


# Public Engagement Report



**END OF THE LINE FOR  
ANIMAL TESTING?**

**Why pharmaceutical companies  
are seeking alternatives**

**How to assess a company's  
climate transition plan**

**Engaging on demand-side  
climate solutions**

**Defining moments from a  
fractious vote season**

**Q2 2024**

Welcome to our Public Engagement Report for Q2 2024. In our cover feature this quarter, we explore the world of pharmaceutical animal testing, where animals are used in research to develop new drugs.

Changes to regulatory regimes are removing some longstanding requirements for drugs to be tested on animals, where certain alternatives are available. Ellie Higgins, Ingrid Kukuljan and Pauline Lecoursonnois outline these innovative options, and examine the risks to companies that are failing to prepare for a wider transition to alternatives.

Shareholder votes on company climate transition plans are now a key feature of the AGM season in major markets, but investors may find it difficult to analyse and assess these plans due to their complexity. To address this, Owen Tutt and Will Farrell set out a framework to help investors appraise transition plans efficiently and effectively.

Keeping with the climate theme, Will Farrell and Hannah Heuser explain how EOS is using its supply-side insights from fossil fuel company engagements to strengthen our engagements on demand-side solutions.

Finally, Richard Adeniyi-Jones and Dana Barnes round up some of the key votes from a fractious proxy season in North America, Europe and Australia, including developments at ExxonMobil, TotalEnergies, Disney and Tesla.



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

## Table of contents

### Is the end in sight for animal testing? 4

Animal testing is a contentious issue, but mainstream coverage tends to focus on the ethics of the practice, and its use for cosmetic and personal care products. Pharmaceutical animal testing is less well understood. Ellie Higgins, Ingrid Kukuljan and Pauline Lecoursonnois explore the risks.

### The value of transition planning 9

Companies' climate transition plans are now regularly put to the vote during annual shareholder meetings, but the complexity of these plans can make them difficult to assess. Owen Tutt and Will Farrell explain what investors should be looking for.

### Engaging on demand-side climate solutions 13

Oil and gas majors' strategies are not yet fully aligned with 1.5°C and the Paris Agreement. With EOS engaging across a universe of companies, Will Farrell and Hannah Heuser set out how we are using our supply-side insights to strengthen our efforts on the demand side.

### Disputes proliferate in fractious vote season 15

Proxy contests and legal disputes characterised the 2024 vote season in North America and Europe as battle lines hardened between change-seeking shareholders and laggard companies. By Richard Adeniyi-Jones and Dana Barnes.

### Company engagement highlights 25

Short company case studies where we have completed objectives or can demonstrate significant progress.

### Public policy and best practice 29

Highlights of our advocacy and collaborative work.

### Engagement and voting activity 31

### The EOS approach to engagement 35

### EOS Team 36

# Is the end in sight for animal testing?

Animal testing is an issue that resonates with consumers and investors alike. However, investment approaches have been mainly values-based to date, and the significance of the related risks overlooked. By Ellie Higgins, Ingrid Kukuljan, and Pauline Lecoursonnois.

## Setting the scene

Companies are often reluctant to disclose the extent of their involvement with animal testing. But a changing regulatory and risk backdrop, coupled with the growing advantages of alternatives, indicate that treating pharmaceutical animal testing only as an ethics-based issue is unsustainable.

Effective governance and management of pharmaceutical animal testing and preparing for a transition to alternatives are critical for the protection and creation of long-term shareholder value. Companies that welcome the integration of alternatives into their research programmes, and make investments to support the transition, will be well placed to take market share in an animal testing-free future.

For further information, please contact:



**Ellie Higgins**  
Sectors: Pharmaceuticals & Healthcare, Consumer Goods  
ellie.higgins@FederatedHermes.com



**Ingrid Kukuljan**  
Head of Impact and Sustainable Investing, FHL  
ingrid.kukuljan@FederatedHermes.com



**Pauline Lecoursonnois**  
Themes: Natural Resource Stewardship, Circular Economy & Zero Pollution  
pauline.lecoursonnois@FederatedHermes.com

Animal testing is a contentious issue that continues to resonate with consumers and investors, but mainstream coverage tends to focus on the ethics of the practice, and its use for cosmetic and personal care products.

Pharmaceutical animal testing is less well understood. This is where animals are used in research to develop and study the safety and efficacy of medical products in preclinical development.

While there is little remaining support for the use of animal testing in cosmetics, public opinion is divided on its application in medicine. Support tends to be contingent on the practice being carried out humanely and only where no alternatives are available.<sup>1</sup>

Involvement in pharmaceutical animal testing for product development exposes companies to a multitude of risks. Policy shifts in Europe and North America reflect the likelihood of a long-term phase out of the regulatory requirement for pharmaceutical animal testing, and the development, validation, and adoption of promising alternatives is well underway. Once pharmaceutical animal testing is no longer required by law or science, companies may choose to continue the practice, but at the risk of losing their social licence to operate.

EOS engages with pharmaceutical and medical devices companies on their involvement in pharmaceutical animal testing, with a focus on the three Rs: replacement, reduction, and refinement.

<sup>1</sup> Moral Issues | Gallup Historical Trends, Nanos Report EN (ccac.ca), Normal dot (Rev02 January 2009) (ipsos.com), Cruelty Free Europe – Animal testing in the EU – Savanta Europe, Survey report on public awareness concerning the use of animals in scientific research in Japan (jst.go.jp)

We want companies to have robust governance and risk management structures where testing must continue, and are able to leverage opportunities created by the alternatives transition, to drive long-term value creation.

## Global policy perspectives

Pharmaceutical animal testing requirements exist to some extent in all developed markets, but vary greatly by region. The use of alternatives in pharmaceutical research is considered standard practice in the EU and UK, and animal use is only permitted where its scientific necessity can be demonstrated. In 2021, the European Parliament called for the development of an EU-wide action plan to phase out requirements for animal testing under chemicals legislation, which includes coverage of human and veterinary medicines. The European Commission announced its intention to accelerate this phase-out in 2023.<sup>2</sup>

The North American market is still in the early stages of its alternatives transition, but the changes are palpable. Legal protections for animals used in pharmaceutical research, and funding for alternative technologies, have steadily increased in recent years. In 2023, the Food and Drug Administration (FDA) Modernization Act 2.0 was enacted in the US, removing several longstanding requirements for drugs to be tested on animals where certain alternatives are available.<sup>3</sup> Although the replacement of animals in the product development process is still treated as the exception, not the rule, its introduction incentivises companies to reduce their reliance on the practice.

Other countries, such as China and Japan, acknowledge the importance of the three Rs within regulatory regimes but continue to require animal testing in pharmaceutical product development. Asian governments' approaches to ensuring laboratory animal welfare and safety are also known to be less stringent than those of the Western world.<sup>4</sup>

The lack of global harmonisation has led to duplicity and redundancy, hindering any single region's efforts to move towards alternatives. However, recent approvals of animal-free pharmaceutical research strategies by intergovernmental bodies such as the OECD should help to improve standardisation of the alternatives allowed in the future.<sup>5</sup>

## The changing risk landscape

Pharmaceutical research is commonly performed on rodents and fish, but rabbits, dogs, cats, non-human primates, and other animals are also used. Recent events regarding the use of non-human primates (NHPs) demonstrate the risks.

The price per animal for NHPs rose from roughly US\$5,000 in 2020 to \$30,000 in 2023 due to a shortage driven by China's export ban.<sup>6</sup> The country was previously the largest exporter

of NHPs worldwide. The NHP shortage threw a spanner into drug development pipelines at the onset of the Covid-19 pandemic and continues to cause study delays on a global scale. After receiving subpoenas in connection with a federal investigation of an NHP smuggling operation, the share prices of two major US contract research organisations – Charles River Laboratories and Inotiv – tumbled.<sup>7,8</sup>

While sourcing complications are possible with any product, they are particularly problematic for live animals, as life-sustaining care and facilities must be provided throughout the supply chain. Animals are transported from specialist breeders and must remain healthy and in highly-controlled environments to produce reliable results.

Failure to maintain the appropriate conditions during transport and at research facilities can have a major impact on the livelihood of animals and their suitability for research. Companies found in violation of laws relating to laboratory animal welfare may lose external funding, face facility shutdowns, or incur other legal and financial penalties.



The potential for damage to a company's social licence to operate is more tangible with animal testing for cosmetics, or farm animal welfare. Consumers dissatisfied with a company's animal use practices can easily change their shampoo or fast-food selection. However, anonymity granted to companies through the use of contract research organisations for pharmaceutical animal testing, and patent exclusivities in medical products, create challenges for consumers seeking to identify or boycott brands based on their treatment of animals.

The societal backlash regarding pharmaceutical animal testing is perhaps best illustrated by the US government seizure of thousands of beagles from an Envigo breeding and research facility due to welfare concerns in 2022. In 2024, Envigo's parent company was ordered to pay a fine of over US\$35m, the largest in US history for an Animal Welfare Act case.<sup>9</sup>

<sup>2</sup> Texts adopted – Plans and actions to accelerate a transition to innovation without the use of animals in research, regulatory testing and education – Thursday, 16 September 2021 (europa.eu), Commission acts to accelerate phasing out of animal testing (europa.eu)

<sup>3</sup> Top national pharma markets by market share 2022 | Statista, \$,5002 – 117th Congress (2021-2022): FDA Modernization Act 2.0 | Congress.gov | Library of Congress

<sup>4</sup> Legislation & Regulation In Asia | FRAME

<sup>5</sup> World's first toxicology testing strategy without animal testing adopted by OECD | Givaudan

<sup>6</sup> Monkey Business Threatens U.S. Drug Discovery – WSJ

<sup>7</sup> Animal Testing for Vaccines Relies on a Cruel Monkey Supply Chain (bloomberg.com)

<sup>8</sup> https://www.washingtonpost.com/science/2023/03/01/monkeys-cambodia-research/

<sup>9</sup> Office of Public Affairs | Animal Breeder Pleads Guilty to Animal Welfare and Pollution Crimes and Will Pay More than \$35M, Including Record Fine in an Animal Welfare Case | United States Department of Justice

## Nature-related impacts – species under threat



The impacts and dependencies relating to animal testing should be considered as part of a company's biodiversity strategy. While some animals used in testing appear to be in abundant supply, the same cannot be said for other animals commonly used in pharmaceutical research.

Following China's export ban on non-human primates (NHP), a rapid shift in sourcing locations occurred, contributing to major increases in NHP poaching. In 2022, the International Union for Conservation of Nature (IUCN) issued endangered status to one species of NHP frequently used in pharmaceutical animal testing, the long-tailed macaque. Hunting and trapping were previously a threat to the population and poaching has become rampant due to the heightened demand and price. The species is also threatened by habitat deforestation and degradation.<sup>10</sup>

Horseshoe crabs are used in pharmaceutical animal testing due to the properties of their distinctive blue blood. The crabs are typically caught and released back into the sea after a portion of their blood has been extracted, but improper handling and aftercare techniques are common, putting their continued livelihood at risk. The American and tri-spine horseshoe crabs are classified as vulnerable and endangered by the IUCN, respectively. Horseshoe crab eggs are also a food source for fish, birds, and other wildlife, and their shells serve as a habitat for smaller species.<sup>11</sup>

Notably, Eli Lilly has made a formal commitment not to use any NHP species classified as endangered or that are caught in the wild. The company is an advocate for alternatives to horseshoe crab-derived blood reagents and has converted 80% of its testing to a synthetic alternative since 2016.<sup>12</sup>

### What alternatives can be used?

Some 90% of drugs that pass preclinical tests ultimately fail, and the biological differences between animals and humans are known to be a contributing factor.<sup>13</sup> The technological evolution in drug testing and alternatives, which can deliver more accurate and efficient results, creates opportunities to switch, to the benefit of society and animals.

Alternatives to pharmaceutical animal testing fall into three segments – those performed using biological molecules (in chemico), those using computational modelling (in silico), and those using cells outside the body (in vitro).

Many alternatives are more efficient, cost-effective, accurate, and relevant to human biology than animal-based research. These advantages are crucial, as alternatives must compete with, and outperform animal-based research to gain confidence and support from industry and regulators.

Major pharmaceutical brands are now partnering with innovators in the alternatives space, as well as investing in alternative technologies development in-house. Even contract research organisations, considered to be the largest proponents of animal testing, have acknowledged the need to reduce their reliance, and are allocating resources to alternatives development and integration.<sup>14</sup>



Many alternatives are more efficient, cost-effective, accurate, and relevant to human biology than animal-based research.

Despite these efforts, the alternatives market is not yet mature enough to support a total elimination of pharmaceutical animal testing without compromising the integrity of the product development process. To advance the alternatives transition, companies will need to work diligently and collaboratively on technology development and validation, in concert with regulators.

### In silico alternatives

Artificial intelligence (AI) is helping to reduce, refine, and in some cases, replace animal testing. By ingesting vast quantities of human health data and running modelling scenarios, researchers may be able to screen a drug for its applicability to humans more effectively and quickly than by testing it on animals first.

For example, Merck KGaA has formed a partnership with Quris-AI on its AI platform for clinical prediction, and has seen success in its ability to detect drug toxicity in comparison with in vitro and animal-based methods.<sup>15</sup> Merck is a leader in transparency regarding pharmaceutical animal testing and has made a formal commitment to phase out its use of the practice. AstraZeneca has also implemented AI technologies that have significantly reduced the rate of failure in the first phase of human trials.<sup>16</sup> EOS continues to engage in the healthcare space to ensure that AI models are used responsibly and with proper controls in place to eliminate bias.

### Our engagement approach

EOS has historically engaged on animal welfare with companies in the agriculture and animal health industries. We have also collaborated with the FAIRR investor network on various initiatives relating to livestock production. In our Q3 2021 Public Engagement Report, we outlined the threats posed by antimicrobial resistance and our engagement approach across the animal protein supply chain.<sup>17</sup>

Based on recent changes in policy surrounding pharmaceutical animal testing and the growing risks and alternatives opportunities, we have scaled up our engagement with companies in the pharmaceutical and medical device sectors to protect and enhance shareholder value and drive progress towards the alternatives transition.



We have collaborated with the FAIRR investor network on various initiatives relating to livestock production.

### Replacement, reduction, and refinement

Replacement, reduction, and refinement (the three Rs) form the underlying framework for present-day approaches to more humane pharmaceutical animal testing.<sup>18</sup> We ask companies to formally commit to these principles and to demonstrate the outcomes from each. Where pharmaceutical animal testing must continue for some purpose, be it regulatory, scientific or otherwise, we expect companies to provide reasonable transparency and accountability on the rationale and extent of their involvement.

### Risk management

We ask for evidence of robust governance and management structures in place extending across the pharmaceutical animal testing value chain to ensure implementation of the 3 Rs, and that all animals are kept in appropriate conditions and treated humanely. This should include information on due diligence practices, global sourcing risk management strategies, and a clear pathway of escalation to the board where critical concerns arise.

### Alternatives investment and policy engagement

As the final component of our engagement strategy, we urge companies to prepare for and facilitate the alternatives transition. We seek evidence that companies are allocating capital to alternative technologies development and collaborating with peers for innovation to challenge the market norms. They should also advocate for the harmonisation of legal requirements for animal pharmaceutical testing and the acceptance of alternative technologies wherever feasible.

Looking forward, we expect companies to leverage the opportunities for growth created by the alternatives transition to drive long-term shareholder value. EOS will monitor the developing geopolitical complexities around animal sourcing and other related risks. And we will pay close attention to how North American pharmaceutical companies can further enact their 3 Rs commitments in response to the FDA Modernization Act 2.0.

<sup>10</sup> [Macaca fascicularis \(Long-tailed Macaque\) \(iucnredlist.org\)](https://www.iucnredlist.org), [Animal Testing for Vaccines Relies on a Cruel Monkey Supply Chain \(bloomberg.com\)](https://www.bloomberg.com)

<sup>11</sup> [International Horseshoe Crab Day: a celebration of the flagship species for coastal habitat conservation | IUCN](https://www.iucn.org), [Pharmaceutical labs bleed horseshoe crabs for vaccines with little accountability : NPR](https://www.npr.org)

<sup>12</sup> [Environmental | 2023 Sustainability Report | Eli Lilly and Company](https://www.environmental.com), [Animal Care and Use | Discovery | Science | Eli Lilly and Company](https://www.discovery.com)

<sup>13</sup> [Why 90% of clinical drug development fails and how to improve it? – PMC \(nih.gov\)](https://www.nih.gov)

<sup>14</sup> [Charles River Laboratories Launches Alternative Methods Advancement Project to Reduce Reliance on Animal Testing | Charles River Laboratories International, Inc. \(criver.com\)](https://www.criver.com), [Envigo expands R&D capabilities in non-animal technologies to meet regulatory and market requirements for in vitro assays \(inotivco.com\)](https://www.inotivco.com)

<sup>15</sup> [Merck KGaA, Darmstadt, Germany and Quris-AI Expand \(globenewswire.com\)](https://www.globenewswire.com)

<sup>16</sup> [How science is getting closer to a world without animal testing \(ft.com\)](https://www.ft.com)

<sup>17</sup> [EOS Public Engagement Report \(hermes-investment.com\)](https://www.hermes-investment.com)

<sup>18</sup> [The 3Rs | NC3Rs](https://www.nc3rs.org.uk)

 CASE STUDIES

## Johnson &amp; Johnson and Pfizer



At the end of 2023, EOS wrote to a group of companies in the healthcare and pharmaceutical space urging them to voice their support for Chapter 86 during the open consultation period at US Pharmacopeia. Chapter 86 relates to the use of alternatives to reagents derived from horseshoe crabs in certain tests.<sup>19</sup>

Following this outreach, we held several dedicated calls with a range of different pharmaceutical companies to discuss their use of animals in research. As part of this engagement approach, we met with Johnson & Johnson's global head of animal welfare to discuss the company's approach.

This included asking about the board's role in overseeing pharmaceutical animal testing and its due diligence process for sourcing and contract research organisations. We were pleased to learn more about how the company collaborates with peers to share leading practices and brings real use cases to regulators to advance the approval of alternatives.

In conversation with subject matter experts at Pfizer, the company explained how it considers pharmaceutical animal testing within the framework of its environmental strategy, and noted its work to reduce its use of horseshoe crab-derived reagents. It said that it continues to examine new opportunities for alternatives integration and referenced its leadership's involvement with the work on Chapter 86.

We encouraged both companies to leverage the opportunities created by the FDA Modernization Act 2.0 to accelerate their efforts toward the 3 Rs. We asked each to demonstrate the outcomes of their efforts to stakeholders, such as through case studies of successful alternatives integration, to give examples of peer collaborations, and to publish data to reflect trends in animal usage over time.

<sup>19</sup> Bacterial Endotoxins Test Using Recombinant Reagents | USP-NF (uspnf.com)

<sup>20</sup> <https://www.sanofi.com/assets/dotcom/content-app/documents/Animal-Protection.pdf>

 CASE STUDY

## Sanofi



At Sanofi, we met with the company's chief veterinary officer for a dedicated animal testing discussion in 2024. The company has a target to reduce the number of animals used in research and testing by 50% between 2020 and 2030.<sup>20</sup>

He provided some reassurance that the company is on track to achieve this target, and this is supported by the use of various alternatives and digital replacement technologies. He also confirmed that this target applies to the animal testing performed in the company's own operations and through contract research organisations (CROs), but noted that it has faced difficulties in some geographies to ensure that all animals are accounted for.

**The company's policy is not to use endangered primate species, and the chief veterinary officer believes the industry should prepare for a potential complete ban on the use of non-human primates.**

It was positive to hear that relationships with CROs have been ended in the past where remediation efforts were unsuccessful. The company continuously assesses the financial impact of potential regulatory and market changes and works to minimise its dependency on animal testing.

The company's policy is not to use endangered primate species, and the chief veterinary officer believes the industry should prepare for a potential complete ban on the use of non-human primates. We encouraged expanding this commitment to any endangered species. The company stated that it monitors animal populations in its supply chain closely and makes efforts to reduce the use of vulnerable animals such as horseshoe crabs.

Finally, we encouraged the company to publicly demonstrate how it uses its influence to drive industry-wide change through engagement with peers and regulators.



# The value of transition planning

Companies' climate transition plans are now regularly put to the vote during annual shareholder meetings, but the complexity of these plans can make them difficult to assess. Owen Tutt and Will Farrell explain what investors should be looking for.

## Setting the scene

**In 2015, when Mark Carney, then governor of the Bank of England, proposed a way to improve the data for assessing the consequences of climate change on investor portfolios, few could have imagined the impact that the Task Force on Climate-related Financial Disclosures (TCFD) would have. Since then, the breadth and depth of corporate reporting on climate change has exploded and reviewing company TCFD reporting has become an integral part of our engagement research. The official proposal that launched the TCFD also highlighted the importance of company climate transition plans to investors, but appraising transition plans is a complex and often resource-intensive challenge. In this article we discuss the role of transition plans, and how we assess their ambition and credibility.**

For further information please contact:



**Owen Tutt**  
Associate, Federated Hermes Infrastructure  
[owen.tutt@FederatedHermes.com](mailto:owen.tutt@FederatedHermes.com)



**Will Farrell**  
Theme: Climate Change  
[will.farrell@FederatedHermes.com](mailto:will.farrell@FederatedHermes.com)

Shareholder votes on company climate transition plans are now a key feature of the AGM season in major markets, but the 'say-on-climate' is still in its infancy. As a consequence, it is complex for investors to analyse a company's climate risks and opportunities. To tackle this challenge, EOS has developed a framework to enable all investors to appraise transition plans as efficiently and effectively as possible. It's worth explaining how we got to this point, and why transition planning is seen as fundamental to good corporate governance.

The TCFD provided the framework for climate-related investment analysis by identifying the transition risks and opportunities that companies may face during the shift to a low-carbon economy. These could materialise in the form of policy, legal, technological, market or reputational factors. A transition plan is the company's strategy for mitigating these risks and becoming a low-carbon and climate-resilient company.

As climate risk reporting took off in the wake of the TCFD, companies started to offer investors increasingly sophisticated risk analyses and their fledgling strategies for mitigating climate risks. Companies set emissions reduction targets, and outlined plans for growing low-carbon business segments. In recent years, investors have been offered the chance to vote on a company's progress against its plan.

At the same time, standards and benchmarks proliferated for guiding and assessing this growing body of disclosure. These included CDP scores, the Science Based Targets initiative, the Transition Pathway Initiative, the Climate Action 100+ Net Zero Benchmark, the Net Zero Investment Framework, and the Institutional Investors Group on Climate Change Investor Expectations guides. We also saw moves towards standardisation by the International Sustainability Standards Board, the European Sustainability Reporting Standards, and US Securities and Exchange Commission climate-related disclosure rules. Although intended to be helpful, this created a complex maze of guidance and regulatory requirements for companies and investors to grapple with.

Companies should consider each carefully and comply with the reporting requirements of the relevant jurisdictions and investors' needs. But if climate-related risks are to be a C-suite priority and not just part of the compliance process, companies need a route through this reporting maze. A high-quality transition plan can offer this by adopting four key principles.

### Principles of a high-quality transition plan

For companies in emission-intensive sectors, decarbonisation to net zero will require a fundamental business transformation on an accelerated timeline. Even less exposed sectors will see changes in customers, suppliers, regulation and other stakeholders as the economy transforms around them. Therefore, the first principle is that a transition plan – the blueprint for achieving and responding to this change – must be strategic and inseparable from the wider business strategy.

Governments assemble annually to reaffirm their commitment to the goal of the Paris Agreement to hold global warming to well below 2°C and pursue efforts to limit the temperature rise to 1.5°C. Investors are paying increasing attention to the actions being taken by governments to achieve their pledges, and to the accelerated development of decarbonisation technology. But if investors are to make use of a company's transition plan to evaluate, challenge, and ultimately price the risks and opportunities, it must be credible. So the second principle is that there must be sufficient detail and clarity on near-term objectives, timelines, and capital and resource allocation to inform the investment case.

However, clarity does not mean certainty. Unfortunately, there is a trade-off between setting the necessary ambitious targets to align with the 1.5°C goal of the Paris Agreement and articulating a strategy for executing this that is rooted in established economics and adopted public policy. Achieving net zero will require the private and public sectors to go beyond the tried and tested. Therefore, principle three is the need for a transition plan to be bold in aligning with the Paris Agreement, while remaining commercial. This means being clear-sighted and transparent about the assumptions made and the plan's dependencies on supportive public policy or technological development.

This creates another external role for transition plans as a tool for policy advocacy and stakeholder engagement that facilitates the necessary changes outside the company's direct control. Similarly, by monitoring progress, investors can distinguish between management failure and macro headwinds. At Air Liquide, where we have engaged on aligning its lobbying activities with the



Paris Agreement, the company's latest review of its industry associations provided a detailed list of its policy dependencies and advocacy principles, sending a clear signal to policymakers.

Finally, for a transition plan to fulfil the above requirements, delivering long-term value and reduced emissions, it must concisely articulate more about progress against the plan rather than just process implementation – principle four. As we approach an inflection point in the low-carbon transition, investors need to understand the actions being implemented and planned to transform the company. This is the core role of the transition plan. The routine processes, committees and CSR initiatives, while important, can be disclosed elsewhere.

### Assessing transition plans

EOS believes these principles are largely embodied in the guidance recently published by the Transition Plan Taskforce, which was established by the UK government at COP26. In our view, it has developed the gold standard for private sector transition plans by building on the existing body of reporting guidance and the input of private sector experts. This included EOS through our contributions to sector-specific guidance and our co-chairing of the Oil & Gas Working Group.

Drawing on this and the Net Zero Investment Framework, from the Paris Aligned Investment Initiative, EOS has developed a proprietary approach to assessing transition plans and their alignment with the Paris Agreement (see box). This provides engagers with a sector-specific – and region-specific, where possible – assessment of transition plan ambition and credibility to inform engagement and voting.

Transition plans should be published as complete documents, not distributed through wider reporting, and should be updated at least every three years or whenever significant changes are made. Progress against them should be reported annually. Some companies may wish to offer an investor vote on the transition plan at the AGM – the 'say-on-climate' vote. While we support this principle of an advisory vote, we believe transition plans must ultimately remain the responsibility of the board and not replace ongoing engagement with shareholders on the substance of the transition plan.

## How does EOS assess transition plans?



- **Ambition** – Companies should benchmark the goal of the transition plan against the ambition of international agreements. Therefore, EOS expects companies to set a clear goal to achieve net zero by 2050 across Scope 1, 2 and material Scope 3 emissions, and to set near-term and science-based targets that are aligned with feasible pathways to limit the global temperature rise to below 1.5°C.
- **Disclosure** – Scope 1, 2 and material Scope 3 emissions should be disclosed annually according to the Greenhouse Gas Protocol and efforts should be made to continually improve the quality of reported data. It should be clearly explained which Scope 3 emissions are considered material to the business, and which are not. Third-party assurance of emissions data should be provided.

**Investors should be confident that the company will make adequate returns on projects under scenarios where the transition plan is implemented in full and the Paris Agreement's goals are achieved.**

- **Performance** – A transition plan should transparently disclose the progress made against its targets and objectives, reflect on performance and evaluate the cause of changes over time. The contribution of offsets and emissions removal to performance data should be clear.
- **Strategy** – EOS expects companies to identify the key levers that they will employ to achieve their targets and the estimated quantified contribution of each, with greater detail expected for near-term targets. Transition plans should also articulate if and how the portfolio of products and services will change, and any policies that will be introduced to direct corporate behaviour. Where a transition plan uses unproven

decarbonisation technologies or approaches, it should provide analysis showing the potential competitiveness of these choices and transparently disclose the assumptions and dependencies for this to be true. For example, if a company targets green hydrogen as the solution for a percentage of emissions reductions by 2035, then assumptions on cost, availability, and customer demand must be available for investors to inform their evaluation of credibility. The plan should also disclose other key assumptions and specific dependencies, including relating to policy and regulatory change, technology development, and relevant economic indicators.

- **Capital and resource allocation** – Companies must demonstrate that they have assessed the financial and human capital requirements for delivering the transition plan and set out a plan for mobilising these resources. The transition plan should also provide qualitative and quantitative information on how it, and the transition of the wider economy, are factored into financial planning and investment decision-making. Investors should be confident that the company will make adequate returns on projects under scenarios where the transition plan is implemented in full and the Paris Agreement's goals are achieved.
- **Public policy and stakeholder engagement** – A high-quality transition plan will target change that will inevitably require significant actions outside a company's direct control. As well as transparently and specifically identifying these dependencies, the transition plan should demonstrate how it is using public policy advocacy and engagement with stakeholders, including peers, customers and suppliers, to enable them. Specifically, a company should commit to aligning its direct and indirect external engagement activities with 1.5°C outcomes and its transition plan, and identify how it will prioritise engagement, assess alignment and escalate concerns where misalignment is identified.

**Transition plans in context**

While the concept of a transition plan may seem focused on greenhouse gas emissions, the successful implementation of a transition plan strongly depends on a number of connected sustainability issues. The most important of these are climate adaptation, nature, and realising a just transition.

**Alongside the risks associated with climate change, those posed by nature and biodiversity loss are similarly threatening to businesses and their investors, yet less well understood.**

Even limiting the global temperature rise to below 1.5°C will result in significant risk of damage and disruption from climate change. Companies must therefore assess their exposure to these physical risks using scenario analysis and develop an adaptation plan to build resilience to acute and chronic climate events. This priority will increasingly compete for resources with, and complicate the implementation of the transition plan as climate change worsens, so transition plan development must also consider adaptation requirements. In our engagement with Equinor, we are requesting greater detail on how scenario analysis is conducted, while also asking the company to develop an adaptation and resilience plan to be integrated with its transition plan.

Alongside the risks associated with climate change, those posed by nature and biodiversity loss are similarly threatening to businesses and their investors, yet less well understood and deeply interrelated with climate change. A successful transition plan will therefore need to consider these interrelations and drive the business to respond to both risks simultaneously. Equally, investing in a decarbonisation approach that exacerbates biodiversity risks could face significant headwinds as public policy increasingly attempts to limit the negative impacts of the economy on nature.

**We are probing companies' reliance on bio-feedstocks as decarbonisation levers at several chemical companies.**



**In our engagement with Equinor, we are requesting greater detail on how scenario analysis is conducted, while also asking the company to develop an adaptation and resilience plan.**

For this reason, we are probing companies' reliance on bio-feedstocks as decarbonisation levers at several chemical companies.

**It is therefore essential that businesses carefully consider the social impacts of their transition plan and work to address them.**

Finally, just as climate change is caused by humans, its solutions will be implemented and experienced by humans as well as the wider natural world. It is therefore essential that businesses carefully consider the social impacts of their transition plan and work to address them. This contributes to a fair and just transition, and increases the chance of achieving the transition by supporting the alignment and buy-in of stakeholders.

**Outlook**

For investors seeking to identify and respond to the risks and opportunities from climate change, high-quality transition plans must become a priority for stewardship and investment teams. And if the Transition Plan Taskforce sparks another watershed in company action on climate change like the TCFD that preceded it, then achieving the goals of the Paris Agreement may become within reach. We will continue our engagement with companies to promote their success and create value as the energy transition enters a new phase.

# Engaging on demand-side climate solutions

To keep a global temperature rise of 1.5°C within reach, global emissions must reduce by at least 43% by 2030 versus 2019.<sup>1</sup> But with global emissions yet to peak, EOS is continuing to engage on demand-side solutions. By Will Farrell and Hannah Heuser.

Engagement with fossil fuel companies – so called “supply-side” engagement – has been a cornerstone of EOS’s climate change engagement over the last decade. In this time, oil and gas majors have committed to ambitious methane reduction targets, a greater consensus on coal phase-outs has been established, and at COP28 there was an unprecedented reference to transitioning away from all fossil fuels in the agreement text. Many oil and gas companies now have a transition narrative, with several European majors planning to invest between 20% and 35% of capital expenditure on low-carbon technologies by 2025.

However, with oil and gas prices providing strong and resilient commercial incentives into the 2020s, various indicators suggest that oil and gas majors’ strategies are not yet fully aligned with 1.5°C and the Paris Agreement. Engaging across a universe of companies, we are using our supply-side insight to strengthen our engagement efforts on the demand-side of the price equation. We encourage companies to imagine a net-zero future, to assess the viability of solutions needed to get there, and to deliver the demand-led signal that 1.5°C can happen.

**Demand-side engagement**

The demand for renewable electricity provides a case study for this engagement approach. In requesting that companies set 1.5°C-aligned targets and identify key actions to reduce their emissions accordingly, many companies in our engagement programme have increased their emphasis on the procurement of renewable power purchase agreements (PPAs). This has contributed to a dramatic increase in these contracts to a record high of 46 GW globally in 2023.<sup>2</sup> Elevated prices for PPAs, which provide a fixed contract insulated from fossil fuel price shocks, have contributed to the rapid build-out of renewables, delivering the decarbonisation of the electricity supply through a demand-side lever.

In many hard-to-abate sectors, however, the best green technology available is not always immediately obvious. Through dialogue with companies on climate solutions and technology selection, we recognise that shareholders delegate

**For further information please contact:**



**Will Farrell**  
Theme: Climate Change  
will.farrell@FederatedHermes.com



**Hannah Heuser**  
Theme: Climate Change  
hannah.heuser@FederatedHermes.com

<sup>1</sup> <https://www.ipcc.ch/report/ar6/wg3/>

<sup>2</sup> Corporate PPAs hit record high in 2023, says BloombergNEF – pv magazine International (pv-magazine.com)

executive functions to management. Notwithstanding this vantage point or technology uncertainty, we scrutinise the assumptions governing this decision-making, while also reminding companies of the level of ambition required to be a competitive player in a net-zero world.



**Tackling the hydrogen demand question**

Green hydrogen is sometimes mooted as a decarbonisation lever for several hard-to-abate sectors. While the economics of green hydrogen are expected to improve, scaling up is only possible through company leadership. Keeping in mind the need for a 1.5°C ambition, we encourage companies with uncertain decarbonisation pathways, such as chemicals, cement, and steel, to plot a commercial pathway to net-zero emissions, possibly by leveraging green hydrogen.

This transition planning compels companies to identify the barriers to hydrogen deployment, prompting informed discussions with possible green hydrogen suppliers. Engie, a company we have engaged for several years on elevating its climate ambition and strategy, has outlined hydrogen use cases after developing its transition plan. It recently completed a 50% conversion of its Maxima gas-fired power station to green hydrogen and is in the process of securing a scalable supply of green hydrogen, a valuable demand signal to upstream industry.<sup>3</sup>



**Treading a fine line on carbon capture**

As with hydrogen, experts from different institutions and geographies believe that carbon capture, utilisation and storage (CCUS) will play an important role in limiting global temperature rise. However, the nascent technology has been slow to take off, due to high costs and uncertainty around the economic feasibility of large-scale CCUS deployment.

Yet carbon capturing technologies remain an important pillar of some companies' decarbonisation strategies, especially in hard-to-abate sectors. We encourage companies in these sectors to conduct a thorough analysis to evaluate the economic feasibility of CCUS and to quantify the risks and uncertainties, while determining the required investment in research and development to successfully roll out CCUS.

When we engage with companies that have identified CCUS as a credible and economically feasible decarbonisation lever, we encourage these companies to send strong demand signals to the market and policymakers. Heidelberg Materials, for example, has outlined a clear rationale for the need to use CCUS in its net-zero plan. This is because optimising the product mix, adopting alternative fuels, and increasing circularity would not be sufficient to future-proof the company. It has strategically partnered with other companies and stakeholders to build a comprehensive project pipeline.



**Public policy advocacy**

In many cases, to a greater or lesser extent, companies are likely to see current levels of public policy as a constraint, limiting the demand for green technologies. We encourage companies to outline policy dependencies clearly and to develop an advocacy strategy to inform policymakers. In their advocacy reviews, Heidelberg Materials and Holcim publicly demand financial support for the deployment of CCUS and the development of transport infrastructure connecting emission sources with storage sites, for example. These companies also call for support in developing demand and customer markets for low-carbon cement.

These insights inform our approach to public policy advocacy. CCUS costs are likely to fall as the market grows – economies of scale can be exploited and inefficiencies will be reduced. The sooner that companies signal demand, the sooner supply is likely to scale up to meet it.

While discussions around climate change mitigation often tend to focus on supply-side solutions, we have been enhancing our activity on the demand side. We advocate for, and scrutinise companies' technoeconomic analyses, encouraging companies to develop their businesses competitively against a Paris Agreement-aligned future, strengthening these important transition demand signals for markets and policymakers.

While the world economy is not yet fully aligned with 1.5°C, an increasing number of companies now have ambitious greenhouse gas reduction targets. For example, more than 4,000 companies have set targets validated by the Science Based Targets initiative.<sup>4</sup>

<sup>3</sup> <https://www.engie.com/en/news/immersion-maxima-gas-fired-power-stations>.  
<sup>4</sup> About us – Science Based Targets Initiative

# Disputes proliferate in fractious vote season

Proxy contests and legal disputes characterised the 2024 vote season in North America and Europe as battle lines hardened between change-seeking shareholders and laggard companies. By Richard Adeniyi-Jones and Dana Barnes.


**Setting the scene**

**Shareholders attempting to exercise their rights found themselves frustrated this vote season as recalcitrant companies pushed back on investor escalation. Meanwhile, proxy contests increased in the US following regulatory changes, allowing shareholders to consider dissident nominees alongside the company's preferred options, including a high-profile three-way battle at Disney.**

**Across Europe, more climate protests were seen at financial institutions and biodiversity-related resolutions were a growing trend with a focus on chemicals and pesticides, deforestation, deep-sea mining, plastics, AMR and animal welfare.**

**With voting season still underway in some Asian markets, this article focuses on the key themes of the 2024 AGM season in North America, Europe and Australia. We will spotlight some of the key trends from developed Asia and the emerging markets in our Q3 Public Engagement Report.**

For further information please contact:



**Richard Adeniyi-Jones**  
 Theme co-lead: Executive Remuneration, Human Capital



**Dana Barnes**  
 Themes: Climate Change, Wider Societal Impacts

In the first half of 2024 we made voting recommendations for 10,810 meetings, versus 9,168 in H1 2023. We made at least one voting recommendation against management at 72% of meetings, versus 69% in H1 2023.

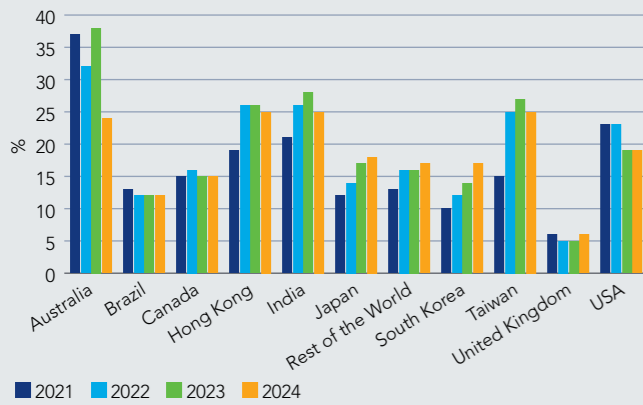
Overall, we recommended votes on 3,002 shareholder resolutions in the first half of 2024, versus 2,395 over the same period in 2023. Some 610 of these were in the US, where we recommended voting against management on 366 proposals or 60%.

**Climate change**

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 2024, we recommended voting against the re-election of directors or relevant proposals at 250 companies down from 269 in H1 2023, due to concerns about insufficient management of climate-related risks.



Percentage of proposals voted against management in H1 per key market



Source: EOS data; all statistics for H1.

**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 Australia, we escalated our engagement with the oil and gas company Woodside Energy. We consider Woodside’s emissions reduction targets, strategy, and capital allocation to be materially misaligned with a 1.5°C pathway, despite prior high levels of investor dissent, most notably the company’s ‘say-on-climate’ vote receiving 49% of votes against in 2022. We recommended that clients vote against the climate transition action plan and the re-election of the chair, because he has overseen what is perceived as an inadequate response to shareholder concerns. A record 58% of shareholders voted down the plan this year.

In the European market, there was an advisory vote on Shell’s energy transition strategy and a climate-related shareholder proposal from Dutch non-profit Follow This. Shell’s recent scaling back of ambition in its medium-term transition targets, a lack of comprehensive indicators, and its relative loss of energy transition leadership led us to recommend voting against the energy transition report and for the Follow This shareholder proposal. This asked Shell to align its medium-term emissions reduction targets with the Paris Agreement.

At TotalEnergies, we noted the company’s continued progress in reducing emissions and the evidence that it is delivering on its “low cost, low emissions” ambition. However, we could not fully ascertain the resilience of the company’s projects under a 1.5°C scenario, as its disclosures of portfolio and pipeline

economics were not sufficiently consistent and precise. Therefore, we recommended a vote against the Sustainability & Climate Progress Report.

Beyond the say-on-climate and transition plan votes at fossil fuel producers, we also saw a range of climate-related shareholder proposals at financial services companies, addressing their role in financing different carbon-intensive sectors. Climate activists made their presence felt, with a singing protest at Standard Chartered’s AGM in London<sup>1</sup> and disruption at Abrdn’s meeting over the asset manager’s fossil fuel exposure.<sup>2</sup>

At Barclays, a shareholder proposal brought by NGO ShareAction asked the bank to undertake a review of the risk of it being exposed to stranded oil and gas assets, given that its policy allows for the continued financing of oil sands, Arctic oil and gas, fracking, and ultradeep projects. Prior to the AGM, however, the company released an updated energy policy which resulted in the proposal being withdrawn.<sup>3</sup> The updated policy was welcomed by the proposal’s proponents, who had continued to engage with the company in order to achieve a positive outcome.

This year, EOS attended the annual shareholder meetings of Royal Bank of Canada, Bank of Montreal, Scotiabank, Toronto-Dominion Bank and the Bank of Montreal virtually. We wanted to highlight the fact that according to the Transition Pathway Initiative’s latest Net Zero Assessment Framework, these Canadian banks had scored zero points on the alignment between their net-zero commitments and their lobbying or trade association activity.



<sup>1</sup> [https://www.banktrack.org/article/environmental\\_activists\\_and\\_shareholders\\_accuse\\_standard\\_chartered\\_of\\_being\\_complicit\\_in\\_environmental\\_destruction#:~:text=The%20Standard%20Chartered%20plc%20Annual,%20Fossil%20Fuels%20are%20Trouble](https://www.banktrack.org/article/environmental_activists_and_shareholders_accuse_standard_chartered_of_being_complicit_in_environmental_destruction#:~:text=The%20Standard%20Chartered%20plc%20Annual,%20Fossil%20Fuels%20are%20Trouble).  
<sup>2</sup> <https://future.portfolio-adviser.com/abrdn-agm-disrupted-by-climate-change-protestors/>.  
<sup>3</sup> <https://www.reuters.com/world/uk/barclays-adopt-fresh-curbs-oil-gas-financing-2024-02-09/#:~:text=Non%2Dprofit%20ShareAction%2C%20that%20had,stop%20funding%20new%20expansion%20projects>.

VOTING CASE STUDY  
ExxonMobil



**Shareholder rights were under the spotlight in the run up to US oil and gas major ExxonMobil’s annual shareholder meeting. Exxon’s decision to proceed with a lawsuit against shareholders Follow This and Arjuna Capital over a climate-related shareholder proposal that they had withdrawn, was criticised by major institutional investors. A judge subsequently ruled that the case against Netherlands-based Follow This could not proceed for jurisdictional reasons, while the case against Arjuna Capital was dismissed.**<sup>5</sup>

The withdrawn shareholder proposal was related to Scope 3 emissions, and the co-filers committed not to refile it. However, Exxon decided to continue the suit, stating that it wanted to gain clarity on the SEC shareholder filing process.<sup>6</sup> In the run up to the shareholder meeting, several large institutional investors went public with their unease, which some perceived as an attack on shareholder democracy.

We took the view that while Exxon had a legal right to bypass the SEC, it could first have waited for the SEC to opine, and that its use of litigation at that time was not appropriate. We believe the company’s action has had a dampening effect on the exercising of shareholder rights,

We asked a question related to these activities, querying if the banks had conducted a review of their trade associations and lobbying activities to ensure alignment between their own commitments and Canada’s net zero by 2050 goal. If they had not, we wanted to know if they would do so and publish the results.

No bank sufficiently addressed the question, relying on current disclosures as an answer. However, we see an opportunity to engage more deeply on this subject given our escalations during the 2024 proxy season and the importance of supportive public policies required for the banks to reach their ambitious climate goals.

whether intended or not. We also believe it is not appropriate for the company to assume the role of fixing the SEC shareholder proposal submission process via a Texas court on behalf of a system where other voices deserve to be heard.

For these reasons, we recommended a vote against the lead independent director to hold him accountable for these actions, as well as the company’s insufficient management of climate-related risks. This is because of medium-term targets that do not include non-operated assets and the lack of evidence that the company is engaging domestically and internationally to support the climate transition.

However, the company has shown some progress on its climate strategy through its membership of the Oil and Gas Methane Partnership 2.0 (OGMP2.0), updated disclosures, including a Scope 3 emissions disclosure, and the announcement of the company’s withdrawal from the Independent Petroleum Association of America (IPAA). This was due to the organisation’s lack of alignment with the company’s climate strategy, including on methane.

As a result, we recommended a vote in favour of the members of the Environmental, Safety, and Public Policy Committee, by exception to our policy. At the AGM, the re-election of the lead independent director was approved, but he received approximately 12% of votes against, the highest level of dissent against his re-election for several years.



Elsewhere, as a co-lead for Air Liquide as part of the collaborative engagement initiative Climate Action 100+, we drafted and co-signed an AGM statement. This recognised the company’s productive engagement and the progress made over the last few years, while highlighting three key questions on how the company could extend its leadership in managing climate-related risks.

In the US and Canada, we continued to see climate-related anti-ESG shareholder proposals, in an attempt to support the expansion of the fossil fuel industry in North America. ConocoPhillips and ExxonMobil received shareholder proposals to revisit pay incentives for greenhouse gas emissions reductions, with claims that climate change risk

<sup>4</sup> [NBIM to vote against Exxon board member over lawsuit \(responsible-investor.com\)](https://www.responsible-investor.com/nbim-to-vote-against-exxon-board-member-over-lawsuit).  
<sup>5</sup> [US judge ends Exxon lawsuit against shareholder over climate activism \(ft.com\)](https://www.ft.com/content/2024/02/02/us-judge-ends-exxon-lawsuit-against-shareholder-over-climate-activism).  
<sup>6</sup> <https://www.reuters.com/sustainability/climate-energy/exxon-says-investors-withdrawing-climate-proposal-annual-shareholder-meeting-2024-02-02/>.

was not based on science. This would have erroneously influenced strategy and pay. Chevron, Costco, and General Electric received similar proposals asking for reports on the risks of reducing carbon emissions, with the same argument. We recommended opposing these proposals.

**Paris-aligned accounting**

We continued to assess whether companies and their auditors had sufficiently considered climate change in preparing their financial statements and extended this to North American companies. Our expectations, at a minimum, are for the inclusion of an explanation of how the company has included climate and its impact on the accounts, and whether the auditor has been clear about how it has assessed the company's approach to climate in its audit.

**In the US and Canada, we continued to see climate-related anti-ESG shareholder proposals, in an attempt to support the expansion of the fossil fuel industry in North America.**

For example, last year we recommended a vote against the financial reports and accounts at French food group Danone. This was primarily driven by a lack of information in the financial statements about how the risks associated with climate change had been assessed and integrated into financial scenarios.

The company had recently announced its Danone impact journey roadmap to combat emissions. We had expected to see more detailed explanations as to how Danone had concluded that climate would have no significant impact on its business plans, alongside more detailed disclosures on how the financial statements were aligned with its net-zero transition pathway.

Following communication on the vote, the company committed to working with us to understand our expectations on this topic. In March 2024, we met the chair, the senior vice president of the finance division, and investor relations to discuss how Danone integrates climate into its financial accounts.

The company acknowledged our feedback from the previous year, and pointed out that this time the auditor had included climate as a key audit matter, which is an improvement. It also walked us through some of the analyses undertaken, including materiality assessments. As a result, we were able to recommend support for all proposals at this year's meeting.

In the United States, some companies have begun to prepare for anticipated climate-aligned accounting regulation. Chevron, Valero, and Xcel Energy have undergone third-party verification and assurance of their greenhouse gas emissions disclosures. But some companies are reluctant to increase the current level of disclosure in their financial statements before it is legally required. However, during engagement companies have expressed their awareness and confirmed that they are preparing for this requirement.

**Other environmental proposals**

This year, biodiversity made a strong showing via resolutions on plastic pollution, deep sea mining, deforestation, pesticide use, microfibre pollution, antimicrobial resistance (AMR) and animal welfare. We contributed to an industry opinion piece on this topic entitled *Biodiversity is now on the ballot, are you ready?* through the Finance for Biodiversity Engagement Working Group.<sup>7</sup>

At PepsiCo, we recommended support for a shareholder resolution asking for a report on the risks related to biodiversity and nature loss. The company has not yet undertaken a systematic review of its dependencies and impacts on biodiversity and natural capital, so this report would be a good start. We also recommended support for a shareholder resolution asking Home Depot to conduct an impact and dependence assessment across its value chain to inform its biodiversity strategy.

There were shareholder resolutions on plastics and circular packaging at chemical company Dow and Tyson Foods. We recommended support for these on the grounds that pollution is one of the five drivers of biodiversity loss, and these are material risks for companies. We expect companies to increase circularity in their operations and reduce the production and use of plastics, which can end up in the environment or water sources and be detrimental to biodiversity.



**We expect companies to increase circularity in their operations and reduce the production and use of plastics, which can end up in the environment or water sources and be detrimental to biodiversity.**

<sup>7</sup> Opinion: Biodiversity is now on the ballot, are you ready? – Finance for Biodiversity Foundation.

**VOTING CASE STUDY**

**Bank shareholder proposals on the clean energy financing ratio**



**This year, the New York City Comptroller and three of the city's pension funds filed a clean energy ratio shareholder proposal at the largest US banks and the Royal Bank of Canada.<sup>8</sup> The proposal asked each bank to disclose their ratios of clean energy to fossil fuel finance and to describe their methodology for calculation.**

The supporting statement asked the banks to consider setting time-bound ratio targets, in line with their stated net-zero commitments. Currently, a version of this ratio is calculated by Bloomberg New Energy Finance, but this does not include direct lending as only the banks themselves have access to accurate data on this. The ratio proposed by the NYC Comptroller's office would rely on internal dollar-based data rather than emissions data, which has limitations due to data availability.

This proposal was withdrawn prior to the JPMorgan Chase, Citigroup and Royal Bank of Canada meetings as the banks engaged with the proponent and agreed to disclose this ratio. Morgan Stanley, Goldman Sachs and Bank of America did not agree to the proponent's requests, and we recommended a vote in favour of the proposal at each of those banks.

The proposal was non-binding in nature and allowed each board ample discretion over how to address the request. We encourage more robust metrics for investors to understand how banks plan to meet their own net-zero commitments and how their activities contribute to real economy impacts. This ratio would provide decision-useful disclosure on the relative financing of clean and fossil fuel energy.

We agreed with the proponents that banks that align their activities with their own climate goals are better prepared to manage the risks associated with the global energy transition, including legal, reputational and financial risks, and are thus better positioned to create long-term value for shareholders. This could also help banks to capitalise on the profitable opportunities in clean energy, positioning themselves as leaders in a rapidly changing market.



**Navishka Pandit**  
Sector: Financial Services

**This year, biodiversity made a strong showing via resolutions on plastic pollution, deep sea mining, deforestation, pesticide use, microfibre pollution, antimicrobial resistance (AMR) and animal welfare.**

We also saw plastics proposals at Chevron, Exxon, and Phillips66 to test the companies' portfolios against the risk of reduced demand for plastic in the future, using the Pew/Systemiq Breaking the Plastic Wave scenario.<sup>9</sup> This calls for a 55% reduction in virgin plastic demand by 2040, relative to business as usual. While the companies felt that the scenario was too aggressive, unrealistic, and premature, we recommended support for the proposals to urge oil and gas companies to demonstrate the resilience of their portfolios in a clean energy future.

At car manufacturers General Motors and Tesla, there were shareholder resolutions on sourcing minerals from deep-sea mining for the first time. We recommended support for both, as a commitment to a moratorium on deep-sea mining or a clarification on the companies' positions, would signal that they acknowledge the importance of supply chain oversight as vehicle electrification accelerates. Many EV auto manufacturers have already signed up to the moratorium.

At Tyson's AGM, we recommended support for a shareholder proposal on deforestation-free supply chains. We also continued to implement our deforestation voting policy, which targets companies that are lagging on the disclosure and management of deforestation-related risks. This year, we recommended voting against directors or other relevant proposals at Wen's Foodstuff Group, WH Group and Cencosud, among others.

<sup>8</sup> <https://comptroller.nyc.gov/newsroom/nyc-comptroller-lander-nyc-pension-funds-launch-shareholder-drive-to-hold-banks-accountable-for-transition-away-from-financing-of-fossil-fuels/>.

<sup>9</sup> [https://www.pewtrusts.org/-/media/assets/2020/10/breakingtheplasticwave\\_distilledreport.pdf](https://www.pewtrusts.org/-/media/assets/2020/10/breakingtheplasticwave_distilledreport.pdf).

We also recommended support for a resolution on AMR at Yum! Brands. We think the company could reduce the risks in its animal supply chain and protect its returns by adopting a stronger AMR policy in line with the World Health Organization's Guidelines on the use of Medically Important Antimicrobials in Food-Producing Animals.

There were resolutions on animal welfare at H&M, Denny's Corp, Kraft Heinz and McDonald's. We recommended support for a resolution asking H&M to report on the reputational impact of clothing containing feather down, due to concerns about live plucking and other risks. At Kraft Heinz, Walmart, and Denny's Corp, we recommended voting in favour of phasing out pork purchases from suppliers who use gestation stalls. At McDonald's, we recommended supporting a shareholder resolution asking the fast food chain to disclose its key welfare indicators, and explain how it uses each to measure and improve animal welfare.

### Chemicals and pesticides

We attended the AGM of Swiss chemicals company Sika virtually and asked the chair about its approach to managing risks related to hazardous substances, reminding the company that we co-lead the Investor Initiative on Hazardous Chemicals (IIHC) for Sika. We reiterated the litigation, regulatory, and reputational risks related to the use or production of hazardous substances. We welcomed Sika's increased transparency, including disclosure of the proportion of sales containing substances of very high concern and per- and polyfluoroalkyl substances (PFAS), and the work to remove these substances from existing products. We encouraged the positive direction of travel and asked Sika to confirm it would not develop any new products containing these substances.

We also asked the company to annually disclose the full list of substances it has managed to phase out in line with best practice, suggesting a distinction be made between those substances fully phased out and those retained as intermediates for industrial purposes. Finally, we asked whether the company would tackle those chemicals that are not yet on the EU's Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) list, but meet the hazard-based criteria to be placed on it.

The chair of the board emphasised the role that the company's new sustainable portfolio management methodology will play in guiding work on reducing the risks associated with hazardous substances. All new products must meet sustainability criteria, including a hazard risk criterion. We were pleased to hear the chair confirm that the company will make sure that no new products will contain these substances of very high concern. The company noted our request on future reporting and said it would review its reporting on hazardous chemicals ahead of next year. We were disappointed that the company did not comment on those chemicals that are not yet on the REACH list yet and whether these would be proactively managed.

At cereal company Kellanova (formerly Kellogg's), we recommended support for a shareholder resolution seeking a report on the risks associated with pesticide use in the supply



**We recommended support for a resolution asking H&M to report on the reputational impact of clothing containing feather down, due to concerns about live plucking.**

chain. We discussed this resolution with the company and believe it does not yet provide robust disclosure on reducing, assessing, and reporting on pesticide use.

### Emerging social themes

In Europe, Nestlé received a shareholder proposal to set a time-bound target to increase the proportion of its sales derived from healthier products. While we supported the broad aim of the proposal, following engagement we recommended voting against, because it appeared overly prescriptive. Also, the company has responded well to engagement since 2022, taking positive steps including a 2030 target to grow its sales of more nutritious products. However, we recommended a vote against the approval of the non-financial report because of insufficient transparency around the approach to reporting on the nutritional values of its global portfolio.

As part of our engagement, we will ask Nestlé to demonstrate it is achieving its 2030 target by meaningfully investing in growing its healthier food and beverage sales, rather than solely increasing sales from products such as coffee.

A growing number of shareholder proposals addressed digital rights issues such as privacy, freedom of expression, and responsible artificial intelligence. We used our EOS Digital Rights Principles to inform our decisions on these proposals. For example, we supported a proposal filed at Meta requesting a human rights impact assessment of targeted advertising. The company's advertising policies are publicly available and include some explanation of how it decides which advertisements to show users. However, the company falls short of obtaining user consent for its own collection, inference, sharing, and retention of data for targeted advertising.

We also supported a proposal filed at Amazon requesting a report on customer due diligence. The company has processes in place for this and policies relating to the responsible deployment of AI. However, there is room for improved transparency on how human rights are considered in the company's relations with governments as customers.

### Diversity, equity, 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 2,939 responsible director proposals due to concerns about insufficient diversity at board level.

**In North America, anti-ESG shareholder proposals continued to target diversity, equity, and inclusion strategies at companies, seeking to undermine efforts to eliminate discrimination.**

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.

In Europe we also support gender diversity at the management team level, and will consider our voting approach for companies of significant size where there is no female representation at the top levels of executive management. In 2024 we continued to push for greater gender diversity on boards and in leadership teams and opposed companies that did not meet our minimum expectations. This included at KBC Group, HelloFresh, PolyPeptide Group and British American Tobacco.

In the US, ideally we want to see companies strive for 50% overall board diversity including LGBTQ+ and disability. In line with our expectations of a minimum of 40% board diversity including gender, race and ethnicity, we recommended opposing 1,403 responsible directors for low board diversity. Notable examples include Netflix and Walmart. At Netflix, we were pleased with the governance improvements made since 2022, including the declassification of the board. However, we remained concerned by slow board refreshment as three directors have served concurrently for 20 years. The overall diversity is also below our expectations, with no indication of future refreshment.

Similarly, at Walmart we recommended voting against the nomination and governance committee chair due to the continued low gender and overall board diversity. 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.

In North America, anti-ESG shareholder proposals continued to target diversity, equity, and inclusion strategies at companies, seeking to undermine efforts to eliminate discrimination and the marginalisation of underrepresented and underserved populations. Such proposals require careful scrutiny of the potential outcomes associated with their implementation, in order to ensure that unintended negative consequences do not occur.

Coca-Cola, Disney, and Boeing received shareholder proposals asking for reporting on the risks associated with increased efforts around inclusion. While these proposals may seem uncontroversial, their proposed implementation would lead to significant negative changes to existing company reporting, which was previously endorsed by shareholders. Disney and Johnson & Johnson also received shareholder proposals that had the intention of invalidating individual identities. We recommended voting against these proposals.

### Wider societal impacts

Companies have increased their focus on tax transparency, in line with upcoming OECD and EU regulations, but we still saw some related shareholder proposals on ballots. For example, in the US, charity Oxfam filed proposals at energy companies Chevron, Kosmos, ExxonMobil and ConocoPhillips. The shareholder proposals were successfully challenged by ConocoPhillips and ExxonMobil on procedural grounds, and grounds of ordinary business respectively. Chevron published an updated version of its high-level approach to tax in May 2024 ahead of the annual meeting. The proposals received 15% shareholder support at Chevron and 23% at Kosmos.

Elsewhere, le Mouvement d'éducation et de défense des actionnaires (MÉDAC), a prolific filer of shareholder proposals in the Canadian market, filed a new tax-related shareholder



**In Europe, Nestlé received a shareholder proposal to set a time-bound target to increase the proportion of its sales derived from healthier products.**

proposal at the Canadian banks. We did not believe the country-by-country tax reporting requested would result in robust outcomes or increased shareholder value. This was because of the link that the proponent was attempting to make between tax reporting and CEO pay ratios – which we confirmed with banks and expert stakeholders would be impossible to calculate with the information requested.

However, EOS strongly advocates for increased tax transparency including country-by-country reporting, in line with our responsible tax principles and engagement approach. We shared our own expectations on responsible tax reporting with the banks.

### Executive pay, auditor tenure and governance

We continued to see excessive CEO pay, excessive auditor tenure, and questionable governance structures in various sectors and markets. For example, several US healthcare and services companies such as HCA Healthcare and Tenet Healthcare awarded excessive pay packages, despite issues with staff retention in the sector. We pressed them to consider how this would impact workforce perceptions, and said that investing in human capital would drive better long-term value for shareholders.

We recommended voting against the pay packages at several North American oil and gas companies, including Exxon, Canadian Natural Resources, Suncor, Chevron, and Cheniere Energy due to the high quantum and other structural concerns. In addition, we opposed the pay award at aircraft manufacturer Boeing, due to concerns relating to the level of quantum and a lack of downward discretion applied despite several serious safety issues.<sup>10</sup>

This year we welcomed the decisions by Netflix, Kimberly Clark, DuPont and General Motors to eliminate options capable of vesting in the short term from executive long-term incentive

plans. These will be replaced with time restricted or performance restricted shares, demonstrating responsiveness to shareholder concerns. In the case of DuPont and General Motors, the decision to replace options with restricted share units was taken to encourage greater talent retention and attraction.

At TotalEnergies, we recommended voting against the re-election of the lead independent director, Jacques Aschenbroich, due to concerns around shareholder rights. We understood that the board had refused to allow a shareholder resolution onto the ballot from the Ethos Foundation regarding the separation of the chair and CEO roles, both currently held by Patrick Pouyanné.<sup>11</sup>

We had engaged with the company's head of corporate and securities law on the process that the board followed before dismissing the shareholder resolution. While we received assurance that the lead independent director had consulted with board members without the influence of the chair/CEO, we were concerned that the board stated that it would no longer accept advisory shareholder resolutions on to the ballot. We consider this to be an erosion of shareholder rights.

We continued to recommend votes against the audit committee chair and the ratification of the external auditor where the audit firm had been in place consecutively for 80 years or more, with no review or consideration of auditor rotation. This year we recommended opposing the auditor and audit committee chairs for 135 companies, including Target, Dow, Goodyear, Sherwin-Williams, Archer Daniels-Midland, Deere & Co, Kimberly-Clark, Coca-Cola and Johnson & Johnson.

Telecoms provider BCE completed an auditor rotation request for proposal in 2023 and will be switching from Deloitte to EY. It saw a reduction in support for the auditor ratification in 2023 (86%) and decided it was time to make a change. We have been engaging with the company on auditor tenure for three years.

**We opposed the pay award at Boeing, due to concerns relating to the level of quantum and a lack of downward discretion applied despite several serious safety issues.**



<sup>10</sup> <https://www.theguardian.com/business/article/2024/jun/01/boeing-safety-crisis-response-union-busting>.

<sup>11</sup> <https://www.responsible-investor.com/investors-launch-legal-appeal-following-totals-refusal-to-table-advisory-proposal/#:~:text=Swiss%20sustainable%20investment%20body%20Ethos,the%20CEO%20and%20chair%20roles>.

## Proxy contests in the US



**The finalisation of US proxy contest rules in 2021 and the SEC's adoption of the use of universal proxy cards gave rise to more proxy contests in 2024. These permit shareholders to create their own board of directors by making selections from the company and the activist proxy card.**

One of the highest profile proxy contests in recent memory occurred at the Walt Disney Company.<sup>12</sup> Amidst a three-way power struggle, we met the company twice and spoke one-on-one with the dissident nominees from Trian Partners, led by Nelson Peltz. At the Council of Institutional Investor (CII) conference, ValueAct Capital, a Disney shareholder known for engaging with its portfolio companies, presented an encouraging picture of change. It highlighted the addition of five new board members, some strategic changes indicating a better streaming bundling offer, as well as Disney CEO Bob Iger's strong track record on deals.<sup>13</sup>

In contrast, Peltz's CII presentation took issue with the board and Iger holding high equity in the company while Disney underperformed against peers. Notably, Peltz did not take questions from the audience. We did not have the opportunity to engage with the other dissident, Blackwells Group, but the group gained less recognition for its efforts than Trian and ultimately declined to address shareholders at the annual meeting.

Peltz's depth of analysis, thorough engagement, and willingness to challenge the status quo on previous boards had led to some positive results in his tenures at other companies. We considered the quality of each dissident group's plans and nominees, and our own engagement with the company on board composition, executive compensation, and succession planning. Ultimately, we concluded that the company had put in place substantial, credible groundwork to resolve its most material issues, and it was too early to measure the success of its initiatives.

While each dissident group made compelling arguments, we felt that neither gave sufficient evidence that the appointment of their nominees would bring more value to shareholders than supporting the incumbent board. Given this, we recommended support for all incumbent directors. At the annual meeting, the management nominees received majority approval from shareholders, with the highest level of approval for a dissident nominee being approximately 31% for Peltz.

Another proxy contest arose at wireless infrastructure business Crown Castle, where long-time poor performance had led to the co-founder of the company Ted Miller nominating a rival slate of directors to get the company back on track.<sup>14</sup> We met all four dissident nominees from Miller's investment vehicle Boots Capital, as well as Crown Castle, to gain insight on its strategy. We ultimately recommended support for all the incumbent directors due to concerns around the intentions, relevant and timely experience, and familial connections of the dissident slate.

**While each dissident group made compelling arguments, we felt that neither gave sufficient evidence that the appointment of their nominees would bring more value to shareholders.**

Coffee chain Starbucks also faced a proxy contest primarily regarding concerns about collective bargaining rights. Initially, the board's response to the unionisation drive was insufficient. Ahead of the annual shareholder meeting, we engaged with the dissident – the Strategic Organizing Committee (SOC), a group of labour unions – and the company to understand each side's position. However, the labour unions ultimately withdrew their slate from the proxy contest prior to the annual meeting, following the company's commitment to negotiating collective bargaining agreements with Starbucks Workers United representatives.<sup>15</sup>

<sup>12</sup> <https://www.hollywoodreporter.com/business/business-news/disney-proxy-fight-result-bob-iger-nelson-peltz-1235863896/>.

<sup>13</sup> [ValueAct builds stake in Disney, adds drama at home of Mickey Mouse -sources | Reuters](https://www.reuters.com/technology/valueact-builds-stake-in-disney-adds-drama-at-home-of-mickey-mouse-sources-2024-02-20/).

<sup>14</sup> <https://www.cnbc.com/2024/02/20/crown-castle-cofounder-launches-proxy-fight-challenges-elliott-agreement.html>.

<sup>15</sup> <https://www.cnbc.com/2024/03/05/labor-unions-end-proxy-fight-at-starbucks-after-bargaining-progress.html>.

**VOTING CASE STUDY**

Tesla



**At Tesla’s annual meeting, shareholders were asked to consider the company’s move from Delaware to Texas and to ratify CEO Elon Musk’s 2018 stock option award for a second time. The company faced seven shareholder proposals on governance, human rights and environmental matters. We sided with management on only two proposals, including the ratification of the auditor.**

Only two directors stood for election this year. We recommended opposing Elon Musk’s brother Kimbal Musk and James Murdoch due to independence concerns. In addition, the classified board structure with no sunset date, low board diversity, pledging of shares and lack of climate targets led us to recommend a vote against Murdoch as the only member of the nominating and governance and audit committees standing for re-election. The re-election of both directors passed with Kimbal receiving the support of 78% of the outstanding shares voted and Murdoch receiving 68% support.<sup>16</sup>

While the CEO and most named executive officers received modest or no compensation for FY2023, we were concerned about an outsized promotion grant to a named executive officer with limited explanation regarding the magnitude and design of the award. Tesla has maintained a non-traditional compensation plan and we are concerned that the executive pay structure and practices do not serve long-term investors or align properly with the core long-term objectives of the company.

**Court decision**

The ballot items to redomicile the company in Texas and re-ratify Musk’s 2018 performance award appeared to be conflated with the Delaware Court of Chancery’s decision in early 2024 to invalidate Musk’s 2018 stock option award. Shortly after the decision was handed down, Musk took to social media platform X (formerly Twitter) stating that: “Tesla should move immediately to hold a shareholder vote to transfer state of incorporation to Texas.”<sup>17</sup>

The board tried to assure shareholders that Tesla’s redomiciling was raised before in response to its headquarters move from California to Texas in 2021, and argued that the legal landscape in Delaware was evolving in ways detrimental to the company’s future. On consideration, we did not view the board’s rationale as compelling. Delaware has one of the most respected corporate judicial systems in the US and an extensive body of corporate case law. Meanwhile, Texas is in the process of forming a specialised business court system and it is unclear how this will function. Due to the substantial uncertainty around the application of corporate law in Texas, we recommended a vote against the proposal.

**Stock option award**

The concerns we had about Musk’s stock option award in 2018 remained intact, including the excessive size of the award and the dilutive effect upon exercise. The company’s rationale did little to allay our concerns. We were also concerned about the lack of clarity on the board’s plans for Musk’s future compensation, including the ability of the award to increase Musk’s focus on Tesla given his growing outside interests. For these reasons we recommended a vote against the proposal.

The redomiciling proposal attracted 63% support from the outstanding shares voted while Musk’s stock options award garnered the support of 76% of the outstanding Tesla shares voted.<sup>18</sup>

We supported six of the seven shareholder proposals, which included declassifying the board, adopting a simple majority vote, improving disclosure on harassment and discrimination prevention efforts, respecting freedom of association, assessing the feasibility of including sustainability as a performance metric for executive compensation, and asking the company to commit to a moratorium on sourcing minerals from deep sea mining. While stockholders sided with Tesla management on most shareholder proposals in casting their ballots, two non-binding advisory governance proposals were approved. The proposals to reduce director terms to one year and to adopt a simple majority vote each received 53% support.<sup>19</sup>



**Joanne Beatty**  
Theme lead: Corporate Reporting

<sup>16</sup> ISS June 2024.  
<sup>17</sup> Musk Says Tesla Will Hold Shareholder Vote ‘Immediately’ To Move Company’s Incorporation To Texas (forbes.com).  
<sup>18</sup> ISS June 2024.  
<sup>19</sup> ISS June 2024.

# 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.**

**Hyundai Motor**

**Engagement theme: Adopt circular economy principles**  
**Lead engager: Jaime Gornsztejn**



In 2017, we began engaging with Hyundai asking it to review its design and use of materials, as well as the disposal and scrapping of vehicles, and to develop a circular approach from start to finish. If implemented well, this should improve the company’s operational efficiencies, and reduce its waste. The company stated that circular economy principles were already applied at the group level, as in the recycling of steel sheets between itself and Hyundai Steel, but we recommended that it consider additional options.

In 2018, we welcomed the news that Hyundai had partnered with a Finland-based company for battery recycling, although we encouraged it to communicate this more clearly, including how it addresses recyclability and circular economy at the design stage of its products. From 2019 to 2021, we continued our discussions with the company, saying that it should look at the Global Battery Alliance for a closed-loop system for electric vehicle batteries.

**Outcomes and next steps**

Since our engagement began, Hyundai has developed its design and manufacturing process to reduce the resources needed to make its vehicles, and has developed and improved its methods of recycling, reusing and disposing of end-of-life vehicles.



This has resulted in an overall reduction in the resources used per vehicle for manufacturing. Hyundai's vehicles are 85% recyclable, and the recyclability rate rises to 95% if the recovery of thermal energy from waste disposal is included. Also, it has a 92% recycling rate for end-of-life vehicles.

**Deere & Co**

**Engagement theme:**  
Scope 3 emissions targets  
**Lead engager:** Joanne Beatty



Scope 3 emissions are material for Deere & Co, representing 99% of the company's overall emissions. We first raised our expectations on Scope 3 greenhouse gas emissions with the company in 2020, when we provided feedback on its sustainability disclosures. We asked the company to consider measuring and disclosing its Scope 3 greenhouse gas emissions data and to set ambitious science-based targets.

We also sought qualitative disclosures on how the company was working to reduce emissions throughout its product lifecycle. Deere acknowledged our request. During a subsequent engagement in 2021, we were pleased to learn that the company had begun quantifying its Scope 3 emissions, and expected to disclose more information in its 2021 sustainability report.

**Outcomes and next steps**

In February 2022, the company launched new climate 2030 goals focused on Scopes 1, 2 and 3 greenhouse gas emissions. Deere committed to achieving a 50% absolute reduction of its operational carbon (CO<sub>2</sub>e) emissions (Scopes 1 and 2) and a 30% absolute reduction of upstream and downstream CO<sub>2</sub>e emissions. We appreciated that the Scope 3 reduction goal was focused on emissions from the company's purchased goods and services and the use of sold products. After the completion of its Scope 3 emissions goal and inventory, Deere submitted its targets to the Science Based Targets initiative (SBTi) in early 2022. It announced that its targets had been validated in October 2022.

Deere said that its strong focus on climate, including the 2022 release of its first Task Force on Climate-related Financial Disclosures report, represented a significant amount of work, including working closely with internal audit to review metrics. It closed out its 2022 sustainability goals, successfully delivering on its 15% greenhouse gas reduction target (from a 2017 baseline) by achieving greater than 50% renewable electricity and driving efficiency.

**Marathon Oil**

**Engagement theme:**  
Diversity disclosure  
**Lead engager:** Nick Pelosi

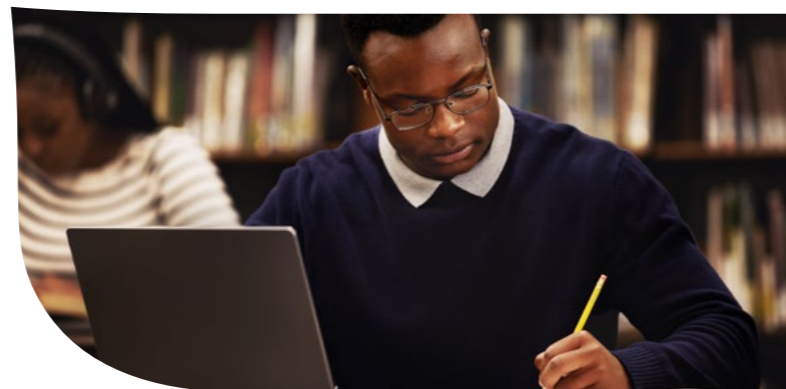


During a virtual meeting with management in November 2021, we asked the company to disclose workforce composition data showing gender and racial representation at the board, management and company levels. We visited the company's offices in January 2022 and it highlighted its commitment to promoting a diverse and inclusive workplace. This included a commitment to publishing its Equal Opportunity and Employment (EEO-1) data, in addition to a new human rights policy.

**Outcomes and next steps**

The company's 2021 Sustainability Report provided EEO-1 data showing that in 2021, women and ethnically/racially diverse employees accounted for 33% and 30% of its US full-time workforce. Marathon Oil also reported that 50% of its board of directors were women or ethnically/racially diverse, which is in line with our best practice expectations.

In a January 2023 meeting, we recognised the company's commitment to enhancing disclosure and conveyed our support for further action to strengthen diversity, equity and inclusion, including the completion of a gender pay gap analysis. Relatedly, the company is focused on attracting talent by collaborating with Historically Black Colleges and Universities (HBCUs) in the Houston area.



**Koninklijke Ahold Delhaize**

**Engagement theme:**  
Remuneration/target disclosure  
**Lead engager:** Justin Bazalgette

Koninklijke Ahold Delhaize engages in the management and operation of supermarkets, as well as an e-commerce business. Throughout 2019 to 2021 we engaged with the company to request greater disclosure of the targets and performance criteria being used to assess executive remuneration. We explained the difficulty for stakeholders in properly assessing whether executives were being set stretching targets and how their performance had contributed to the resulting remuneration awards.



The company said it faced a dilemma in setting performance targets due to the uncertainty of labour and energy costs.

The company was reluctant to disclose the key information used and cited concerns about providing competitively sensitive information. We recommended voting against the remuneration report in 2020, 2021 and 2022 due to the low level of disclosure around targets used in the incentive schemes.

In March 2022, we had a call with the head of investor relations and gained assurance that our concerns had been acknowledged by the supervisory board. In early 2023, the company said it faced a dilemma in setting performance targets due to the uncertainty of labour and energy costs. We explained that we expected a strong rationale for any use of discretion and the company noted our suggestion.

**Outcomes and next steps**

In early 2023, we met the remuneration committee chair and head of sustainability. The company presented the format in which it planned to disclose its short-term and long-term incentive targets with higher levels of transparency relating to targets and performance. We provided positive feedback on this revised format.

Following this consultation, the company issued its 2022 remuneration report. There were significant improvements in the disclosure of targets and therefore we were able to recommend support for the remuneration report at the 2023 AGM.

**Walt Disney Company**

**Engagement theme:**  
Independent board leadership  
**Lead engager:** Velika Talyarkhan

Our engagement urging the Walt Disney Company to separate its CEO and chair roles began in 2012. The board's decision to combine the roles on the retirement of its independent chair, and to extend the CEO/chair's contract, led to intensive engagement. The company's lack of responsiveness led us to co-file a shareholder proposal requesting proxy access to allow shareholders to promote independent candidates to the board more easily.

The proposal received support from 39.79% of shareholders and the company's unwillingness to acknowledge our governance concerns led us to refile the proposal in 2013. We withdrew this after productive negotiations with the lead independent director, and changes to Disney's corporate governance policies stating that in future, the roles of chair and CEO would only be combined under exceptional circumstances.

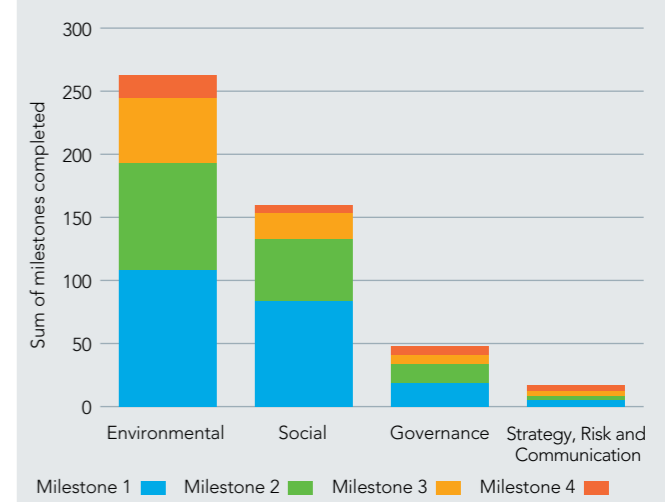
From 2015 to 2017, we reiterated our expectations for an independent chair following the departure of the CEO and pressed for a robust succession plan. During this period, we welcomed the company's adoption of proxy access and the appointment of a chief operating officer, making the succession plan clearer. In 2020, we communicated our intention to recommend support for the appointment of the lead independent director as chair, should she pursue the position.

**Outcomes and next steps**

The company initially retained the outgoing CEO as executive chair and finally appointed its lead independent director as chair at the end of 2021. We welcomed Disney's stated preference for an independent chair, while noting that it would maintain the flexibility of having a combined chair and CEO, but would disclose why this arrangement was in the best interests of shareholders. We will monitor the company's intention to combine these roles at future transitions, shifting our engagement focus to material environmental and social topics.

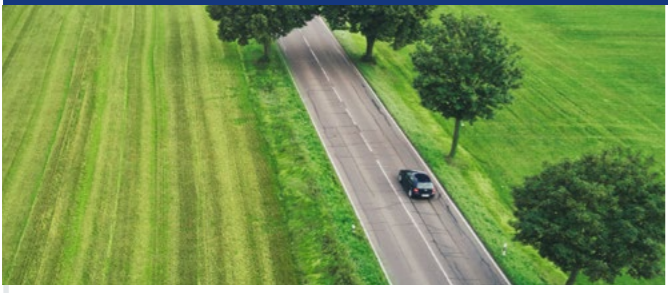
The proposal received support from 39.79% of shareholders and the company's unwillingness to acknowledge our governance concerns led us to refile the proposal in 2013.

Milestones completed by stage H1 2024



Source: EOS data

**CASE STUDY**  
Goodyear



**The Goodyear Tire and Rubber Company is one of the largest tyre-producing companies in the world. More than 90% of the greenhouse gas emissions related to its products and services are realised during the product-use phase. However, there is still significant upstream climate risk in purchased goods and services, including in rubber procurement.**

**Our engagement**

In 2019, we first communicated our expectations for Goodyear regarding its product upstream and downstream climate impacts. We also raised concerns regarding rubber sourcing and asked the company to undertake a risk assessment aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, to which the company was receptive. Finally, we asked Goodyear to set science-based Scope 1 and 2 greenhouse gas emissions reduction targets.

In 2021, Goodyear launched a CEO-sponsored climate strategy roadmap. This aimed to expand the company's overall climate ambitions and identify significant climate-related risks and opportunities. It committed to reaching net zero Scope 1, 2, and certain Scope 3 greenhouse gas emissions by 2050 and to pursue Science Based Target initiative (SBTi) verification for those targets.

As of 2022, Goodyear was working with its customers to reduce greenhouse gas emissions in its own operations and through more sustainable products. It confirmed in our engagement that its customers had reacted positively to its climate ambitions and renewable energy strategy, which aimed to move all manufacturing operations and processes to 100% renewable energy by 2040.

Goodyear identified sustainable raw material options and developed a domestic source of natural rubber from a species of dandelion. It acknowledged the supply chain challenges and trade-offs in sourcing sustainable materials for the construction of renewable tyres.

**Changes at the company**

We welcomed the company's inaugural TCFD report in March 2022, three years after we had first engaged on this topic. The report provided an assessment of potential

climate physical and transitional risks, including those associated with rubber sourcing, addressing our earlier concerns. The company's focus on reducing its value chain emissions through sourcing and producing more sustainable material tyres has enabled it to set ambitious climate goals. In October 2023, the company achieved SBTi verification for its near and long-term climate targets, which included Scope 3 greenhouse gas emissions.

Goodyear has also shown positive progress towards meeting its 2030 commitment to produce a 100% sustainable-material tyre. In early 2023, it unveiled a 90% sustainable material content demonstration tyre. In addition to passing applicable regulatory testing, the tyre had lower rolling resistance when tested versus a reference tyre made with traditional materials – a positive step towards better fuel savings and a reduced carbon footprint.

The company does not own any rubber tree plantations, but we welcomed the actions Goodyear has taken as a purchaser of natural rubber. Its enterprise and affiliate natural rubber procurement policy is aligned with the Global Platform for Sustainable Natural Rubber's policy framework.

**Next steps**

Goodyear continues to integrate its climate roadmap activities across the business through its ongoing identification and analysis of climate risks. It is working with its suppliers on new sustainable technologies, as evidenced by its partnership with Monolith to create a new tyre tread for electric vehicles using Monolith's carbon black. This is produced with virtually zero emissions, potentially reducing tyre lifecycle emissions.<sup>1</sup>

**Read more about these issues in the full case study at:**  
<https://www.hermes-investment.com/uk/en/institutions/eos-insight/stewardship/goodyear-case-study/>

**Engagement objectives**

- Environmental**
  - Supply chain climate risk
  - Customer action on climate change

**Joanne Beatty**  
Sector lead:  
Industrial & Capital Goods,  
Chemicals

<sup>1</sup> <https://monolith-corp.com/news/in-industry-first-goodyear-launches-tyre-with-monolith-s-carbon-black>



# Public policy and best practice

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

**Overview**

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

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

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

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

**Response to TNFD consultation on food and agriculture draft sector guidance**

**Lead engager: Hannah Naumoff**

We responded to the consultation by the Taskforce on Nature-related Financial Disclosures (TNFD) on the draft sector guidance for food and agriculture. We have identified nature and biodiversity as a priority for engagements in relevant sectors, including food and beverage. Agriculture's significant dependence on biodiversity to foster robust ecosystem services underscores the role it must play in the restoration and conservation of diverse ecosystems at scale. EOS expects companies to use the TNFD framework to support the transition to more sustainable and regenerative agricultural practices in their operations and supply chains.

We recommended that the sector guidance be made explicitly applicable to the beverage sector, as many of its ingredients are sourced from the agricultural sector. Additionally, we provided comments on supply chain oversight, specifically on how robust analysis of certifications and feasibility of traceability could benefit companies and investors. We also proposed additional metrics and disclosures related to antimicrobial use.

**PRI Spring company assessment framework**

**Lead engager: Zoe de Spaelberch**

As a signatory advisory committee member of the Principles for Responsible Investment (PRI) Spring initiative, we met with the committee to provide feedback on its company assessment framework and investor briefing packs. We asked about the different metrics and indicators used to score companies in the framework. We encouraged Spring to

distinguish its framework from existing nature frameworks by other initiatives. We proposed collating best practice examples across sectors to help investors engage.

Regarding the briefing packs for investors, we asked if the PRI could include more detailed risks and opportunities for each company, and include a baseline assessment of company performance across Spring's expectations. We asked the group for confirmation that land use remained the main focus in determining which trade associations to outline in the briefing packs.

At a subsequent signatory advisory committee meeting, we discussed updates to the company selection. The PRI presented a new batch of companies and we discussed the addition of some from the retail, mining and automotive sectors as well as sectors not previously covered by the initiative, such as tyre manufacturers and pulp and paper companies.

The companies were chosen using the same methodology as the first batch, based on their influence on relevant policy arenas and their exposure to deforestation risk. We suggested that the new list of companies could include their relevant industry associations, to enable investors to assess companies' participation in public policy advocacy.

### Finance Statement on Plastic Pollution

#### Lead engager: Shoa Hirotsato

We co-signed the Finance Statement on Plastic Pollution, a joint initiative led by the UN Environment Programme Finance Initiative (UNEP FI). The letter attracted 160 signatories from the finance sector. In the run up to the signing of the UN's Global Plastics Treaty, this statement aims to amplify the finance sector's voice during the fourth negotiation round in Canada. It calls on governments to establish an ambitious policy framework to support the finance sector in taking action to beat plastic pollution.

Financial institutions that have signed the statement acknowledge their role in mitigating the material financial risks related to plastic pollution and express their willingness to address the risks of plastic pollution through their financed activities and investment. These include regulatory, transition, liability and stranded asset risks related to plastic pollution and the upcoming changes in the industry and its regulatory landscape.

### IAAMR statement to policymakers on AMR

#### Lead engager: Zoe de Spoelberch

With the second high level meeting on antimicrobial resistance (AMR) approaching in September 2024, we co-signed an investor statement calling for global leaders and policymakers to reinvigorate efforts, coordinate action, and reaffirm their commitment to tackling AMR. The statement was led by Investor Action on AMR (IAAMR).

We suggested that global policymakers could support the establishment of an independent panel to provide them with regular scientific assessments on AMR and establish science-based targets and guidance. We also encouraged global policymakers to commit to reductions in the use of antibiotics in agriculture and end the routine use of antibiotics for growth promotion and group prophylaxis in animal farming.

We urged them to adopt legislative initiatives to set maximum residue limits for antibiotics in wastewater from manufacturing facilities. We asked policymakers to continue to support the establishment of a globally integrated surveillance system for AMR and antibiotic use, to identify patterns and react accordingly. We also encouraged them to continue to promote the research and development of new antimicrobials and alternatives.

### Board appointment to Global Network Initiative

#### Lead engager: Nick Pelosi

EOS was appointed as the investor representative to the board of the Global Network Initiative (GNI), a multi-stakeholder organisation dedicated to promoting digital rights in the tech sector. We have been a member of the GNI and a participant in the investor working group since 2020. By joining the board as the investor representative, we are assuming an elevated leadership position within the organisation.

Joining the board will increase our insights on the emerging digital rights challenges facing the tech sector and provide additional engagement opportunities with the tech companies that are also on the board. We cite GNI best practices for privacy and freedom of expression in our own Digital Rights Principles, which were published in 2022.



**We encouraged global policymakers to commit to reductions in the use of antibiotics in agriculture and end the routine use of antibiotics for growth promotion in animal farming.**

# 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.

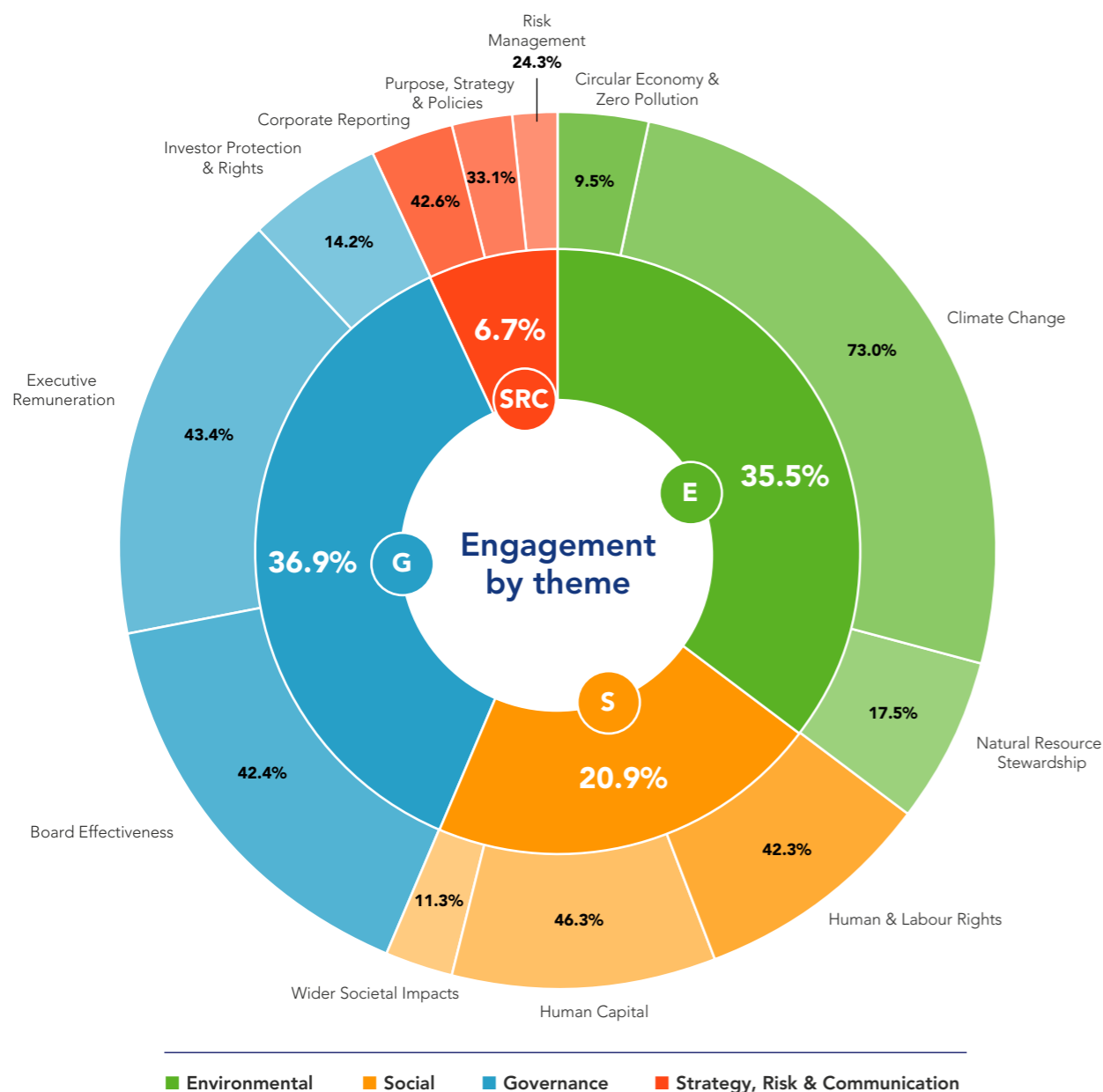
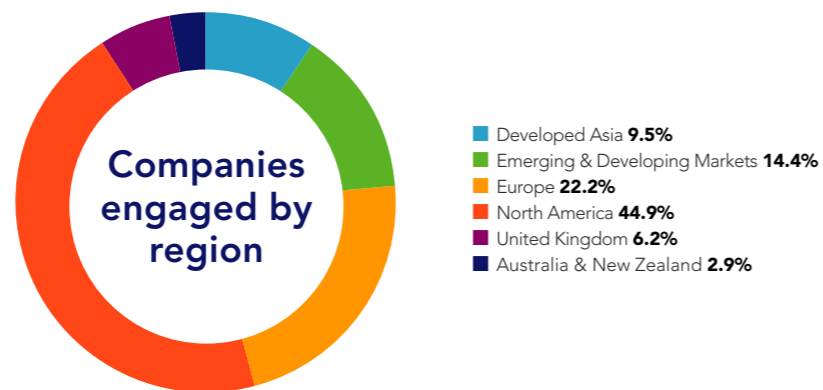
EOS makes voting recommendations for shareholder meetings wherever practicable. We base our recommendations on annual report disclosures, discussions with the company and independent analyses. At larger companies and those where clients have a significant interest, we seek a dialogue before recommending 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 613 companies on 2,024 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.

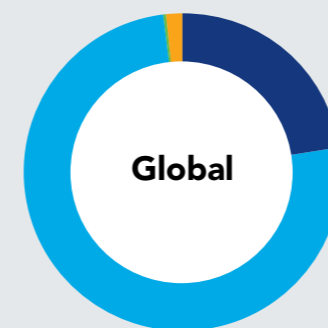


■ Environmental ■ Social ■ Governance ■ Strategy, Risk & Communication

Source: EOS data.

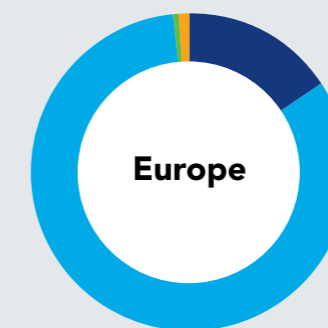
### Voting overview

Over the last quarter we made voting recommendations at 8,715 meetings (101,459 resolutions). At 6,588 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at 122 meetings and abstaining at 29 meetings. We supported management on all resolutions at the remaining 1,976 meetings.



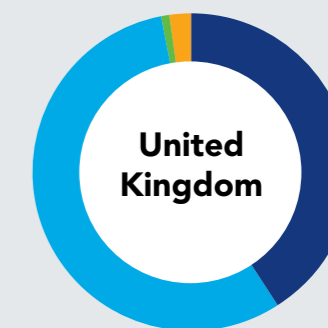
We made voting recommendations at **8,715 meetings (101,459 resolutions)** over the last quarter.

■ Total meetings in favour **22.7%**  
 ■ Meetings against (or against AND abstain) **75.6%**  
 ■ Meetings with management by exception **1.4%**  
 ■ Meetings abstained **0.3%**



We made voting recommendations at **1,393 meetings (23,815 resolutions)** over the last quarter.

■ Total meetings in favour **15.7%**  
 ■ Meetings against (or against AND abstain) **82.8%**  
 ■ Meetings with management by exception **0.9%**  
 ■ Meetings abstained **0.6%**



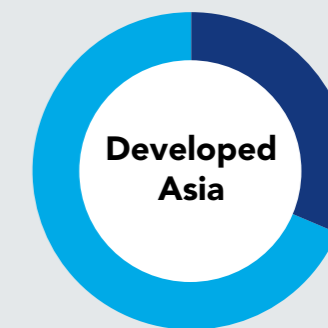
We made voting recommendations at **338 meetings (5,475 resolutions)** over the last quarter.

■ Total meetings in favour **41.1%**  
 ■ Meetings against (or against AND abstain) **55.9%**  
 ■ Meetings with management by exception **2.1%**  
 ■ Meetings abstained **0.9%**



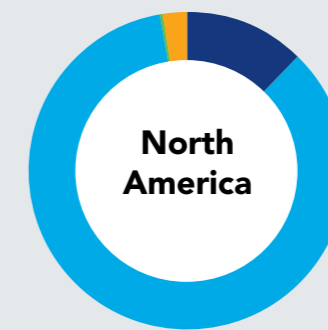
We made voting recommendations at **2,836 meetings (32,329 resolutions)** over the last quarter.

■ Total meetings in favour **28.4%**  
 ■ Meetings against (or against AND abstain) **70.3%**  
 ■ Meetings with management by exception **0.7%**  
 ■ Meetings abstained **0.6%**



We made voting recommendations at **1,486 meetings (14,702 resolutions)** over the last quarter.

■ Total meetings in favour **31.5%**  
 ■ Meetings against (or against AND abstain) **68.5%**



We made voting recommendations at **2,596 meetings (24,788 resolutions)** over the last quarter.

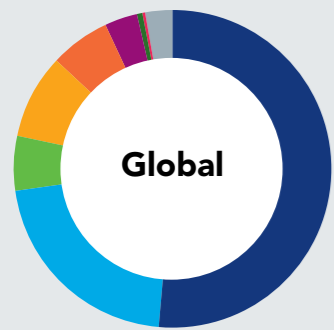
■ Total meetings in favour **12.4%**  
 ■ Meetings against (or against AND abstain) **84.9%**  
 ■ Meetings with management by exception **2.5%**  
 ■ Meetings abstained **0.1%**



We made voting recommendations at **66 meetings (350 resolutions)** over the last quarter.

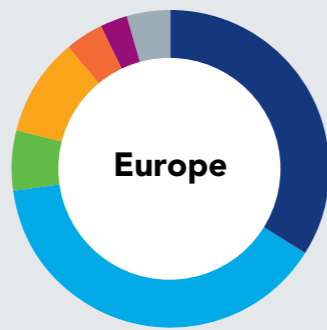
■ Total meetings in favour **31.8%**  
 ■ Meetings against (or against AND abstain) **45.5%**  
 ■ Meetings with management by exception **22.7%**

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



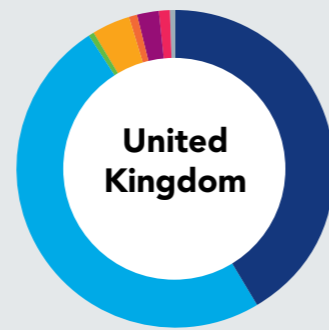
We recommended voting against or abstaining on **18,901** resolutions over the last quarter.

- Board structure **51.7%**
- Remuneration **21.3%**
- Shareholder resolution **5.7%**
- Capital structure and dividends **8.7%**
- Amend articles **6.0%**
- Audit and accounts **3.5%**
- Investment/M&A **0.6%**
- Poison pill/Anti-takeover device **0.1%**
- Other **2.6%**



We recommended voting against or abstaining on **4,056** resolutions over the last quarter.

- Board structure **33.9%**
- Remuneration **38.9%**
- Shareholder resolution **6.2%**
- Capital structure and dividends **9.9%**
- Amend articles **4.0%**
- Audit and accounts **2.7%**
- Other **4.3%**



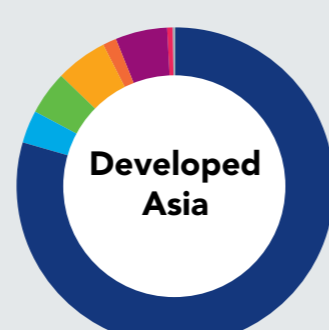
We recommended voting against or abstaining on **483** resolutions over the last quarter.

- Board structure **41.7%**
- Remuneration **49.5%**
- Shareholder resolution **0.3%**
- Capital structure and dividends **4.0%**
- Amend articles **0.8%**
- Audit and accounts **2.2%**
- Poison pill/Anti-takeover device **1.1%**
- Other **0.5%**



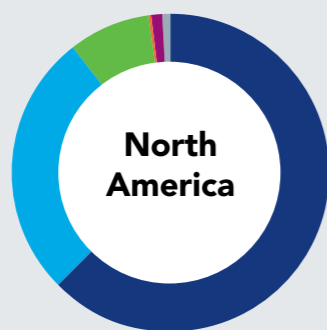
We recommended voting against or abstaining on **6,433** resolutions over the last quarter.

- Board structure **44.3%**
- Remuneration **11.8%**
- Shareholder resolution **4.5%**
- Capital structure and dividends **15.5%**
- Amend articles **13.4%**
- Audit and accounts **4.8%**
- Investment/M&A **1.6%**
- Other **4.0%**



We recommended voting against or abstaining on **2,758** resolutions over the last quarter.

- Board structure **79.6%**
- Remuneration **3.5%**
- Shareholder resolution **4.4%**
- Capital structure and dividends **5.2%**
- Amend articles **1.3%**
- Audit and accounts **5.4%**
- Poison pill/Anti-takeover device **0.6%**
- Other **0.1%**



We recommended voting against or abstaining on **5,072** resolutions over the last quarter.

- Board structure **62.7%**
- Remuneration **26.8%**
- Shareholder resolution **8.2%**
- Capital structure and dividends **0.1%**
- Amend articles **0.4%**
- Audit and accounts **1.0%**
- Other **0.7%**



We recommended voting against or abstaining on **101** resolutions over the last quarter.

- Board structure **31.4%**
- Remuneration **60.5%**
- Capital structure and dividends **4.7%**
- Audit and accounts **2.3%**
- Other **1.2%**

# 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 equity and fixed income assets.

This is achieved through dialogue with companies on environmental, social and governance issues. We believe this is essential to build a global financial system that aims to deliver improved long-term returns for investors, as well as better outcomes for society.



**Advisory**

We work with our clients to develop their responsible ownership policies, drawing on our extensive experience and expertise to advance their stewardship strategies.

## 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.



**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.



**Public policy and market best practice**

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 responsibly.

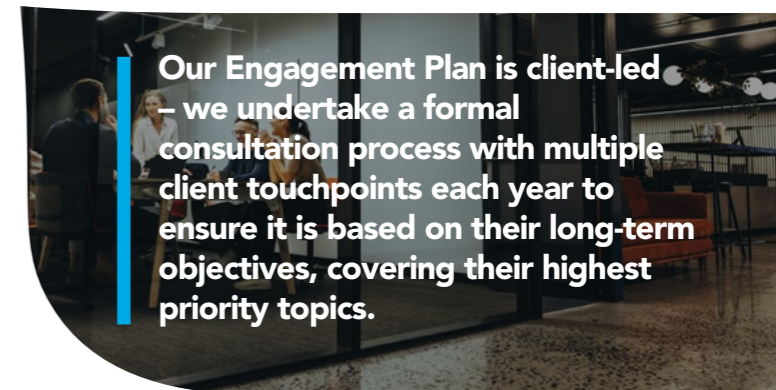


**Screening**

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.

## The EOS advantage

- Relationships and access** – Companies understand that EOS is working on behalf of pension funds and other large institutional investors, so it has significant leverage – representing assets under advice of over US\$1.8tn as of 31 March 2024. 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 and executive management teams.
- 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.



**Our Engagement Plan is client-led – we undertake a formal consultation process with multiple client touchpoints each year to ensure it is based on their long-term objectives, covering their highest priority topics.**

# 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, Technology



**Justin Bazalgette**  
Sectors: Consumer Goods, Industrial & Capital Goods



**Joanne Beatty**  
Sectors: Chemicals, Industrial & Capital Goods, Transportation



**George Clark**  
Voting and Engagement Support



**Emily DeMasi**  
Sectors: Financial Services, Pharmaceuticals & Healthcare



**Zoe de Spoelberch**  
Sectors: Retail & Consumer Services, Consumer Goods



**Bruce Duguid**  
Head of Stewardship, EOS



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



**Will Farrell**  
Sectors: Utilities, Chemicals, Financial Services



**Diana Glassman**  
Sectors: Oil & Gas, Financial Services, Technology



**Jaime Gornsztejn**  
Sector: Mining & Materials



**Hannah Heuser**  
Sectors: Oil & Gas, Utilities



**Ellie Higgins**  
Sectors: Utilities, Retail & Consumer Services, Consumer Goods



**Shoa Hirotsato**  
Sectors: Financial Services, Transportation, Utilities



**Lisa Lange**  
Sector: Transportation



**Pauline Lecoursonnois**  
Sector: 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**  
Sectors: Financial Services, Technology, Consumer Goods



**Xinyu Pei**  
Sectors: Oil & Gas, Utilities, Mining & Materials



**Nick Pelosi**  
Sectors: Mining & Materials, Financial Services, Technology



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



**Velika Talyarkhan**  
Sectors: Utilities, Consumer Goods, Retail & Consumer Services




**Ross Teverson**  
Sectors: Retail & Consumer Services, Technology



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




**Judi Tseng**  
Sectors: Financial Services, Technology



**Mark Turner**  
Voting and Engagement Support



**George Watson**  
Sectors: Chemicals, Financial Services, Consumer Goods



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



**Michael Yamoah**  
Sectors: Technology, Oil & Gas, Utilities, Financial Services



**Ming Yang**  
Sectors: Consumer Goods, Mining & Materials

## Client Service and Business Development



**Mike Wills**  
Head of Client Service and Business Development, EOS



**Diego Anton**  
Client Service



**Amy D'Eugenio**  
Sustainability Director



**Andrew Glynn-Percy**  
Communications and Marketing



**Alishah Khan**  
Client Service



**Jonathan Lance**  
Client Service



**William Morgan**  
Client Service



**Alice Musto**  
Client Relations Lead

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## Federated Hermes

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

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

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

### Our investment and stewardship capabilities:

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

### Why EOS?

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

For more information, visit [www.hermes-investment.com](http://www.hermes-investment.com) or connect with us on social media:

