard Assessment (frontiersin.org)
[8] How pesticides impact human health and ecosystems in Europe — European Environment Agency (europa.eu)
[9] Pesticide residues in food (who.int)
[10] How pesticides impact human health and ecosystems in Europe — European Environment Agency (europa.eu)
[11] Should I worry about pesticides? | Pesticides | The Guardian
[12] RECOMMENDATION ADOPTED BY THE WORKING GROUP ON THE POST-2020 GLOBAL BIODIVERSITY FRAMEWORK (cbd.int)

translate the GBF into action at the national level, meaning that these expectations will increasingly be reflected in policy and regulation.

The European Union has already strengthened its focus on hazardous pesticides. Within the Farm to Fork and biodiversity strategies for 2030, the EU targets an overall 50% reduction in the use and risk of chemical pesticides and a 50% reduction in the use of the most hazardous pesticides. There is also a goal for at least 25% of EU agriculture to be organic by 2030. Companies should be actively monitoring and responding to the potential regulatory and reputational risks associated with the misuse and overuse of pesticides.

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50% reduction in the use and risk of chemical pesticides and a **50% reduction** in the use of the most hazardous pesticides.

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Our engagement approach

Our biodiversity engagement with food and beverage companies includes a focus on the risks associated with pesticides. We expect companies to oversee how pesticides are used within their agricultural supply chain. This may include mapping their exposure and setting expectations for suppliers to limit pesticide use, starting with eliminating the most hazardous pesticides. For example, in 2022, we recommended supporting a shareholder proposal at Archer-Daniels-Midland that asked for further disclosure on the use of pesticides in the company's supply chain, as this would promote better management of environmental and social risks.

In our biodiversity white paper, *Our Commitment to Nature*,[13] we outlined our expectation for companies to assess, measure and disclose their impacts and dependencies on biodiversity and ecosystem services. For food and beverage companies, this includes understanding and managing the risk associated with their high dependency on healthy soils, pollination, and other ecosystem services that may be negatively impacted by pesticides.

We also expect companies to support and encourage their agricultural supply chains to transition to regenerative agriculture. We continue to engage with companies on their regenerative agriculture strategies,[14] including how they can measure the outcomes for soil health, water, carbon, and biodiversity. For example, for the Canadian dairy producer Saputo, we have highlighted that regenerative agriculture and pollution from pesticide runoff should be key areas for consideration within its supply chain oversight.

We have also engaged Carrefour, the French supermarket, on regenerative agriculture. We pressed for further disclosure on the company's impacts on biodiversity, including the effect of its agroecology work on pesticide use decline and soil health. The company is working with farmers and technical experts to measure pesticide use, which we support. We have encouraged the company to develop nutrient management plans with its farmers to assess the risks of runoff pollution from pesticides in water and soils. Nutrients from pesticides that are present in water sources can lead to eutrophication, which causes harmful algal blooms and results in biodiversity loss.

We also said that we wanted to see more disclosure around impacts on soil health, and regenerative agriculture practices, in engagements with Kellogg's, the US cereal company. We encouraged Kellogg's to report on the results of its Grower

Survey, an annual farm management survey that compiles information on pesticide use and nutrient management from its suppliers.

We have engaged with Associated British Foods on the cotton used in its apparel business Primark since 2019. It is expanding the sustainable cotton programme that it started in 2013 to contribute towards its target of using recycled fibres or more sustainably sourced materials by 2030.

Within this programme, cotton farmers are trained over three years to address an over-dependence on chemical fertilisers and pesticides in order to preserve biodiversity and help mitigate against climate change. The company said that it is now working to demonstrate the impact in terms of water, pesticide use and the improvement in wildlife, which we welcomed.

We have challenged Germany's Bayer on assessing and reducing the negative impacts of its pesticides. Positively, Bayer has set a target to reduce the environmental impact of its pesticides, committing to reducing its global treated area weighted crop protection environmental impact per hectare by 30% by 2030 against a 2014-2018 average baseline.[15] We also pressed the company to be more transparent in its product reformulation efforts.

We are looking forward to joining a collaborative engagement with agrochemicals companies, which we understand ShareAction plans to launch in due course.

Outlook

We will continue to encourage manufacturers to increase transparency on hazardous chemicals and commit to phasing out the use of PFAS or persistent chemicals. We will support public policy efforts to do the same.

Through our role on the IIHC Steering Committee we will support collaborative engagement and sector policy on hazardous substances and improved performance by companies on ChemSec's annual ChemScore ranking.

With food and beverage companies, we will continue to focus on their role in addressing biodiversity loss, including oversight of pesticide use and the transition to regenerative agriculture. We look forward to joining collaborative engagement initiatives that target pesticide producers directly.

[13] Our commitment to nature | Federated Hermes Limited (hermes-investment.com)
[14] How regenerative agriculture can sow the seeds of change | Federated Hermes Limited (hermes-investment.com)
[15] https://www.bayer.com/en/agriculture/reducing-agricultures-impact-environment

Japanese reforms ignite investor optimism

The Japanese stock market has enjoyed a resurgence in recent months due to corporate governance reforms and a renewed focus on shareholder value. Shoa Hirosato and Haonan Wu explain some of the key changes and the likely benefits for investors.

Setting the scene

Shareholder activism has been on the rise in Japan over the last few years, as institutional investors have grown increasingly frustrated with some companies' poor governance practices and the slow pace of change. High-profile scandals, such as that at Toshiba, have heightened the pressure on companies to be more responsive to shareholders. Now an update to Japan's Corporate Governance Code, and encouraging announcements from the government and the Tokyo Stock Exchange, suggest there could be a greater focus on shareholder value in Japanese boardrooms.

> **High-profile scandals, such as that at Toshiba, have heightened the pressure on companies to be more responsive to shareholders.**

Japan's Nikkei index reached its highest level in 33 years in May 2023[1] as optimism rose that corporate governance reforms could unlock value in the previously underperforming market. Following an update to Japan's Corporate Governance Code and a restructuring of market segments by the Tokyo Stock Exchange (TSE) in 2022, overseas investors anticipate an acceleration in the pace of change around governance, cross-shareholdings, and gender diversity on the back of further announcements from the TSE and government.

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[1] Japan stocks soar as global investors applaud governance changes - Nikkei Asia

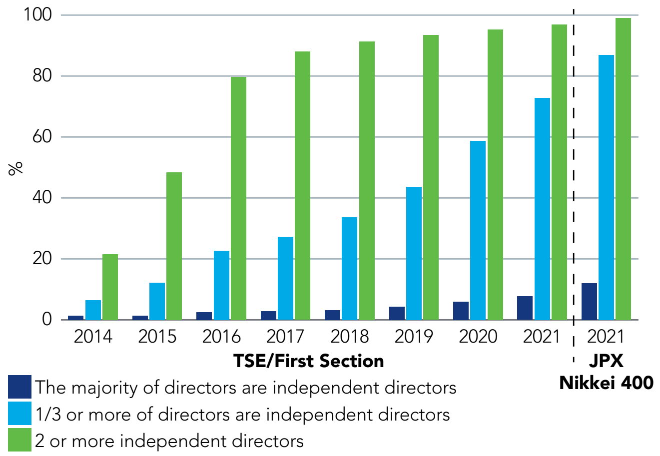
In June, the Japanese government adopted a policy for women to account for over **30%** of directors on the boards of Japanese companies listed on the TSE's prime market, by 2030.

The latest revision to the Corporate Governance Code urged companies to improve their disclosure on ESG initiatives such as gender diversity targets, to adopt TCFD reporting, and to increase board discussions on ESG issues, in order to drive long-term sustainable value. In addition, Japan's Financial Services Agency (FSA) recently published its plans to progress governance reforms.

In January 2023, the TSE announced measures to improve the effectiveness of its prime market listing requirements, which could help to address the lingering issue of cross-shareholdings. In Japan, large companies often hold shares in other companies with which they have a business relationship, without giving a sufficient rationale for doing so. Overseas investors have argued that this is not an effective use of capital, particularly if these shares are held for an extended period of time. The TSE has addressed these capital efficiency concerns by urging companies to disclose specific initiatives and policies for improvement if their price-to-book ratio is consistently below a multiple of one. As around half of the stocks listed on the TOPIX trade below book value, we believe these guidelines will have a significant impact.

Other longstanding issues around board independence and gender diversity are also starting to be addressed. Independent directors now account for a third of board members (see chart below), and there are more female directors than in the past, when it was not uncommon to see boards of up to 25 directors, all of them male executives. In June, the Japanese government adopted a policy for women to account for over 30% of directors on the boards of Japanese companies listed on the TSE's prime market, by 2030.[2]

Change in proportion of companies with independent directors



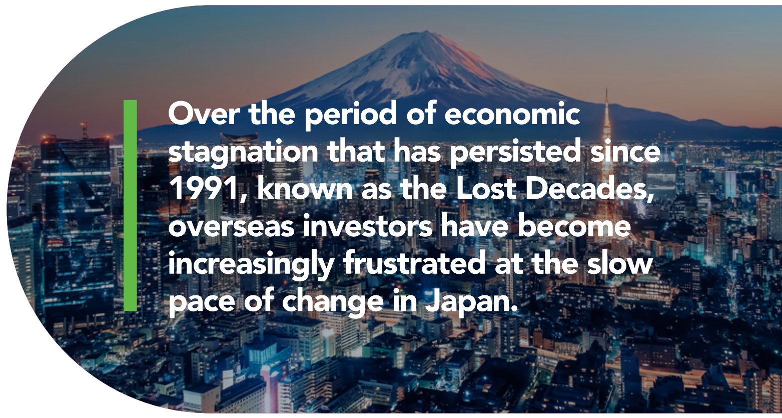
Source: Nikkei Asia.

At EOS, we have long advocated for improved gender diversity within Japanese boardrooms and senior management teams, given the body of evidence showing that this leads to better company performance. We have done this directly with company management teams and boards, and through public policy advocacy alongside the Asian Corporate Governance Association (ACGA), and with the FSA and the TSE, to progress this and other governance issues, including board independence and cross-shareholdings.

For example, in 2022, we co-signed a letter with ACGA that was sent to the TSE, outlining suggestions for enhancing gender diversity at prime market company boards. In 2023, we raised our minimum threshold for female directors to account for 15% of the board at TOPIX 100 companies, with an expectation of 30% board gender diversity by 2030, in line with our participation in the 30% Club Japan. This year, after several years of engagement, we welcomed that materials manufacturer Toray Industries had appointed its first female director and Mizuho Bank had appointed an additional female independent director. For board independence, our voting policies recommend a vote against directors when independence is below a third, and we have consistently encouraged companies to meet this threshold.

Over the period of economic stagnation that has persisted since 1991, known as the Lost Decades, overseas investors have become increasingly frustrated at the slow pace of change in Japan. Companies too often give the same responses to shareholders querying the lack of women on boards or in senior management positions, or the persistently low levels of board independence. However, with the fundamentals for governance reform now in place, we see these discussions increasingly moving from the hypothetical to something more substantial.

Accordingly, we have intensified our focus on aspects of board dynamics that we characterise as the 'software,' such as the effectiveness of independent directors, board meeting agendas, and director skill matrices. This year, in our engagements with independent directors at Fast Retailing, Seven & I Holdings, Mizuho and Toyota, we probed these topics to gain a greater understanding of the effectiveness and functionality of their boards.



> **Over the period of economic stagnation that has persisted since 1991, known as the Lost Decades, overseas investors have become increasingly frustrated at the slow pace of change in Japan.**

[2] Japan sets goal to ensure 30% female execs at top firms by 2030 | NHK WORLD-JAPAN News

In light of the TSE's recent guidelines on capital efficiency, we have also stepped up our engagement on the unwinding of cross-shareholdings. We continue to recommend voting against top executives at companies with more than 10% of their net assets tied up in these - also sometimes referred to as 'allegiant' or strategic shareholdings. And we ask companies to disclose how they exercise their voting rights, to try to tackle the associated practices of allegiant shareholding, where companies support each other through their voting, stifling the impetus for real change.[3]

Investor engagement

The introduction of Japan's Stewardship Code in 2014, and its revision in 2017, encouraged institutional investors to promote sustainable growth at their investee companies through constructive engagement and voting. In recent years, overseas and domestic shareholders have become more willing to escalate engagement with companies that need to improve their governance practices. They are also voting against company bosses in greater numbers, to signal their discontent.

For example, at Canon's March 2023 annual shareholder meeting, the chair and CEO Fujio Mitarai, who has a 42-year tenure on the board, was re-elected on the narrowest of margins, receiving just 50.49% support from shareholders.[4] There are still no women on the board of the camera and office equipment manufacturer. We have engaged with the company on this topic and its succession planning.

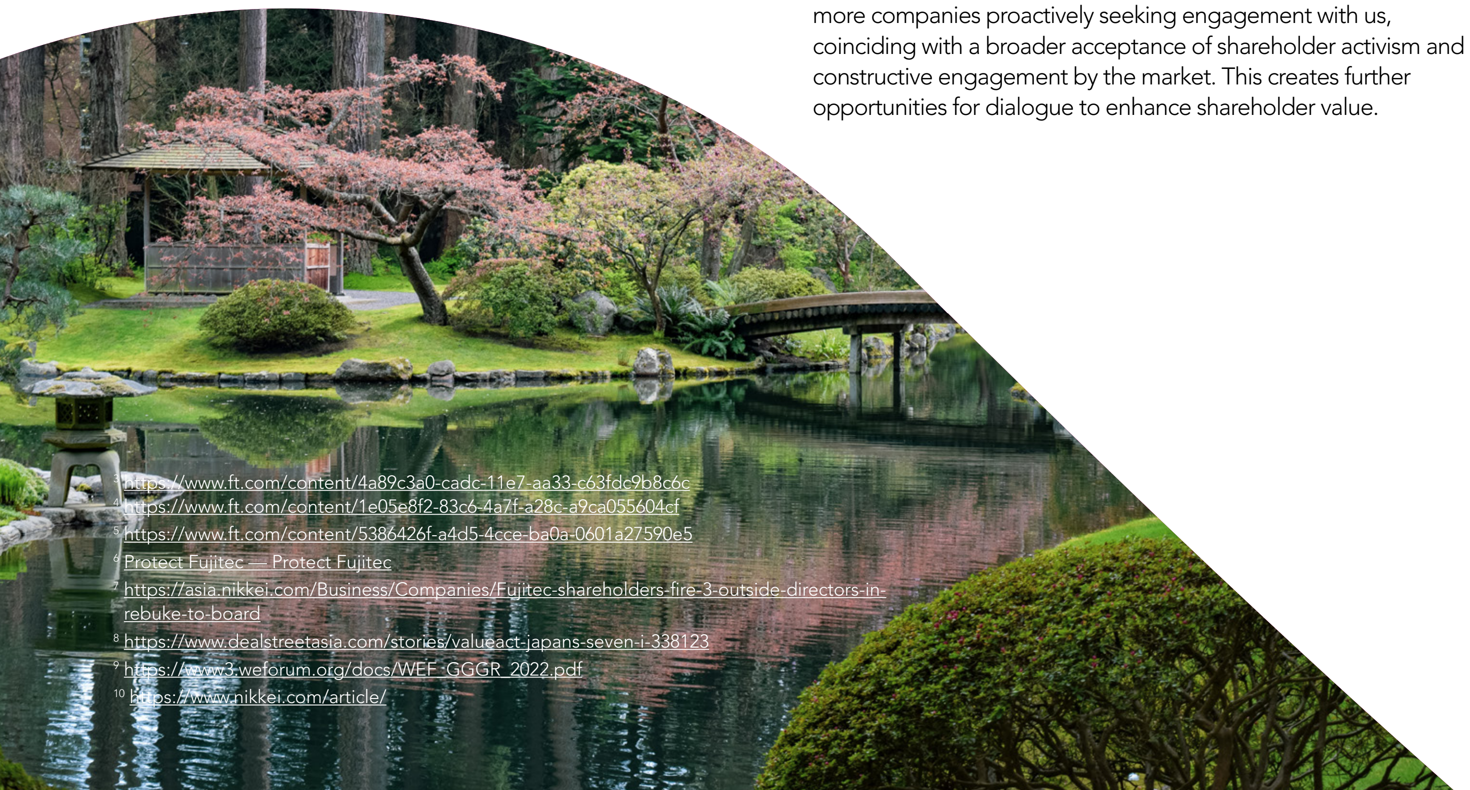
We have also seen rapid growth in the number of shareholder proposals brought by institutional investors, mainly on governance and climate change issues. This voting season, shareholder proposals have been filed at over 80 companies, up from less than five in 2015. This has already led to some heated proxy battles.

This voting season, shareholder proposals have been filed at over **80** companies, up from less than five in 2015. This has already led to some heated proxy battles.

At the elevator and escalator maker Fujitec, a special meeting was called in February 2023 to initiate a board refreshment following major governance issues.[5] We recommended support for the shareholder proposals submitted by activist shareholder Oasis Management, which successfully removed three incumbent directors. In a report analysing certain real estate and other transactions carried out by Fujitec, Oasis had raised questions about how company assets were used and why shareholders were not given a chance to scrutinise or approve these transactions.[6] At the same meeting, investors also elected four out of six of the shareholder nominees put forward by Oasis.[7]

Seven & I Holdings, the parent of convenience store chain 7-Eleven, also received shareholder proposals for its 2023 AGM from activist shareholder ValueAct Capital. The US fund was aiming to appoint shareholder nominees to the board due to concerns about the retailer's business strategy.[8] After we had met the company's independent director to discuss board effectiveness and hear about its business strategy, we decided to recommend support for the nominees, as we believed they would add value to the company's board governance. The proposals ultimately failed but still attracted considerable support ranging from 25-35%, while the company's president received 76% support. Even when such proposals fail, proxy battles serve as a warning to other companies that they cannot expect to resist shareholder demands in perpetuity without coming under pressure.

Across the market, we are seeing how engagement and escalation from investors is having a positive impact on board structures and company commitments to key ESG issues such as climate change. Domestic and international investors are ready to challenge companies in pursuit of long-term value creation. We also see more companies proactively seeking engagement with us, coinciding with a broader acceptance of shareholder activism and constructive engagement by the market. This creates further opportunities for dialogue to enhance shareholder value.



[3] https://www.ft.com/content/4a89c3a0-cadc-11e7-aa33-c63fdc9b8c6c
[4] https://www.ft.com/content/1e05e8f2-83c6-4a7f-a28c-a9ca055604cf
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[6] Protect Fujitec — Protect Fujitec
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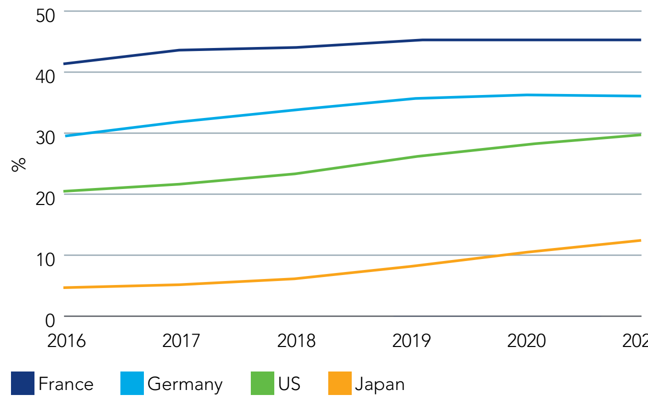
[8] https://www.dealstreetasia.com/stories/valueact-japans-seven-i-338123
[9] https://www3.weforum.org/docs/WEF_GGGR_2022.pdf
[10] https://www.nikkei.com/article/

Key challenges remaining

Despite these positive developments, there is still room for improvement. Board gender diversity remains a key concern for us, as Japan was ranked 116th on the 2022 Global Gender Gap Index,[9] and 18.7% of prime market companies still had no female directors as of July 2022.[10] To reach the target of 30% board gender diversity by 2030, we have been engaging with companies on the lack of female senior executives, which we see as the bottleneck for the development of female executive director candidates.

Percentage of women on boards of major companies



Source: OECD

As board composition improves, with more independent directors appointed, we also want to see the application of stricter criteria for independence. Currently, some directors who are classified as independent are in reality affiliated to the company through cross-shareholdings or another form of business relationship. In line with global best practice, we are also seeking better disclosure about who chairs the board, and the nomination, remuneration and audit committees, so that investors can identify the relevant individuals and hold them to account.

> **We continue to see scandals emerging in Japan due to poor governance practices linked to an unhealthy corporate culture, similar to those in the past, which tarnished Japan Inc's reputation.**

In line with our focus on the effectiveness of the board and its independent directors, we will continue asking companies to demonstrate the contributions made by independent directors to the board's decision-making and the company's business strategy, and seek to understand how the board chair effectively integrates these contributions into board discussions.

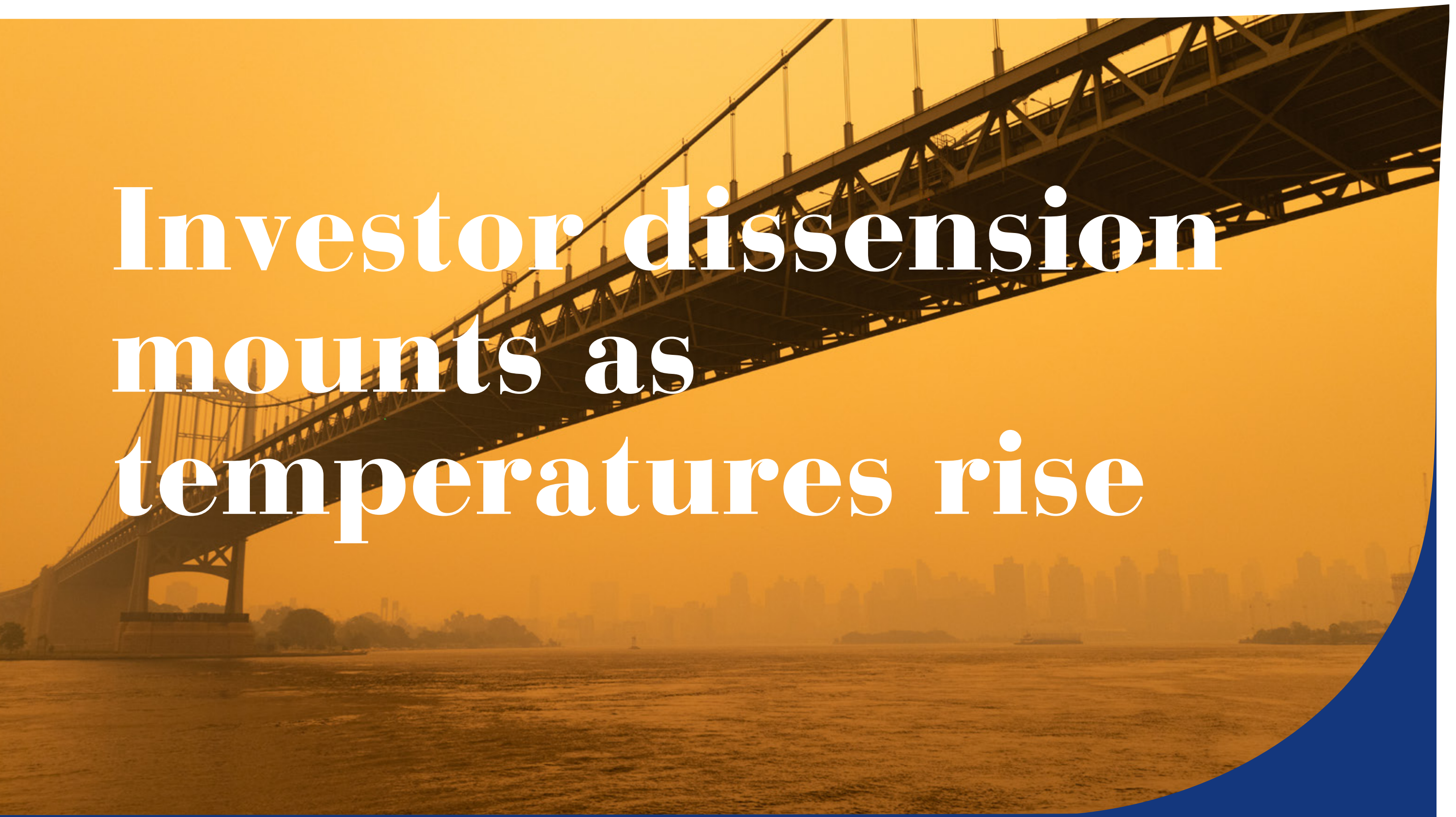
We continue to see scandals emerging in Japan due to poor governance practices linked to an unhealthy corporate culture, similar to those in the past, which tarnished Japan Inc's reputation. As Japanese companies increasingly embrace global governance standards, there needs to be a mindset shift among senior executives who have built their careers in traditional Japanese management settings, and may still believe that it is the employees who own the company. Embracing global standards should mean having respect for shareholder and stakeholder rights. This includes facilitating investor access to board members such as independent directors and statutory auditors, to contribute constructive views to board discussions.

Although we welcome the reduction in cross-shareholdings that we have seen at some companies in recent years, we will continue to communicate our strong stance on setting targets for a total unwinding. Instead of the boilerplate rationales for holding these that have been provided in the past, we encourage companies to provide compelling reasons explaining the need to maintain these holdings.

We also continue to seek improved transparency on how companies exercise their voting rights. Although we have noticed some companies disclosing their voting policies in relation to these holdings, they are usually lacking in detail, and we have not seen any disclosure on the outcomes of these votes.

Outlook

As shareholder activism in Japan has grown, helped by stewardship obligations under the code, and a growing awareness and acceptance of the importance of issues such as climate change and gender diversity, this year's voting season is likely to look a little different than in the past. Through our voting recommendations, we will continue to encourage Japanese companies to adopt appropriate governance frameworks in line with market best practice, and monitor the outcomes to ensure that some of the longed-for changes are finally realised.



Investor dissension mounts as temperatures rise

The 2023 vote season was characterised by investor frustration over companies' inadequate responses to climate change, and stakeholder concerns about labour rights and pay as the cost of living crisis continued to bite. By Richard Adeniyi-Jones and Joanne Beatty.

Setting the scene

Shareholders continued to call for change at companies this year, bringing a raft of proposals in the US and Europe on collective bargaining rights, climate lobbying, child safety in the digital realm, animal welfare, racial equity and tax transparency. Executive compensation also came under scrutiny as the cost of living crisis continued.

Meanwhile, as Europe braced for a summer of soaring temperatures, and smoke from Canadian wildfires choked New York, investor dissension mounted over what was seen as backtracking on climate commitments in some quarters. In the UK and France, fossil fuel shareholder meetings were targeted by climate activists, and institutional investors spoke out about their deepening concerns.

With voting season still underway in some Asian markets, this article focuses mainly on North America and Europe. We will spotlight some of the key trends from developed Asia and the emerging markets in our Q3 Public Engagement Report.

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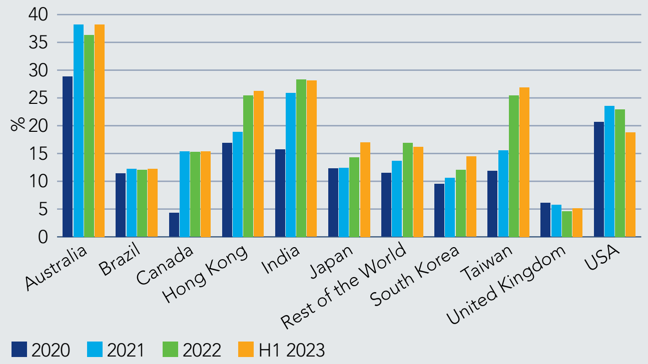
This year's voting season was marked by growing investor dissension in Europe as shareholders lost patience with company responses to the climate crisis. In the US, however, support for climate-related and social shareholder proposals fell to the lowest level in six years.[1]

In the first half of 2023 to 21 June, we made voting recommendations at over 9,032 meetings, versus 10,289 in H1 2022. We made at least one voting recommendation against management at 69% of meetings, versus 70% in H1 2022. Overall, we recommended votes on 2,151 shareholder resolutions in the first half of 2023, versus 2,424 over the same period in 2022. Some 571 of these were in the US, where we recommended against management on 368 proposals or 64%.

[1] Support for ESG Shareholder Proposals Plummets Amid GOP Backlash - Bloomberg

Percentage of proposals voted against management per key market



Source: EOS data

We recommended votes against the climate transition progress reports proposed by Shell and TotalEnergies again this year due to their failure to make sufficient progress.

In the US, total shareholder proposals jumped to a new record with social issues such as responsible tax, human and digital rights, and diversity, equity and inclusion (DEI), seeing the biggest increase. Proxy adviser ISS reported a 12% increase in the number of proposals from 2020 to 2023, with a total of 682 proposals submitted for Russell 3000 shareholder meetings in the year to 31 May.[2]

S&P 500 companies accounted for 90% of the US shareholder proposals filed. We also saw a wave of anti-ESG proposals aiming to discourage companies from implementing climate or social initiatives, although these continued to receive low levels of support. Some companies attracted large numbers of proposals, with 18 at Amazon and 13 at Alphabet, covering issues from climate and tax transparency to gender/racial equity pay gaps and digital rights.

However, the volume of environmental proposals in the US was down 5% from a peak last year.[3] Climate remained the most common issue, accounting for 13.3% of the total assessed by ISS, with investors seeking improved disclosure or calling for companies to set emissions reduction targets.

Climate change

We continued to follow our climate change vote policy to guide our recommendations. We consider recommending votes against directors at companies identified as laggards in managing climate-related risks, using region and sector-specific thresholds and various climate risk indicators. In the first half of 2023, we recommended voting against the re-election of directors or relevant proposals at 285 companies, up from 244 in H1 2022, due to concerns about insufficient management of climate-related risks.

In some cases, our engagement identified significant improvement to the climate strategy at laggard companies, and we recommended support for directors, while encouraging further progress to meet our minimum thresholds. For example, at ConocoPhillips we reinitiated support for the re-election of the public policy and sustainability committee chair as a result of the company joining the Oil and Gas Methane Partnership 2.0, and increasing the scope and ambition of its Scopes 1 and 2 emissions reduction targets.

At Woodside Energy we decided that escalation was required because it had failed to improve its climate strategy.

The Australian oil and gas company Woodside Energy is not captured by our climate risk indicators, but we assessed its climate strategy as having material weaknesses, such as the absence of a Scope 3 emissions reduction target. We decided that escalation was required because it had failed to improve its climate strategy, even though 49% of shareholders had voted against the management's climate plan in the 2022 say-on-climate vote. Therefore, we recommended a vote against the re-election of two directors on the sustainability committee. These directors subsequently attracted votes against of 35% and 13%.

Say-on-climate votes

Companies continued to give investors the opportunity to vote on their climate transition plans – either for the first time, or by providing an annual update to already-approved plans. However, there was a marked reduction in the number versus 2022, according to EOS tracking data. Aside from the sizeable votes against at Woodside, we saw dissent at TotalEnergies, BP and Shell*, where shareholders were concerned that the European oil majors were retreating from their climate commitments amid bumper profits.[4] Almost 10% of shareholders voted against BP chair Helge Lund while large investors publicly voiced their concerns ahead of Shell's meeting.[5] Climate protesters attempted to disrupt all three meetings.

We take a robust approach to assessing companies' climate transition plans. We consider the extent to which plans are substantially aligned with a global temperature rise of 1.5°C, and the action that companies are taking to deliver against these plans. This meant we recommended votes against the climate transition progress reports proposed by Shell* and TotalEnergies again this year due to their failure to make

[2] U.S. Shareholder Proposals Jump to a New Record in 2023 - ISS Corporate Solutions
[3] U.S. Shareholder Proposals Jump to a New Record in 2023 - ISS Corporate Solutions
[4] https://www.theguardian.com/business/2023/apr/27/climate-protesters-disrupt-bp-shareholder-meeting-in-london [5] https://www.theguardian.com/business/2023/may/09/shell-shareholders-chair-pirc-andrew-mackenzie-agm
* EOS will not vote at company meetings of or engage with Shell PLC or any listed subsidiaries on behalf of Shell corporate pension funds, except where a resolution relates to specific Shell corporate pension funds, in which case the relevant Shell pension fund retains the right to determine which way votes are cast.

sufficient progress in aligning with 1.5°C. Ultimately, some 20% of Shell's* shareholders voted against the company's energy transition plan,[6] while at TotalEnergies, more than 30% of investors supported an advisory resolution filed by Dutch activist shareholder Follow This. It called on the company to update its climate targets in line with the Paris Agreement goals by 2030.[7]

Amidst the controversy surrounding UBS's acquisition of Credit Suisse, both banks offered shareholders a say-on-climate vote this year. We recommended support for the strategy at Credit Suisse, as this was substantially aligned with 1.5°C, and the company had demonstrated a commitment to making further progress. At UBS, however, we recommended a vote against the strategy as there were insufficient targets and policies in place to manage the risks related to thermal coal financing. This was of particular concern given the relatively high coal exposure embedded in Credit Suisse's balance sheet.

Other climate-related and environmental proposals

We also saw a range of other climate-related shareholder proposals, with the banking and energy sectors again in focus, although hard-to-abate sectors such as mining also came under scrutiny.

In Canada we saw proposals filed at the Royal Bank of Canada, Canadian Imperial Bank of Commerce, Toronto Dominion, the Bank of Montreal and the Bank of Nova Scotia. In the US, there were proposals at Goldman Sachs, State Street, JPMorgan Chase, Wells Fargo, Bank of America and Citigroup.

We tended to support proposals requesting additional disclosure or a shareholder vote on climate strategies, and encouraged companies to support proposals that were in line with their strategy. New York Community Bancorp received a shareholder proposal on climate lobbying and in a surprising move, management recommended support for it.

A proposal at mining company Glencore sought disclosure on the alignment of its thermal coal production and related capex with the Paris Agreement's 1.5°C goal.

Increasingly, we also saw calls for companies to set and disclose new forms of targets or more detailed plans to support these. For Bank of America, we recommended support for a shareholder proposal seeking 2030 absolute greenhouse gas reduction targets for the company's energy sector lending and underwriting, aligned with the Paris Agreement. We also supported a proposal asking for a transition plan that describes how the bank will align its financing activities with its 2030 sectoral greenhouse gas reduction targets.

In the US and Canada, we also saw several anti-ESG shareholder proposals, such as calls for banks – including Bank of Montreal and Canadian Imperial Bank of Commerce - to continue supporting fossil fuel intensive sectors in North America. We recognise the concerns associated with transitioning from fossil fuel production, especially among communities with high levels of employment in these sectors. However, we engage for a just transition, which we believe is a more effective way of addressing these concerns. Consequently, we did not recommend support for these proposals.

At ExxonMobil, we recommended voting for shareholder proposals on methane emissions disclosure reliability, the adoption of a medium-term Scope 3 target and a report on the worst-case impacts of oil spills in Guyana. About 36% of shareholders supported the methane emissions proposal.[8]

At Chevron we supported similar proposals including one for a medium-term Scope 3 reduction target to improve the transparency of the company's climate strategy, and a proposal to disclose a recalculated emissions baseline to help investors assess how the company is meeting its targets.

In Japan, three of the largest banks attracted climate proposals – Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group and Mizuho Financial Group faced calls for them to publish a transition plan to align their lending and investments with the Paris Agreement. We recommended support for all three.

Beyond the energy and banking sectors, a proposal at mining company Glencore sought disclosure on the alignment of its thermal coal production and related capital expenditure with the Paris Agreement's 1.5°C goal. We engaged intensively with the company on this resolution and ultimately decided that recommending support for the resolution was a necessary escalation to encourage improved climate risk management.

We also recommended support for a proposal at the cement and aggregates company Martin Marietta asking for emissions reduction targets aligned with the Paris Agreement, and for another at the agrochemicals business Mosaic. This sought a report on how the company would reduce its significant Scope 3 emissions in line with limiting global warming to 1.5°C.

Berkshire Hathaway faced three climate-related shareholder proposals this year, which were defeated. We recommended support for all three, which sought reporting on: physical and transitional climate-related risks and opportunities at the parent company level, the audit committee's oversight of climate risks and opportunities in accordance with its charter, and if and how the company would measure, disclose and reduce greenhouse gas emissions.

[6] https://www.ft.com/content/56fdd2da-627e-452c-ade6-599b5218f383
[7] https://www.ft.com/content/bbea1142-0455-4c97-bb85-0fce37da9254
[8] https://www.ft.com/content/7faccadc-beef-4b10-be53-ae7aceaeafce
* EOS will not vote at company meetings of or engage with Shell PLC or any listed subsidiaries on behalf of Shell corporate pension funds, except where a resolution relates to specific Shell corporate pension funds, in which case the relevant Shell pension fund retains the right to determine which way votes are cast.

VOTING CASE STUDY

Volkswagen

Our engagement with Volkswagen has focused strongly on climate lobbying since the start of 2019. We have asked the German automotive company to align with the Institutional Investors Group on Climate Change investor expectations on climate change-related corporate lobbying[9] and the new Global Standard on Responsible Climate Lobbying.[10]

In our view, progress at the company has been slow. In 2022, we made a supporting statement for a shareholder resolution filed by seven European investors, urging the company to explain how its lobbying activities helped to address climate risks. We stated that since the start of our engagement with Volkswagen, nearly half of the European companies in scope for the Climate Action 100+ initiative had published at least one climate lobbying review, and the majority had committed to repeating this disclosure annually.

This shareholder proposal was rejected by the company, resubmitted in 2023, and again rejected. In February, we met with VW's public affairs department, which confirmed that the company was planning to publish a report before the 2023 AGM. However, in the run up to the meeting we did not see any detailed drafts or a public commitment to publish the report.

For this reason, as well as our concerns about the misalignment between the short- and medium-term emissions reduction targets and a 1.5°C trajectory, EOS recommended a vote against the discharge of the management board ahead of the AGM. Following our clients' effective voting deadline and only days before the annual meeting in May, Volkswagen published its first *Association Climate Review 2023.* We welcomed this as a step in the right direction following four years of engagement on this issue.

Lisa Lange
Sector lead: Transportation

Paris-aligned accounts

We continued to assess whether companies had sufficiently considered climate change in preparing and auditing their financial statements, and recommended votes accordingly. As part of our engagement activity with Climate Action 100+, this involved looking at companies where climate change presents material and foreseeable risks, and assessing the extent to which these are reflected in financial accounts. Insufficient disclosure of climate-related assumptions or detail in the financial notes, or insufficient evidence of progress on this topic, could result in escalated voting action. Conversely, where companies had made efforts to materially improve the alignment of their disclosures with investor expectations, we were able to recommend support.

At the 2022 AGM of building materials supplier CRH, we had recommended opposing the re-election of the audit committee chair, the ratification of the auditor, and the acceptance of the financial statements and statutory reports. This was due to several factors, such as uncertainty about how material climate risks were being considered in the accounts, how CRH's own climate targets were incorporated into its assessment of assets, liabilities and profitability, or what a 1.5°C pathway might mean for its financial position. However, this year we were able to recommend support for the audit committee chair and auditor, in recognition of the company's willingness to improve its disclosures and alignment, and its response to engagement on the topic.

We recommended voting against the financial statements of Airbus, due to an inadequate explanation of the conclusion that climate-related risks had an immaterial impact on the company accounts. We will continue to engage with Airbus and other companies where we recommended voting against the financial statements, such as ArcelorMittal and Anglo American, seeking improved disclosure.

[9] https://www.iigcc.org/resource/investor-expectations-on-corporate-lobbying/
[10] https://climate-lobbying.com/

Climate questions for German giants

We attended two virtual annual meetings in Germany this year - Siemens Energy in February and BMW in May. As Climate Action 100+ lead for both companies, our speech and questions to the board focused on climate.

At Siemens Energy's annual shareholder meeting, we made a speech in German. We began by congratulating the company on its science-based 2030 targets and then asked for more clarity on Scope 3 emissions, the potential timing of its net-zero ambition and capex criteria ensuring 1.5°C alignment. We also asked the company for more transparency on climate lobbying, particularly how it is assessing lobbying carried out through third parties and ensuring that this is aligned with the Paris Agreement.

Although we welcomed the appointment of an independent chair for the audit committee, we said that the overall independence of this committee fell below our expectations. Finally, we challenged the company on remuneration, specifically the total shareholder return component in the long-term incentive plan, which vests at 100% of the median performance versus the index.

At BMW, we delivered a speech posing questions to the supervisory board chair and CEO, covering the company's climate approach, remuneration, diversity, board independence and virtual meetings. We welcomed the CEO's commitment to achieving climate-neutrality by 2050 at the latest and then challenged him to demonstrate that BMW's climate targets, capital expenditure plans, accounting assumptions and lobbying activities are aligned with a 1.5°C trajectory.

On remuneration, we reiterated our expectation for BMW to introduce formal shareholding requirements for executives and to reduce the level of complexity in the pay scheme. We welcomed the company's statement that diversity increases resilience, which is the key to success. We asked about its efforts to increase female gender diversity on the management board, which has only one woman. To address this, the company is focusing on developing a pipeline of women in senior levels. Lack of progress towards having at least 30% women on the management board could warrant a recommendation to vote against the discharge of the supervisory board in the future.

We also challenged the company on audit committee independence and raised concerns around the potential erosion of shareholder rights in virtual-only AGMs, asking how the company would consider feedback from shareholders on the format. Attending these meetings gave us a good insight into how companies are implementing the new German legislation on holding virtual shareholder meetings.

Lisa Lange
Sector lead: Transportation

Biodiversity, deforestation and AMR

Biodiversity is also making its way on to AGM agendas. French real estate investment trust company Icade proposed a bundled say-on-climate and biodiversity resolution, which we recommended supporting. French law requires companies to disclose their risks and impacts on biodiversity, as well as climate change, and we expect to see more French companies integrating biodiversity into their AGMs.

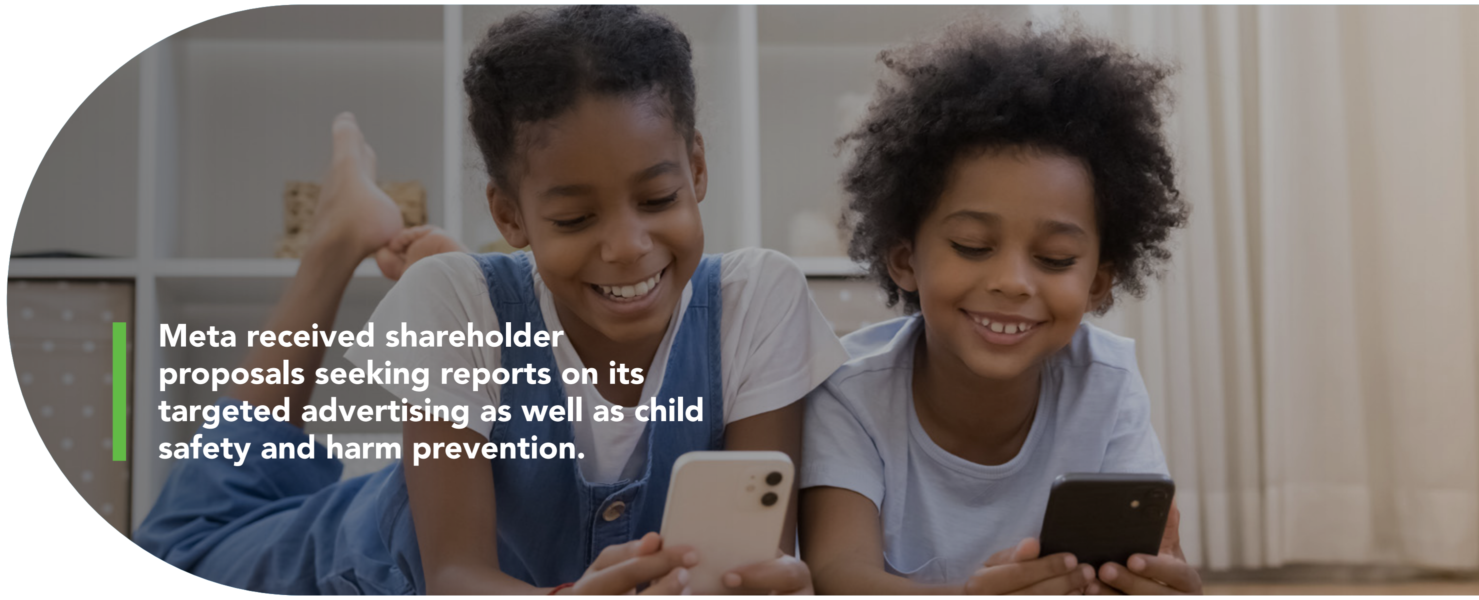
Our vote policy has included a deforestation dimension for several years, targeting those that are lagging on disclosure and risk management. So far this year, we have recommended votes against directors and other relevant resolutions at 28 companies due to deforestation concerns. This included a recommendation to oppose directors at Kikkoman, Uni-President Enterprises and Sun Life Financial.

Antimicrobial resistance (AMR) and animal welfare also featured on ballots this year. At fast food franchise McDonald's, we recommended support for shareholder proposals asking the company to adopt a policy to phase out the use of medically important antibiotics in its beef and pork supply chains, to comply with World Health Organization guidelines on their use in supply chains, to issue a transparency report on global public policy and political influence, and to report on animal welfare. We also recommended support for resolutions raising standards on AMR at meat producers Hormel Foods and Tyson Foods.

Social themes in focus

In the US, proposals on DEI and human rights, including digital rights and reproductive rights, grew in prevalence. These represented around 35% of total proposals, showing consistent year-on-year growth since 2020.[11]

[11] U.S. Shareholder Proposals Jump to a New Record in 2023 - ISS Corporate Solutions



Last year we wrote to tech and social media companies with our Digital Rights Principles and some of the financially material areas we had highlighted for the largest companies featured in shareholder proposals at this year's AGMs. For example, in our letter to Alphabet we had asked the company to enhance its child safety practices, conduct a civil rights audit that covers its workforce and racial bias in AI algorithms, and demonstrate compliance with its own content moderation policies. At this year's meeting, Alphabet received a shareholder proposal asking for a human rights assessment of targeted advertising policies and practices, and another on the alignment of YouTube policies with legislation.

Similarly, Meta received shareholder proposals seeking reports on its targeted advertising as well as child safety and harm prevention. Our voting recommendations on these proposals were informed by our Digital Rights Principles. The US Surgeon General's Advisory on Social Media and Youth Mental Health, which was issued just days before the Meta and Alphabet meetings, sharpened the spotlight on child and teen safety. These were the most supported proposals at Alphabet and Meta receiving 19% and 18%, and 17% and 16% support, respectively, aside from the one vote per share proposals that garnered 31% and 28% support. Both companies retain problematic dual class share structures.

Racial equity and civil rights

We were heartened to see companies such as Alphabet and Citigroup releasing meaningful third-party civil rights and racial equity audits, particularly after their boards opposed shareholder proposals calling for them in the 2021 and 2022 voting seasons, when we were among their earliest supporters. Gratifyingly, our goal of building traction and signalling mainstream investor support for a practice that helps boards steer favourable DEI outcomes in the workforce and society has been largely achieved. More work remains to be done, however, including around improving the quality of these audits.

For example, when supporting the proposal for a racial equity audit at Valero, we highlighted how its existing assessment did not assess the company's impacts on racial equity or identify improvement opportunities. Also, although we welcomed the strong employee-focused racial equity audit that Chevron conducted, we recommended supporting the proposal for an audit whose scope included environmental justice considerations for communities.

Several 2023 shareholder proposals appeared supportive of DEI on the surface, but were designed to derail DEI momentum. For example, we recommended opposing the proposal asking for a civil rights and non-discrimination audit at Apple, as it appeared the proponent's objectives were in direct opposition to the civil rights audit proposal we had supported in 2022, and which the company was now conducting. Similarly, we recommended opposing the proposal calling for an analysis of costs associated with DEI programmes at Amazon, due to questionable filer intent in opposing a scale-up of diversity and inclusion efforts, and lack of alignment with long-term shareholder value

Human rights and indigenous rights

In 2023 we applied our revised human rights voting policy. This identifies a watchlist of companies that have received low scores on credible third-party human rights benchmarks, or that have been involved in significant controversies. In this first year of applying the policy, unless we had notified the company previously, we generally highlighted our concern with a view to opposing next year if there was insufficient improvement. We issued these warnings to Lockheed Martin, Broadcom, Commerzbank and TotalEnergies, and recommended voting against directors at Tesla, Amazon and the Inner Mongolia Baotou Steel Union Company.

Three Canadian banks received shareholder proposals related to free, prior and informed consent (FPIC), an issue we had been planning to raise. Two of these - Bank of Montreal (BMO) and Toronto-Dominion Bank - reached successful agreements with the proponent via engagement, a positive step. At Royal Bank of Canada, having escalated this issue via a public statement at the meeting in prior years, we decided to support the shareholder proposal. The proponents, BC General Employees' Union and the Union of BC Indian Chiefs, presented this proposal in person. We will continue to engage all the banks on this issue, and may seek access to their 2024 meetings if substantial progress is not made.

Wider societal impacts

Last year, we saw tax transparency shareholder proposals at Amazon, Cisco and Microsoft. This was significant, as such proposals have historically been blocked from going to a vote. This year we saw increased focus on the topic.

Amazon and Microsoft again faced shareholder proposals seeking a tax transparency report prepared in consideration of the indicators and guidelines of the Global Reporting Initiative (GRI) tax standard. Oxfam America, with supporting investors, filed similar tax transparency proposals at ExxonMobil, Chevron and ConocoPhillips asking for a GRI tax standard report. These sought, among other disclosures, detailed country-by-country reporting to prevent tax avoidance. In Canada, the BC General Employees' Union submitted a tax transparency proposal at Brookfield Corporation. We recommended support for all six tax-related shareholder proposals.

As the cost of living crisis continued to bite, we saw more shareholder proposals around labour and collective bargaining rights. At Starbucks, we recommended support for a resolution asking for an independent review of the coffee chain's stated commitment to workers' freedom of association and collective bargaining rights. We had concerns about the magnitude of the accusations that the company had interfered with its employees' right to organise or join unions in the US. The proposal passed.[12] At Amazon, which has attracted criticism about its approach to workers trying to unionise, we also recommended support for a proposal seeking additional reporting on freedom of association. This failed.[13]

Diversity and inclusion

Our diversity and inclusion voting policies encourage greater representation of women and ethnic minorities on boards and in leadership teams. Globally, we opposed 2,426 responsible director proposals due to concerns about insufficient diversity.

In Europe, we support a goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as non-binary), race and ethnicity, and other diversity traits such as LGBTQ+ and disability. Where best practice or listing rule obligations exist in a country, we expect companies to adhere to these at a minimum. We continue to push for greater gender diversity on boards and in leadership teams and oppose companies that do not meet our minimum expectations. This included at SBB, Revenio and PolyPeptide Group.

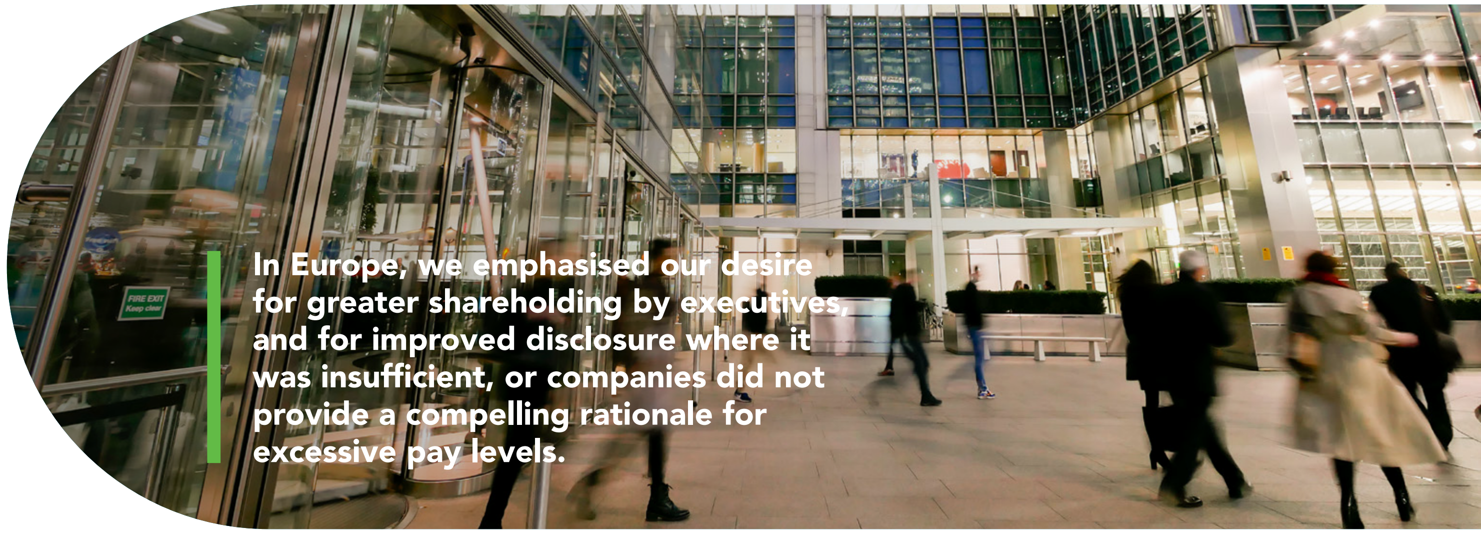
While board gender diversity was below our threshold for LyondellBasell this year, the company has a commitment to increase gender diversity on the board by a third by 2023 and is in the process of evaluating diverse candidates to fill a vacancy after the 2023 meeting. Our concerns were also mitigated by strong overall board diversity and over 30% gender diversity on the executive committee.

In the US, ideally, we want to see companies strive for 50% overall board diversity including LGBTQ+ and disability. We are seeing this level of diverse representation in companies such as 3M, Apple, Chevron and Mastercard. In line with our expectations of a minimum of 40% board diversity including gender, race and ethnicity, we recommended opposing 1,000 responsible directors for low board diversity. Notable examples included Berkshire Hathaway, Caesars Entertainment, Kinder Morgan, Netflix, Phillip Morris International, TransDigm, Tesla and Walmart. At Nasdaq and TSX-listed companies, we also opposed responsible directors where executive teams fell short of at least 30% representation of women or the minority gender, including those who identify as non-binary.

Executive pay and auditor tenure

For executive remuneration, we emphasised the need for better disclosure where this was lacking, while scrutinising pay levels where there appeared to be a disconnect between pay and the broader stakeholder experience. This was against a background of persistently high inflation in developed markets, which is squeezing household budgets. The complexity of pay packages presented shareholders with multiple challenges, and some structures required significant analysis. Unfortunately, despite the hardship experienced by many workers, some companies proposed hefty executive pay-outs this time.

[12] https://edition.cnn.com/2023/03/30/business/starbucks-shareholder-proposal-unions/index.html
[13] https://news.bloomberglaw.com/esg/amazon-shareholders-vote-against-union-rights-climate-proposals



In North America, we continued to oppose the majority (52%) of say-on-pay proposals. This was on the basis that practices across the region remained materially misaligned with our principles, particularly on quantum, variable pay ratio, and severance. We recommended voting against executive pay and the compensation committee chair at several technology and media companies, notably Alphabet, Netflix and Meta. Last year some 73% of shareholders rejected the pay proposal at Netflix and we were disappointed that the company had not done more to address shareholder concerns this year. Against the backdrop of a Hollywood writers' strike, Netflix shareholders again withheld support for the sizable packages awarded to the content streamer's executives.[14]

Last year some **73%** of shareholders rejected the pay proposal at Netflix and we were disappointed that the company had not done more to address shareholder concerns this year.

We also recommended opposing pay at Amazon, Comcast, Lockheed Martin, DuPont de Nemours, Walmart, ExxonMobil, Chevron, JPMorgan Chase, TransDigm and many more. This was mainly for excessive quantum, without adequate disclosure of the additional value created for long-term shareholders when paying the CEO significantly above the labour-market median.

In Europe, we emphasised our desire for greater shareholding by executives, and for improved disclosure where it was insufficient, or companies did not provide a compelling rationale for excessive pay levels. At Barclays, we recommended voting against the remuneration report over concerns that the extent of the downward discretion applied by the remuneration committee was not commensurate with the scale of the control failings, fines, losses and reputational damage resulting from the over-selling of securities. In addition, we felt that downward discretion should have been applied to adjust for the windfall gains, which had inflated executive pay awards in 2022.

At UniCredit,[15] the proposed remuneration policy attracted considerable coverage. Following extensive engagement with the company and internal discussion, we recommended supporting pay, by exception to our policy. We considered various mitigating factors, which led to a finely balanced decision to support. These included the fact that the package is structured so that total pay is the same at target as in the current policy, the introduction of higher minimum shareholding requirements, and because performance targets under the variable pay are materially more stretching.

At Nestlé we continued to oppose the CEO's remuneration package, which includes a total shareholder return metric that vests partially for below-median performance and at the maximum for median performance. Our opposition was compounded by the large overall package and high variable pay opportunity. We would expect to see more transparency on targets and performance for the bonus scheme, particularly as this scheme is material in size. The company provided more disclosure than previously and acknowledged our feedback.

We continued to apply pressure on North American companies with long-tenured auditors as we believe that independence, and potentially audit quality, are at risk when the same external audit provider has been maintained for too long. Our toughened stance this year for companies with external auditor relationships extending beyond a century led us to recommend votes against the auditor and audit committee chair for Goodyear, United States Steel, Dow, Sherwin-Williams, Deere & Co, Coca-Cola, and Johnson & Johnson, among others.

We welcomed the fact that pharmaceutical company Lonza sought shareholder approval for the appointment of a new audit firm. This is not a mandatory requirement in Switzerland, and due to our concerns about audit firm tenure, we had recommended voting against its re-election at the two previous AGMs.

[14] https://www.reuters.com/technology/netflix-shareholders-withhold-support-executive-pay-package-2023-06-02/
[15] https://www.reuters.com/business/finance/unicredit-shareholders-gather-vote-ceos-new-pay-scheme-2023-03-31/

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.

McKesson

Engagement theme:
Board refreshment

Lead engager: Michael Yamoah

Driven by governance and compliance issues related to the opioid crisis, we initiated engagement with US pharmaceutical and healthcare company McKesson on refreshment of at least one of its long-tenured directors in Q2 2019. This was based on the ineffective audit committee oversight at the height of the opioid epidemic. Although the company did not fully acknowledge our concern, it stated that it continually considers refreshment and succession planning for its board members. In its 2019 proxy statement, the company committed to refreshing two of its longest-standing directors within the next two years and to implementing a tenure policy for directors, with a limit of 12 years.

Outcomes and next steps

At the time of its 2021 annual meeting, only four directors remained on the board who had also been present in 2018. The average director tenure has fallen substantially since we began engaging on this issue, from nine years in 2018 to four years in 2021, with two of the longest-standing directors now retired. Also, two out of the three audit committee members from 2018 are no longer on the board.

AES

Engagement theme:
Reduce coal exposure in electricity generation mix

Lead engager: Bertie Nicholson

We set an objective in 2020 to monitor this energy company's progress against its goal of reducing exposure to coal-fired energy to 10% by 2030. We were concerned about the risk involved in a slow progression of the decarbonisation and coal exposure strategy in the short to medium term. Therefore, we sought to reiterate through engagement our interest in the company demonstrating a steady and meaningful path towards reducing coal in its generating mix well before 2030.

We have engaged to understand and explore the company's decarbonisation strategy, and the progress of its thermal asset retirements, several times each year since 2020. These engagements included communicating investors' increasing support for accelerated coal retirements and providing feedback on the company's approach to managing a just transition as it retires or disposes of assets with economically reliant local workforces.

Outcomes and next steps

In 2022, the company released an enhanced plan to exit coal power generation entirely by 2025. It will ensure the success of this new goal with planned closures and divestments moving ahead in the short term, in some instances in an accelerated fashion.

We are heartened by the company's changed coal ambitions and continue to monitor the management of its remaining coal capacity up to its goal of net-zero emissions from electricity sales by 2040. We continue to engage with AES on developing standalone just transition guidelines with a separate objective for these to become best practice across the industry. The company's experience in managing human capital during multiple closures of plants can be leveraged and transparently explained in the context of just transition outcomes for utilities and wider hydrocarbon energy peers to learn from.

Samsung Electronics

Engagement theme:
Non-executive director dialogue with investors

Lead engager:
Jaime Gornsztejn

At Samsung Electronics, direct dialogue with the board is not generally available to investors, as is the case at other companies in the South Korean market. We have been engaging at executive level on the benefits for both parties of a regular dialogue between board members and investors.

We raised our initial concerns about the lack of communication during a meeting with senior executives in Seoul in 2015. The company acknowledged it was important for investors to have access to independent directors in 2016. The following year, we requested a clear plan for increasing communication between investors and independent directors.

In 2018, we recommended voting against the election of the chair due to, amongst other reasons, a lack of access to non-executive directors. We met with the chair in April 2019 as part of the Asian Corporate Governance Association (ACGA). He felt that the new independent non-executive directors (INEDs) had improved discussion and debate, but that the company could still benefit from an independent non-executive director with global experience.

Outcomes and next steps

In Q4 2021, Samsung agreed to organise an engagement between the board chair and a group of investors and members of ACGA. In Q2 2022, we reinforced our request for regular engagement with the chair.

The company said that the chair valued the engagement and assured us that a framework had now been established for an annual collective engagement between the chair and members of ACGA. This is a significant step forward and enables regular engagement between the board and investors.

Nemetschek

Engagement theme:
Gender diversity on the supervisory board

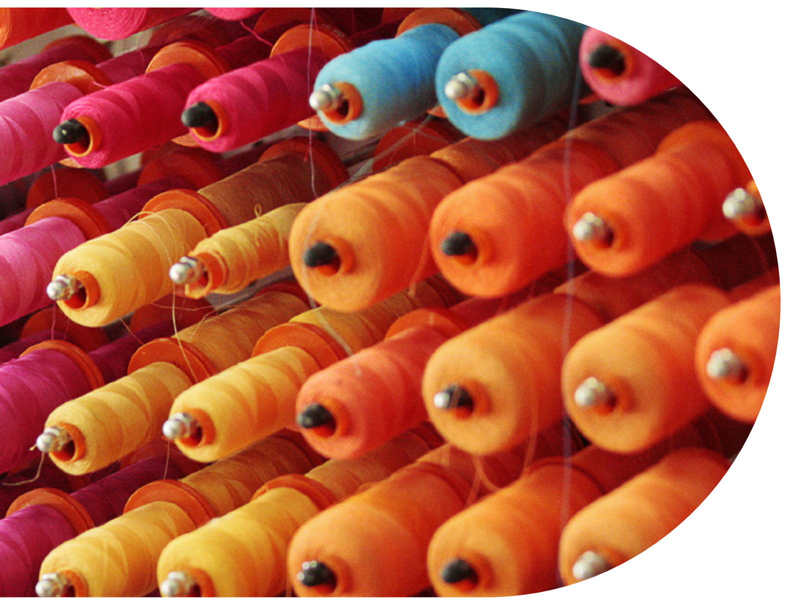
Lead engager: Lisa Lange

With challenges on gender balance across this German software company, we were concerned by the lack of female directors on the supervisory board. We initiated engagement with the company ahead of the annual shareholder meeting in June 2020, and stressed that the lack of women on the supervisory board was misaligned with our corporate governance expectations for Germany. In our call, the company said that around 25% of leadership positions were filled by women at the company level and 29% at the first management level below the executive board, forming a pipeline of talent. Yet, there were no female directors at the supervisory board level.

We met again in October 2021, when the company acknowledged our concerns and indicated that it was working on succession planning. The founder, then aged 87, was signalling that he was ready to retire, and it was possible that another board member aged 71 could step down. We urged the company to take this opportunity to improve the level of independence and diversity on this board, as well as setting up an audit committee chaired by an independent member.

Outcomes and next steps

In its documents ahead of the 2022 annual shareholder meeting, the company said that it would propose four new directors to the supervisory board, two of whom were women. At the AGM on 12 May 2022, two new female directors were elected to the supervisory board, raising the proportion of woman on this board to 33% from zero. We continue to engage with the company on human capital management, diversity at different levels of the organisation, and board independence.



H&M

Engagement theme:
TCFD reporting

Lead engager: Lisa Lange

In a meeting with this Swedish clothing company's sustainability team in 2020, we said that effective reporting against the pillars of the Task Force on Climate-related Disclosures (TCFD) framework, including governance, strategy, risk management, metrics and targets, would benefit its approach to climate change. Although the company had started to use the framework, we saw room for improvement, particularly on detailed scenario analysis.

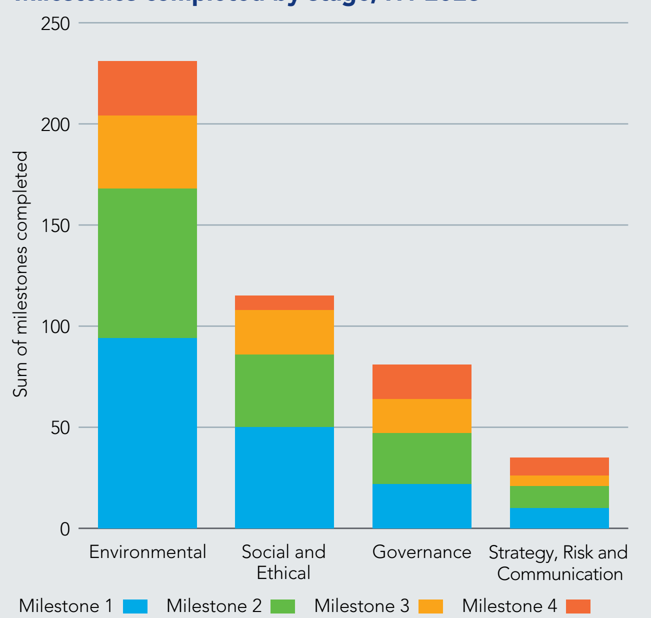
Climate was a key focus for the head of sustainability, whom we met at an investor event in 2021. We welcomed that the company committed to being climate positive across its entire value chain by 2040. It is working on an internal price for carbon and creating clarity on baseline data to enable effective decarbonisation of Scope 3 emissions.

Outcomes and next steps

In July 2022, we learned about improvements at H&M in an informative meeting with the company discussing different aspects of its sustainability strategy. In the meeting, H&M presented its revised climate targets and is now committing to a 56% reduction in its Scopes 1, 2 and 3 greenhouse gas emissions by 2030 (from a 2019 baseline) and to reach net zero by 2040.

We welcomed that the company has submitted this target to be assessed by the Science Based Targets initiative and that it had made improvements to its reporting, including a TCFD climate risk analysis in its annual and sustainability report 2021. Here, the company explained that it focused on two scenarios: the rapid transition scenario (1.5°C heating) and the accelerating temperature increase scenario (3-4°C heating). This constitutes a significant improvement.

Milestones completed by stage, H1 2023



Source: EOS data

CASE STUDY

Mercedes-Benz

Mercedes-Benz Group is an automotive company based in Stuttgart, Germany. Formerly Daimler AG, the company changed its name in 2021 after spinning off its trucks business. We have engaged with the company since 2007; EOS is also the Climate Action 100+ company engagement lead.

Our engagement

Since autumn 2018, we have engaged with the company on public policy advocacy with respect to climate legislation. Auto industry associations such as the European Automobile Manufacturers' Association (ACEA) or the German Association of the Automotive Industry (VDA) have significant influence over European policy and regulation. For the auto industry to achieve its stated net-zero ambitions in line with a 1.5°C pathway, it is important that all lobbying efforts, including those of trade associations, are aligned with this ambition.

We began by asking the company to explain the alignment of its public policy positions on climate change with that of the lobbying carried out either directly by the company or indirectly, including by industry third parties. We continued to reiterate our concerns in multiple meetings, including by travelling to Ottobrunn, Germany, to meet the chair. There we discussed the challenges faced in setting sustainability targets in the supply chain, the company's support for the Paris Agreement and emissions reduction targets.

In 2022, we intensified our engagement on lobbying by facilitating discussions between the company and a group of investors planning to file a shareholder resolution. We agreed to be copied into a letter sent by two institutional investors to the chair and CEO, reiterating our expectations on lobbying and informing the company of the intention to file a shareholder resolution requesting improvements.

In a subsequent call with investors, we encouraged the company to make a shareholder resolution unnecessary by publicly committing to carrying out a lobbying review ahead of the AGM filing deadline.

> **For the auto industry to achieve its stated net-zero ambitions in line with a 1.5°C pathway, it is important that all lobbying efforts, including those of trade associations, are aligned with this ambition.**

Changes at the company

We received written assurance from the company in February 2022 that it would carry out a review of its associations' lobbying activities and publish this with its sustainability report annually as the Mercedes-Benz Group Climate Policy Report, from 2023.

Ahead of the 2022 AGM, the company also committed to providing assurances to investors, including that a declaration of intent would be included in the CEO's speech and the supervisory chair's letter and corporate governance roadshow materials. This made the filing of a shareholder resolution unnecessary. The company published its first Mercedes-Benz Group Climate Policy Report, making a key step towards improved lobbying disclosure.

Next steps

We will continue to engage with the company on the quality of its disclosures. The NGO InfluenceMap assesses existing lobbying reports against the Global Standard on Corporate Climate Lobbying to determine how well the reports are aligned with investor expectations.

Mercedes-Benz's lobbying report only scores 29/100 points, so we are continuing engagement with the company for further improvements.

Engagement objectives

Environmental

– Alignment of lobbying to corporate position on climate change

Lisa Lange
Sector co-lead: Transportation

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.

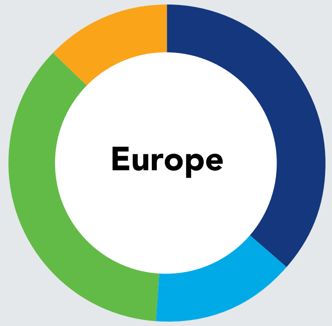
In most cases where we recommend a vote against at a company in which our clients have a significant holding or interest, we follow up with a letter explaining the concerns of our clients. We maintain records of voting and contact with companies, and we include the company in our main engagement programme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

Engagement by region

Over the last quarter we engaged with 529 companies on 1,738 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.

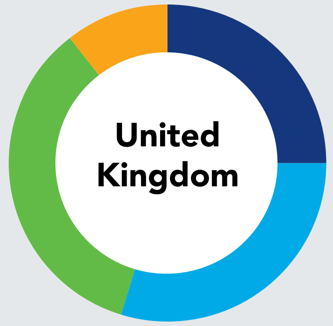
We engaged with 529 companies over the last quarter.

- Environmental **27.9%**
- Social **23.0%**
- Governance **37.1%**
- Strategy, Risk and Communication **11.8%**



We engaged with 100 companies over the last quarter.

- Environmental **36.4%**
- Social **14.8%**
- Governance **36.0%**
- Strategy, Risk and Communication **12.5%**



We engaged with 38 companies over the last quarter.

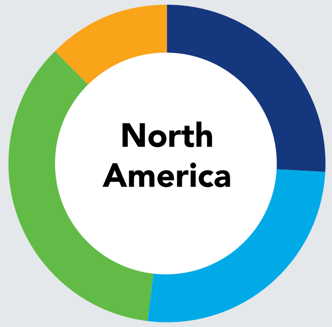
- Environmental **25.2%**
- Social **29.6%**
- Governance **34.8%**
- Strategy, Risk and Communication **10.4%**

We engaged with 77 companies over the last quarter.

- Environmental **27.4%**
- Social **20.7%**
- Governance **39.9%**
- Strategy, Risk and Communication **11.5%**

We engaged with 61 companies over the last quarter.

- Environmental **25.1%**
- Social **21.2%**
- Governance **44.6%**
- Strategy, Risk and Communication **8.7%**



We engaged with 246 companies over the last quarter.

- Environmental **25.9%**
- Social **26.2%**
- Governance **35.5%**
- Strategy, Risk and Communication **12.4%**

We engaged with 7 companies over the last quarter.

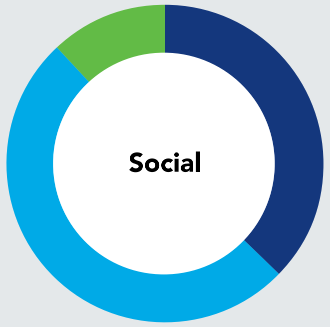
- Environmental **42.1%**
- Social **15.8%**
- Governance **21.0%**
- Strategy, Risk and Communication **21.1%**

Engagement by meta-theme

A summary of the 1,738 issues and objectives on which we engaged with companies over the last quarter is shown below.

Environmental topics featured in 27.9% of our engagements over the last quarter.

- Circular Economy & Zero Pollution **16.5%**
- Climate Change **67.8%**
- Natural Resource Stewardship **15.7%**



Social topics featured in 23.0% of our engagements over the last quarter.

- Human & Labour Rights **37.3%**
- Human Capital **51.0%**
- Wider Societal Impacts **11.8%**

Governance topics featured in 37.1% of our engagements over the last quarter.

- Board Effectiveness **40.8%**
- Executive Remuneration **46.5%**
- Investor Protection & Rights **12.7%**

Strategy, Risk and Communication topics featured in 11.8% of our engagements over the last quarter.

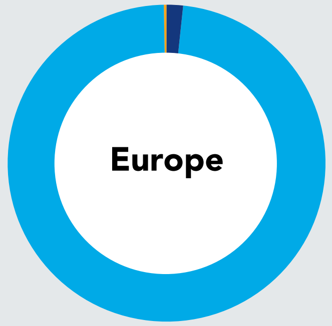
- Corporate Reporting **31.7%**
- Purpose, Strategy & Policies **46.8%**
- Risk Management **21.5%**

Voting overview

Over the last quarter we made voting recommendations at 7,356 meetings (86,927 resolutions). At 5,449 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at 120 meetings and abstaining at 15 meetings. We supported management on all resolutions at the remaining 1,772 meetings.

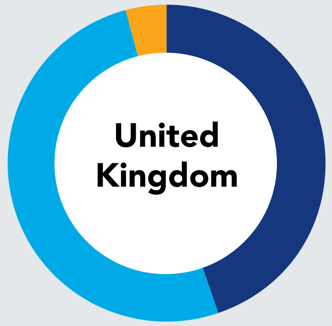
We made voting recommendations at **7,356** meetings (**86,927** resolutions) over the last quarter.

- Total meetings in favour **24.1%**
- Meetings against (or against AND abstain) **72.9%**
- Meetings abstained **0.2%**
- Meetings with management by exception **1.6%**



We made voting recommendations at **1,073** meetings (**18,698** resolutions) over the last quarter.

- Total meetings in favour **15.3%**
- Meetings against (or against AND abstain) **82.7%**
- Meetings abstained **0.6%**
- Meetings with management by exception **1.5%**

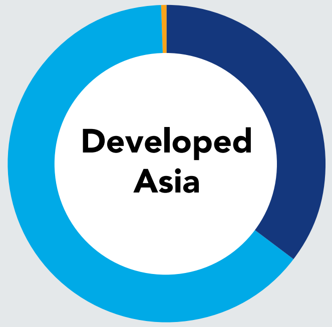


We made voting recommendations at **319** meetings (**5,691** resolutions) over the last quarter.

- Total meetings in favour **44.8%**
- Meetings against (or against AND abstain) **51.1%**
- Meetings with management by exception **4.1%**

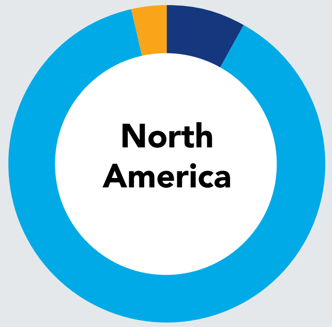
We made voting recommendations at **2,437** meetings (**26,322** resolutions) over the last quarter.

- Total meetings in favour **31.1%**
- Meetings against (or against AND abstain) **68.2%**
- Meetings abstained **0.3%**
- Meetings with management by exception **0.5%**



We made voting recommendations at **1,505** meetings (**15,048** resolutions) over the last quarter.

- Total meetings in favour **35.3%**
- Meetings against (or against AND abstain) **64.2%**
- Meetings with management by exception **0.5%**



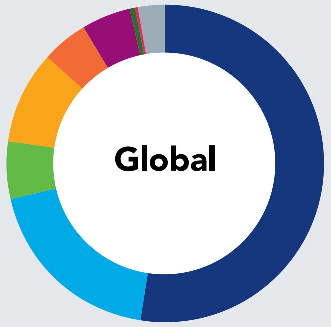
We made voting recommendations at **1,953** meetings (**20,807** resolutions) over the last quarter.

- Total meetings in favour **8.3%**
- Meetings against (or against AND abstain) **88.1%**
- Meetings with management by exception **3.5%**

We made voting recommendations at **69** meetings (**361** resolutions) over the last quarter.

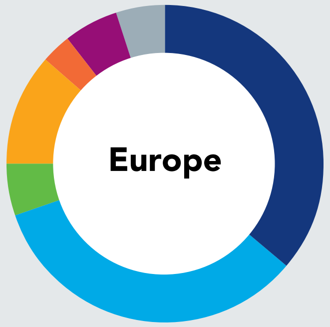
- Total meetings in favour **20.3%**
- Meetings against (or against AND abstain) **72.5%**
- Meetings abstained **2.9%**
- Meetings with management by exception **4.3%**

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



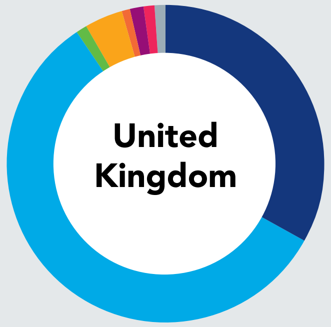
We recommended voting against or abstaining on **16,287** resolutions over the last quarter.

- Board structure **52.8%**
- Remuneration **18.9%**
- Shareholder resolution **5.8%**
- Capital structure and dividends **9.3%**
- Amend articles **4.9%**
- Audit and accounts **4.9%**
- Investment/M&A **0.7%**
- Poison pill/Anti-takeover device **0.2%**
- Other **2.6%**



We recommended voting against or abstaining on **3,354** resolutions over the last quarter.

- Board structure **36.3%**
- Remuneration **33.6%**
- Shareholder resolution **5.2%**
- Capital structure and dividends **11.5%**
- Amend articles **2.9%**
- Audit and accounts **5.5%**
- Poison pill/Anti-takeover device **0.1%**
- Other **4.9%**

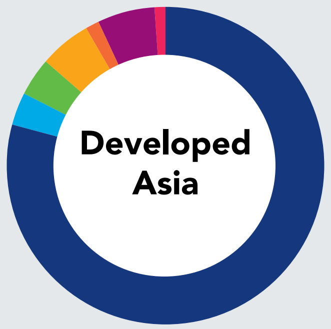


We recommended voting against or abstaining on **306** resolutions over the last quarter.

- Board structure **33.3%**
- Remuneration **57.5%**
- Shareholder resolution **1.0%**
- Capital structure and dividends **3.9%**
- Amend articles **0.7%**
- Audit and accounts **P26%**
- Poison pill/Anti-takeover device **1.6%**
- Other **1.0%**

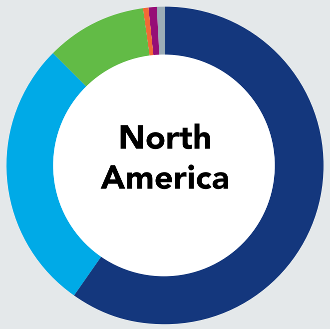
We recommended voting against or abstaining on **5,641** resolutions over the last quarter.

- Board structure **44.8%**
- Remuneration **9.9%**
- Shareholder resolution **4.6%**
- Capital structure and dividends **16.4%**
- Amend articles **11.6%**
- Audit and accounts **6.8%**
- Investment/M&A **1.9%**
- Other **4.2%**



We recommended voting against or abstaining on **3,080** resolutions over the last quarter.

- Board structure **79.3%**
- Remuneration **3.3%**
- Shareholder resolution **3.8%**
- Capital structure and dividends **5.5%**
- Amend articles **1.2%**
- Audit and accounts **6.0%**
- Poison pill/Anti-takeover device **0.9%**



We recommended voting against or abstaining on **3,771** resolutions over the last quarter.

- Board structure **59.9%**
- Remuneration **27.9%**
- Shareholder resolution **10.2%**
- Capital structure and dividends **0.2%**
- Amend articles **0.4%**
- Audit and accounts **0.9%**
- Other **0.6%**

We recommended voting against or abstaining on **135** resolutions over the last quarter.

- Board structure **38.5%**
- Remuneration **44.4%**
- Shareholder resolution **1.5%**
- Capital structure and dividends **9.6%**
- Amend articles **1.5%**
- Audit and accounts **4.4%**

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 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$1.3tn as of 31 March 2023. The team's skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards.
- **Client focus** – EOS pools the priorities of like-minded investors, and through consultation and feedback, determines the priorities of its Engagement Plan.
- **Tailored engagement** – EOS develops engagement strategies specific to each company, informed by its deep understanding across sectors, themes and markets. It seeks to address the most material ESG risks and opportunities, through a long-term, constructive, objectives-driven and continuous dialogue at the board and senior executive level, which has proven to be effective over time

EOS team

Engagement

Leon Kamhi
Head of Responsibility and EOS

Richard Adeniyi-Jones
Sectors: Consumer Goods, Financial Services, Industrial & Capital Goods

Dana Barnes
Sectors: Oil & Gas, Utilities

Justin Bazalgette
Sectors: Financial Services, Industrial & Capital Goods

Joanne Beatty
Sector lead: Chemicals, Industrial & Capital Goods

George Clark
Voting and Engagement Support

Emily DeMasi
Sector co-lead: Financial Services

Zoe de Spoelberch
Sector co-lead: Retail & Consumer Services

Bruce Duguid
Head of Stewardship, EOS

Elissa El Moufti
Sectors: Financial Services, Mining & Materials, Oil & Gas

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

Jaime Gornsztejn
Sector co-lead: Mining & Materials

Ellie Higgins
Themes: Climate Change Action, Human and Labour Rights

Shoa Hirosato
Sectors: Financial Services, Transportation, Utilities

Lisa Lange
Sector lead: Transportation

Pauline Lecoursonnois
Sector co-lead: Pharmaceuticals & Healthcare

Sonya Likhtman
Sectors: Transportation, Consumer Goods, Financial Services

Earl McKenzie
Voting and Engagement Support

Claire Milhench
Communications & Content

James O'Halloran
Director of Business Management, EOS

Navishka Pandit
Themes: Circular Economy, Human Capital, Human Rights

Xinyu Pei
Sector: Oil & Gas

Nick Pelosi
Sector co-lead: Mining & Materials

Jaagrit Randhawa
Sectors: Consumer Goods, Pharmaceuticals & Healthcare, Technology

Howard Risby
Sectors: Financial Services, Mining & Materials, Oil & Gas

Velika Talyarkhan
Sector lead: Utilities

Ross Teverson
Sectors: Retail & Consumer Services, Technology

Kenny Tsang
Sector co-lead: Consumer Goods

Judi Tseng
Sectors: Financial Services, Technology

Mark Turner
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Sectors: Chemicals, Oil & Gas, Utilities

Haonan Wu
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Alishah Khan
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Jonathan Lance
Client Service

William Morgan
Client Service

Alice Musto
Client Relations Lead

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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, where possible, to contribute to positive outcomes that benefit the wider world.

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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.

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