Case study summaries 2019

Overview

Hermes EOS publishes a range of public case studies highlighting the impact of our engagement work with companies throughout the year, endeavouring to ensure good coverage of holdings and a mix of thematic areas.

This document contains summary versions of our engagement case studies produced in 2019, which you might find useful for inclusion in your annual reporting.

These summaries are based on the full-length case studies which have been fact-checked by companies and can be found on our website at: https://www.hermes-investment.com/ukw/stewardship/eos-insights/

This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

Wells Fargo – *published 06 February 2019*

Wells Fargo & Company is one of the world's systemically important financial institutions. It announced regulatory and legal settlements in 2016 relating to its retail banking sales practices. The board's report found that the root causes included performance management and incentive programs, and a high-pressure sales culture in its community bank, which drove inappropriate behaviours. We began our engagement by co-filing a shareholder proposal in 2016 calling for an independent chair and our dialogue continued into 2017 when we co-signed a letter requesting that it implement the recommendations of the Task Force on Climate-related Financial Disclosures. Encouragingly, in November 2016, the board amended the company's by-laws to mandate an independent chair. In late 2017, the company provided us with details of its fundamental change programme, which exceeded the regulatory requirements. We were equally delighted that the company announced an ambitious clean energy goal in the second quarter of 2018. Our meetings with management and with the independent chair in the second half of 2018 confirmed our sense that progress is continuing at the company.

Anglo American – published 05 March 2019

Anglo American is a multinational mining company. Our engagement on its environmental impact intensified in early 2016 around a successful resolution co-led by Hermes EOS. This asked the company to publish a stretching climate-related target and undertake further analysis and disclosure of the resilience of its business to low-carbon scenarios. We returned to the AGM in 2017 to again urge the company to set and publish greenhouse gas reduction (GHG) targets and advance its understanding of climate risk. At its sustainability day in March 2018 the company launched a strengthened approach to climate change including a longer-range climate target to reduce net GHG emissions by 30% by 2030, based on 2016 levels. At the April 2018 AGM, in response to our questions the chair confirmed the 2030 target was stretching and employed a science-based methodology and that the company aims to 'be in a position to start operations' at a carbon-neutral mine by 2030. We continue to engage with the company on enhanced disclosure on climate-related financial risks.

Supporting market progress through public policy engagement: the case for Mainland China and Hong Kong – *published 24 May*

Recognising that the overall ESG standards in Asia are rapidly evolving, Hermes EOS has stepped up its efforts to engage with regulators to support policy making that meets global best practice. In 2017 to 2018, the Hong Kong Stock Exchange (HKEX) launched its first web-based director training programme and we were the first institutional investor representative to participate. The following year, we received positive feedback on the training from one of the Chinese state-controlled companies we engage with, who informed us it had been used by its external consultant as best practice. In 2017 we also became a member of the Principles for Responsible Investment Sustainable Stock Exchange Committee and pioneered a direct dialogue with the Hong Kong Securities and Futures Commission (SFC) to encourage the endorsement of the Task Force on Climate-related Financial Disclosures recommendations by regulators around the world. In 2018, the SFC issued a strategic framework for green finance, endorsing the recommendations by the TCFD and promised to work with stakeholders to implement it. We have also initiated a dialogue with the Financial Services Development Council (FSDC) of the Hong Kong government to provide input into the implementation of TCFD recommendations for Hong Kong based family offices and the relevant reporting frameworks. In November 2018, the FSDC published a paper on ESG strategy for Hong Kong, recommending the upgrade of stewardship codes to 'comply or explain' and improving ESG integration and regulation on investment products. In February 2019, we conducted the first full day ESG seminar for the Asset Management Association of China (AMAC). We continue to drive interest and commitment to stewardship in the region through proactive and timely outreach to regulators, in addition to formal consultation responses.

WPP – *published 11 July*

Engaging with WPP since 2009, starting in 2010 a key part has been to seek changes to the remuneration policy. We also asked the board to demonstrate that it had in place short, medium and long-term succession plans for the CEO role. In 2012, we began requesting that much of this work be done under the charge of a new chair and pressed for a refreshment of the board. More recently, we challenged the practice of maintaining an advisory board with a number of former long-serving non-executive directors. The election of a new chair at the 2015 AGM was a vital step to rebuilding shareholder confidence. Under his leadership, succession planning became a higher priority with greater transparency. The succession plans proved useful following the sudden departure of the CEO in 2018. We were also pleased that the chair decided to commission the company's first independent board evaluation in 2016 with a second evaluation carried out in 2018. WPP revised its remuneration policy in 2017 and the company's advisory board, which is an atypical practice in the UK market, was formally disbanded in 2018. We continue to engage with the company over the concern that it should reduce the complexity of its group structure and the challenges it faces as an overly complex business lacking agility and a disruptive advertising industry.

Siemens – *published 19 July*

A compliance crisis in 2006 catalysed the departure of both the CEO and chair. We had an intensive dialogue with the newly appointed chair in the period immediately following. We spoke with the chair and executives to articulate our concerns over the composition of the supervisory board and the effectiveness of its work as well as its remuneration. The company encouraged us to attend and speak on multiple occasions at its AGMs. This resulted in us giving AGM speeches in 2007, 2008, 2009, 2010, 2013, 2014, 2015, 2016 and 2018, highlighting our corporate governance and compliance concerns. We also called on the company to develop and implement a plan to rationalise its portfolio of businesses and to improve margins and sustainable growth. Following an internal review and the recommendations of an independent investigation, the company introduced a series of changes to its compliance system to ensure that bribery should not take place again. Over the period of our engagement, the supervisory board has made significant steps forward in corporate governance. This has resulted in a much-improved board today that includes three female directors and expertise that is more relevant to the development of the business. We continue to engage on climate change and the successful implementation of the company's Vision 2020+ strategy.

Teva– *published 30 July*

Following the appointment of the CEO in 2017, we engaged on remuneration and recommended a vote against the 2018 say-on-pay proposal. We met with the chair of the board and chair of the compensation committee to express our concerns. We explained that we believe pay should be aligned to the long-term success of the company and desired corporate culture, best achieved through long-term share ownership. We urged it to require the CEO to buy shares annually, out of his own funds. We also encouraged a more coherent strategy on its approach to access to medicines. Teva has since taken significant steps to strengthen its executive compensation, increasing the minimum shareholding requirements for the CEO to six times the base salary. It also made changes preventing executives from diversifying out of the stock whilst still meeting the minimum shareholding requirements. Overall quantum remained high in 2018 but the company has stressed that it does not intend to use one-time sign-on awards of such magnitude and structure in the future. Whilst continuing to engage on executive compensation, we believe Teva also has a significant role to play in providing access to medicines to underserved populations.

BHP – *published 31 July*

We started engaging with BHP on water-related risk management in 2015. We engaged regularly at management and board level including with: the head of sustainability in 2015, 2016 and 2017; the chair of the board in 2017; and the chair of the sustainability committee in 2018. Our engagement included attending an investor roundtable, convened by the company, on the importance of water risks and how best to appraise and report on these. We also provided feedback on its developing water management framework, in conjunction with a group of selected investors. We were pleased to see the company's first enhanced water report published in 2018. It also presented a five-year target approved by the board to reduce fresh water withdrawal by 15% (2017-2022) and a long-term goal, in line with UN Sustainable Development Goal 6. We continue to engage with BHP on water stewardship and on diversity across the workforce, remuneration policy, community relations and tailings storage facilities safety standards.

Industrial and Commercial Bank of China– *published 30 August*

We initiated engagement on environmental policy in 2013 and established an objective on climate change in April 2016, voicing our concerns over the management of environmental and social risks and shortcomings in the current Equator Principles with the chair of the group board's risk management committee. We encouraged the company to reduce its lending to high risk sectors and expand its exposure to green financing and asked it to adopt the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in its reporting. We also encouraged company-wide efforts to proactively involve itself in the China-UK TCFD pilot group. In 2016, the company published a detailed report explaining its strengthened approach to managing environmental risks. It has systematically reduced lending to sectors that are environmentally sensitive or damaging and increased lending to environmentally friendly sectors. It became a member of the China-UK TCFD pilot group and in 2018 the company led the publication of the three-year action plan for the group's Chinese members. It also became a founding member of the United Nations Environment Finance Initiative Principles for Responsible Banking. We continue to engage with the company on environmental risk management.

Hyundai Motor – *published 30 September*

In our meeting with the newly appointed lead independent director in 2015, we raised concerns as to whether the independent directors displayed the requisite balance of skills and experience for a major international company. We followed this up with a series of meetings in Seoul from 2016, including pressing for an externally facilitated board evaluation. We also suggested that it allow shareholders to propose candidates to the nomination committee. We proposed an initial development of a self-assessed board director skills matrix as a means of triggering improved diversity. We continued to question vehicle sustainability performance over the next three years, including meeting with the independent chair in 2018. In 2018, the company announced it would seek shareholder nominations for an independent director and conduct an internal board evaluation. In early 2019 a team of five external governance specialists reviewed a range of candidates suggested by shareholders which highlighted skills gaps in the current board. The subsequent election at the AGM of one of these candidates and others nominated by the company has materially improved relevant skills and experience. In our meeting with the new shareholder-nominated independent director, we were comforted by his clear understanding of shareholder concerns about the need to strengthen minority protection and the proposals he had made to improve board effectiveness. The company has also made good progress on improving the sustainability of its vehicles, launching a number of lower emissions models and has set up an ESG taskforce. We will continue to assess the effectiveness of the board, press for the appointment of the first female director and to argue for an external board evaluation. We will also monitor improvements in overall fleet emissions to ensure that the company makes progress against peers.

Ping An – *published 20 November*

We shared insights with the chief strategist in 2017 on areas for improvement to create more long-term sustainable value. This included a strategy on climate change, ESG integration, product governance, AI applications and data governance. We continued to build our relationship with the deputy CEO, the chief strategist, the chief innovation officer, investor relations and the newly established ESG office through regular calls and in-person meetings. In early 2019, we presented our arguments to the chief innovation officer and chief strategist on the need for responsible AI practices that meet investors' expectations. In August 2019, following our recommendation, the company became the first Chinese asset owner signatory of the PRI. It is committed to integrating ESG factors into its investment strategies and products, and has started implementing its own responsible investment policy framework. During the same month, on AI ethics and data governance, it became one of the first major financial institutions globally to publish a set of AI ethical principles. In its 2019 interim results announcement, the chief financial officer gave an update on its ESG initiatives for the first time, including a low-carbon commitment to reduce emission intensity by 20% by 2030 and it began participating in CDP disclosure this year. We continue to engage on the implementation these achievements and board oversight to ensure successful ESG integration throughout the business.

Tencent – *published 28 November*

We initiated engagement on board diversity after we strengthened our corporate governance principles for the mainland China and Hong Kong market at the start of 2019. We met the senior legal counsel and wrote to the company's chair to call attention to the amended Hong Kong Corporate Governance Code of July 2018 which set higher expectations on the board nomination process and on diversity. We also highlighted that in October 2018 the chief executive of Hong Kong called for all listed companies to appoint more women as board members. We put our principles into action and recommended voting against a member of the nomination committee at the 2019 annual shareholder meeting. In early May 2019, we received confirmation that the board acknowledged that gender diversity throughout the organisation should be improved. In August 2019, the company successfully appointed a female director. Tencent continues to implement its board diversity policy to ensure that the board has the appropriate balance of skills, experience and diversity of perspective, to support and take the company forward. We continue to engage on its broader diversity agenda under human capital management, which is material issue in the technology industry, and look for opportunities to set more specific targets at the executive management level.

Facilitating collaborative action on climate change – *published 2 December*

Hermes EOS is engaging with companies on climate change across Asia, the US, and Europe. It has used a number of noteworthy approaches in furthering its active-engagement strategy, using a broad range of engagement tools in pursuit of achieving engagement objectives. In 2018/19, these included: attending annual shareholder meetings, raising climate change at seven such meetings in 2018 and six in 2019; systematically recommending its clients to vote against re-election of relevant responsible directors at climate laggards; and advocating for industry best practices and public policy change. Notable positive outcomes at companies following collaborative engagement, supported by Hermes EOS include: Chevron improving disclosure of its portfolio resilience to climate change; Maersk setting the goal to reach carbon neutrality by 2050; and PetroChina improving disclosure of its climate change risks and opportunities, including its plans to contribute to the goal of limiting climate change to below 2C. Hermes EOS, on behalf of its clients, will continue to actively encourage some of the world's biggest polluters – across Asia, the US and Europe – to reduce emissions and take tangible action on climate change.

Hon Hai – *published 17 December*

Our engagement with Hon Hai started in 2010 when employee incidents at its factories in China raised human capital management concerns. After limited progress, we recommended voting against the election of board directors in 2010. By 2012 the company had taken positive steps to identify problematic labour issues and acknowledged the need for further improvements. Following a visit to the factory in Shenzhen to inspect working conditions and review the implementation of the Fair Labor Association's recommendations, we left encouraged by the company's actions but pointed out that sustainable change would necessitate a change in company culture. Following another difficult dialogue, we spoke at the annual shareholder meeting in June 2014 which was covered by the Financial Times as an example of how corporate engagement is gaining momentum in Asia. In 2016, we were the first institutional investor to visit the company's Chengdu factory. However, we were subsequently disappointed by student overtime practices at a different site. After an unprecedented direct dialogue with the chair / CEO at the annual shareholder meeting in 2018, company representatives, including an independent board director, gave further reassurance that succession planning was being worked on. In June 2019 the chair / CEO announced plans to step down as chair of the board at the AGM later the same month. We were pleased that the company put in place a committee-style governance structure to facilitate a more inclusive decision-making process. We will continue to engage on the effectiveness of the new board and its decision-making process and on strategic planning to adapt to new challenges and opportunities from digitalisation and artificial intelligence, as well as greater insights into the company's management of climate change risks and opportunities.

Case studies are shown to demonstrate engagement, EOS does not make any investment recommendations and the information is not an offer to buy or sell securities.