Pensionskasse der Credit Suisse Group (Schweiz)

Nachhaltigkeits-Report 2024

Rückblick 2024

Auch im Jahr 2024 konnte die Pensionskasse der Credit Suisse Group (Schweiz) weitere Fortschritte in einzelnen Handlungsfeldern erzielen und so ihren ESG-Standard weiter erhöhen.

Berücksichtigung des Swiss Stewardship Codes im «Active Ownership»-Ansatz
Beim «Active Ownership»-Ansatz handelt es sich um eine zentrale Säule der Nachhaltigkeits- und Klimastrategie der Pensionskasse der Credit Suisse Group (Schweiz) (nachfolgend PK CSG) zur bewussten Wahrnehmung der Eigentümerrechte. Die Pensionskasse sieht es in ihrer Verantwortung, die Interessen ihrer Versicherten gegenüber den investierten Unternehmen bestmöglich zu vertreten. Um Einfluss auf die Unternehmen zu nehmen, wird auf die Ausübung der Stimmrechte bei den Aktienanlagen und die Führung eines strukturierten Dialogs mit den Unternehmen (Engagement) gesetzt – sowohl bei Aktien- als auch Obligationenbeständen.

Um ein wirkungsvolles Investieren und die Förderung von nachhaltigen Unternehmen zu erreichen, hat die Asset Management Association Switzerland zusammen mit Swiss Sustainable Finance im vierten Quartal 2023 den Swiss Stewardship Code veröffentlicht. Dieser kann als Leitlinie u. a. für Pensionskassen zur aktiven Ausübung von Aktionärsrechten durch Investoren in der Schweiz verstanden werden. Im Jahr 2024 war es daher das Ziel zu überprüfen, inwiefern der Swiss Stewardship Code von den durch die Pensionskasse eingesetzten Service-Providern eingehalten wird. Sowohl bei dem Service-Provider EOS Federated Hermes, der im Auftrag der Pensionskasse die Engagement-Aktivitäten steuert und wahrnimmt, als auch bei UBS Asset Management in Bezug auf das Proxy Voting kann die Einhaltung der einzelnen Prinzipien des Kodex bestätigt werden.

Erweiterung der Ausschlussliste – Unternehmen aus dem Kohlesektor
Neben den Stewardship-Aktivitäten sieht die Nachhaltigkeits- und Klimastrategie die Integration von Nachhaltigkeitsfaktoren bei Anlageentscheiden und die Unterstützung einer nachhaltigen Entwicklung von Umwelt und Gesellschaft vor. Der CO2-emissionsintensive Kohlesektor gilt als einer der Haupttreiber in Bezug auf die Klimaveränderung und steht daher im Fokus von CO2-Reduktionsmassnahmen. Aufgrund von potenziellen Portfoliorisiken, aber auch zur Reduzierung der CO2-Intensität im Portfolio der Pensionskasse wurde der Entschluss gefasst, Unternehmen aus dem Kohlesektor aus dem Anlageuniversum auszuschliessen. Hierzu wurde eine Zusammenarbeit mit Urgewald e. V. eingegangen, einem Verein, der Unternehmen aus der Wertschöpfungskette der Kraftwerkskohle identifiziert.

Beitritt zur ESG Data Convergence Initiative
Bei der ESG Data Convergence Initiative handelt es sich um eine Initiative mit dem Ziel, Investoren und Manager aus der privaten Investmentbranche zusammenzubringen und einen gemeinsamen Standard der ESG-Berichterstattung für Privatmarktanlagen zu fördern. Mit dem Beitritt zu dieser Initiative im Jahr 2024 möchte die PK CSG dabei mitwirken, die ESG-Transparenz in diesem Marktsegment weiter zu erhöhen und weitere ESG-Fortschritte zu erzielen.

Nachhaltigkeit bei der PK CSG

Handlungsfelder

Die Umsetzung der Nachhaltigkeits- und Klimastrategie der Pensionskasse stützt sich auf fünf Pfeiler, welche in Abhängigkeit der individuellen Eigenschaften jeder Anlageklasse angewandt werden:

Ausschluss	Kontroverse Waffen; verhaltensbasierte Ausschlüsse sowie Staaten, gegen die ein Rüstungs- oder Repressionsgüter-Embargo der Schweiz besteht; Unternehmen aus dem Kohlesektor.
Active Ownership	Stimmrechtsausübung Bei Aktienanlagen in der Schweiz sowie bei ausgewählten Aktienanlagen in Europa, USA, Kanada sowie der APAC-Region. Engagement Mittels kollaborativem Engagement bei Aktien und Unternehmensobligationen.
Integration	ESG-Integration wird als integraler Teil der Strategie definiert, sofern anlageklassenspezifische Massnahmen zur Umsetzung der Nachhaltigkeitsvorgaben beschlossen wurden und eine nachvollziehbare sowie überprüfbare Beschreibung der Umsetzung vorliegt.
Dialog und Kollaboration	Die Pensionskasse ist Mitglied der folgenden Vereinigungen zur Unterstützung einer nachhaltigen Vermögensanlage: Swiss Sustainable Finance, UNPRI, ClimateAction100+, ESG Data Convergence Initiative.
Reporting	Transparente Kommunikation an die Versicherten auf der Webseite und an den Stiftungsrat.

Die Interessen einer Vielzahl der Versicherten werden mit unterschiedlichen Idealen sowie politischen und moralischen Wertevorstellungen vertreten. Im Bewusstsein über diese heterogene Basis sowie dem treuhänderischen Auftrag zur Erreichung einer marktkonformen Rendite stützt sich die Pensionskasse bei der Ausarbeitung ihrer Nachhaltigkeits- und Klimastrategie auf anerkannte und von der Schweiz ratifizierte Konventionen sowie auf ein finanzielles Risikomanagement. Folgende Elemente bilden die Basis des ESG-Frameworks:

- Die Bundesverfassung der Schweizerischen Eidgenossenschaft und die schweizerische Gesetzgebung
- UN Global Compact

Ausschluss

Ein Ausschluss von Anlagen aus dem Anlageuniversum erfolgt, wenn keine Möglichkeit zur Verbesserung der als nicht-nachhaltig betrachteten Punkte bei den Unternehmen gesehen wird. Ein Ausschluss kann aufgrund folgender Kriterien erfolgen:

1. Verstoss gegen von der Schweiz ratifizierte Konventionen oder Verträge (derzeit kontroverse Waffen)
2. Verstoss gegen die Grundsätze der Nachhaltigkeits- oder Klimastrategie der PK CSG
3. Stranded Assets (Vermögenswerte die aufgrund der globalen Nachhaltigkeitstransition ihren Wert verlieren)
4. Erfolgloses Engagement mit den Unternehmen

Wie Eingangs erwähnt hat sich die PK CSG im Jahr 2024 dazu entschlossen, Unternehmen aus dem Kohlesektor, aufgrund des erhöhten Risikos von Stranded Assets, auszuschliessen. Hierzu ist sie eine Zusammenarbeit mit Urgewald e.V. eingegangen und greift auf Informationen der Global Coal Exit List (GCEL) zurück.

Von einem verhaltensbasierten Ausschluss sind Unternehmen betroffen, die bspw. gegen eine oder mehrere Prinzipien des UN Global Compact verstossen und bei denen das Engagement abgebrochen wurde oder bei denen aufgrund des kontroversen Geschäftsmodells erst gar kein Engagement betrieben wird. Staaten (Staatsanleihen), gegen die ein Rüstungs- oder Repressionsgüter-Embargo der Schweiz besteht, sind ebenfalls von einem Ausschluss betroffen.

Die Überprüfung und Anpassung der Ausschlussliste erfolgt im periodischen Rhythmus. Die aktuelle Ausschlussliste kann auf der Website der PK CSG eingesehen werden.

Active Ownership

Die Pensionskasse tritt als aktive Eigentümerin (Active Owner) auf und nimmt ihre Rechte wie auch Pflichten als Anlegerin im Interesse ihrer Versicherten wahr. Als aktive Eigentümerin setzt sie auf einen strategischen Austausch mit den Unternehmen (Engagement) sowie die Ausübung der Stimmrechte bei ihren Aktienanlagen, um wichtige Themen in den Bereichen Umwelt (Environment), Soziales (Social) und Governance zu bearbeiten. Als Eigentümerin sieht die Pensionskasse ihre Pflicht darin, Einfluss auf die investierten Unternehmen zu nehmen.

Stimmrechtsausübung

Die Ausübung der Stimmrechte im Zuge einer aktiven Eigentümerschaft bildet einen zentralen Bestandteil der Nachhaltigkeits- und Klimastrategie. Durch die aktive Ausübung der Stimmrechte werden die langfristigen Interessen der Versicherten im Rahmen der treuhänderischen Sorgfaltspflicht wahrgenommen und zu einer nachhaltigen Unternehmensentwicklung beigetragen.

Die Pensionskasse definiert ihr Stimmrechtsuniversum (Titel mit aktiver Stimmrechtsausübung) so, dass sie mit ihren ausgeübten Stimmrechten ihre Nachhaltigkeitsziele optimal erreichen kann. Im Auftrag des Stiftungsrates wird das Stimmrechtskonzept jährlich übererarbeitet und überwacht. Bei der Ausarbeitung des Stimmrechtskonzepts werden Grundsätze und Kriterien definiert, welche bei der Analyse der einzelnen Anträge an den Generalversammlungen anzuwenden sind. Unterstützt wird dieser Prozess durch interne Stellen sowie durch einen externen Stimmrechts-Consultant, welcher mittels den zuvor definieren Kriterien eine unverbindliche Stimmrechtsempfehlung pro Unternehmung erstellt. Die Pensionskasse entscheidet über die Ausübung der Stimmrechte und definiert den Prozess, wie die Stimmrechtsempfehlungen anzuwenden sind. Im Rahmen einer transparenten Berichterstattung werden die Abstimmungsergebnisse sowie die verwendeten Stimmrechtskriterien in zusammengefasster Form auf der Webseite veröffentlicht.

Engagement

Die Pensionskasse sieht den Dialog mit Unternehmen und Regulatoren als eine wichtige Möglichkeit zur Einflussnahme auf deren Tätigkeiten respektive auf die Entwicklung der künftigen Rahmenbedingungen. Um eine effektive und wirkungsorientierte Engagement-Strategie zu etablieren, setzt die Pensionskasse auf einen kollaborativen Engagement-Ansatz mit anderen Anlegern. Der strategische und mehrjährige Engagement-Dialog mit den einzelnen Firmen wird durch den auf Engagement-Dialoge spezialisierten Partner EOS at Federated Hermes geführt. Das Ziel des Dialogs besteht darin, eine Verbesserung der Geschäftstätigkeiten bei kritischen Punkten in den Bereichen Umwelt, Soziales sowie Governance zu erreichen. Hierzu wird jährlich ein mehrjähriger Engagementplan erstellt und gemeinsam mit den angeschlossenen Investoren besprochen.

Integration

Die ESG-Integration wird über den systematischen Einbezug von ESG-Kriterien in den Anlageprozess definiert, um Chancen und Risiken in Verbindung zu diesen Kriterien identifizieren zu können. Das Vorgehen zur ESG-Integration wird anlagespezifisch festgehalten und umfasst dabei mindestens folgende Punkte:

- Vorgehen zur Einhaltung der bestehenden Vorgaben der Nachhaltigkeitsstrategie (sofern auf die Anlageklasse anwendbar)
- Beschrieb des Vorgehens beim Manager zur Integration von ESG-Informationen und Faktoren bei Anlageentscheiden
- Definition der materiellen ESG-Risiken innerhalb des Mandats und Beschrieb des Managements
- Aufzeigen von Möglichkeiten zur Berichterstattung von ESG bezogenen Informationen innerhalb des Mandats

Eine Überprüfung des Umsetzungskonzeptes und der entsprechenden Integration von ESG-Faktoren erfolgt in regelmässigen Abständen.

Dialog und Kollaboration

Durch die Beteiligung am globalen Dialog zur nachhaltigen Vermögensanlage möchte die Pensionskasse die Entwicklung und Etablierung von Standards in diesem Bereich fördern. Dies erfolgt beispielsweise durch die Mitgliedschaft bei nachfolgenden Initiativen/Vereinen:

- Swiss Sustainable Finance
- UN Principles for Responsible Investment (UNPRI)
- ClimateAction100+
- ESG Data Convergence Initiative

Als aktives Mitglied von **Swiss Sustainable Finance** beteiligt sich die Pensionskasse am globalen Dialog zur nachhaltigen Vermögensanlage und fördert somit die Entwicklung und Etablierung von Standards in diesem Bereich.

Als Unterzeichnerin der **UN Principles for Responsible Investment** unterstützt die Pensionskasse folgende Grundsätze und arbeitet fortlaufend an deren Umsetzung bei der Vermögensanlage:

1. Wir werden Environment-, Social-, Governance-Themen (ESG; Ökologie-, Sozial- und Unternehmensführungs-Themen) in die Investmentanalyse- und Entscheidungsfindungsprozesse einbeziehen.
2. Wir werden aktive Inhaber sein und ESG-Themen in unsere Eigentümerpolitik und -praxis integrieren.
3. Wir werden auf angemessene Offenlegung von ESG-Themen bei den Unternehmen achten, in die wir investieren.
4. Wir werden die Akzeptanz und die Umsetzung der Grundsätze in der Investmentindustrie vorantreiben.
5. Wir werden zusammenarbeiten, um unsere Effektivität bei der Umsetzung der Grundsätze zu steigern.
6. Wir werden jeweils über unsere Aktivitäten und Fortschritte bei der Umsetzung der Grundsätze berichten.

Mit der Mitgliedschaft bei der **ClimateAction100+** wird weiter die Engagement-Strategie im Bereich Klima unterstrichen. Das Engagement von Climate Action 100+ konzentriert sich auf rund 170 Unternehmen, die für den Übergang zu Netto-Null-Emissionen entscheidend sind. Die Unterzeichner sind dafür verantwortlich, das Engagement mit diesen Fokusunternehmen voranzutreiben und unternehmensspezifische Engagement-Strategien zu entwickeln und umzusetzen, die für den Übergang zu Netto-Null-Emissionen strategisch wichtig sind.

Im Jahr 2024 ist die Pensionskasse der **ESG Data Convergence Initiative** beigetreten. Die Initiative hat zum Ziel, Investoren und Manager aus der privaten Investmentbranche zusammenzubringen und einen gemeinsamen Standard der ESG-Berichterstattung für Privatmarktanlagen zu fördern. Mit der Erzeugung aussagekräftiger und vergleichbarer ESG-Daten für Privatmärkte soll es eine Möglichkeit des Benchmarkings aktueller Positionen geben und Fortschritte bei ESG-Verbesserungen erzielt werden. Der Initiative gehören mittlerweile mehr als 500 General und Limited Partners an.

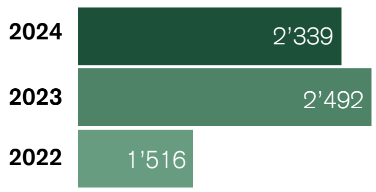
Reporting

Die Berichterstattung an den Stiftungsrat zur Nachhaltigkeit im Portfolio erfolgt mindestens halbjährlich sowie ad-hoc bei wichtigen Themen und soweit notwendig. Die Versicherten werden auf der Webseite über die Nachhaltigkeitsaktivitäten informiert. Ebenfalls auf der Webseite wird dieser Nachhaltigkeits-Report publiziert, welcher Einblicke in die Nachhaltigkeitsaktivitäten der PK CSG und Nachhaltigkeitsausprägungen des Portfolios im zurückliegenden Jahr gibt. Dieses Reporting orientiert sich an den Empfehlungen der Schweizerischen Pensionskassenvereinigung (ASIP) zum ESG-Reporting. Weiter hat sich die Pensionskasse mit ihrem Beitritt zu den UN Principles for Responsible Investment dazu verpflichtet, ein Reporting zur Nachhaltigkeit ihrer Vermögensanlage zu veröffentlichen.

Active Ownership

Stimmrechtsabgabe

Anzahl abgestimmter Generalversammlungen



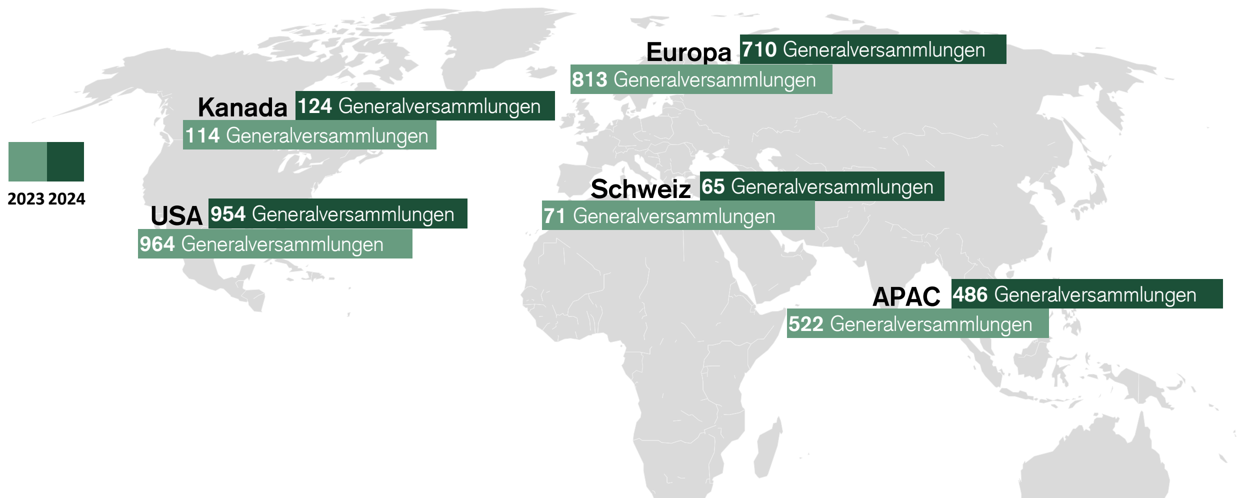
Stimmrechtsabdeckung

Stimmrechte im Umfang von **2.4 Mrd. CHF**
Ausgeübt (Aktien):
100% in der Schweiz
70% im Ausland

Zustimmung Management

Anträge angenommen:
84% in der Schweiz
88% im Ausland

Regionale Verteilung der abgestimmten Generalversammlungen



Unterstützte Aktionärsanträge zu Klima- und Umweltthemen (Auszug)
Anzahl Aktionärsanträge welche unterstützt wurden

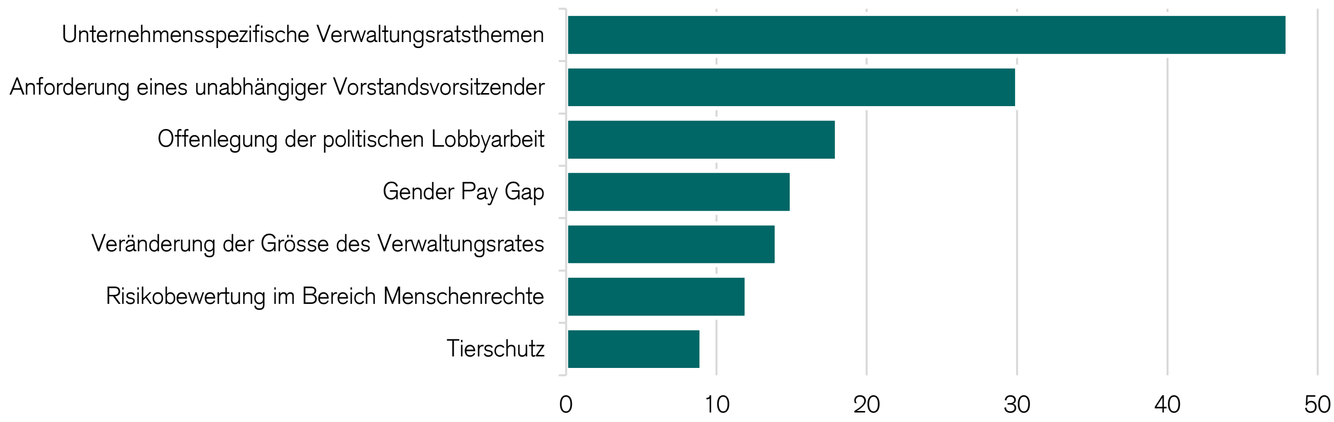
Massnahmen zur Reduktion der CO_2 Emissionen
26 Anträge

Bericht über den Klimawandel
13 Anträge

Reporting zu Klima-Transitionsplänen
10 Anträge

Lobbyarbeit zum Klimawandel
12 Anträge

Stimmrechtsabgabe bei sozialen und Governance-Themen (Auszug)
Anzahl Aktionärsanträge welche unterstützt wurden



Engagement

Mitglied der Engagement Initiative Climate Action 100+

Aufteilung und Übersicht der Engagement-Dialoge

729
Unternehmen im aktiven Dialog

41%
Umweltthemen

26%
Governance-Themen

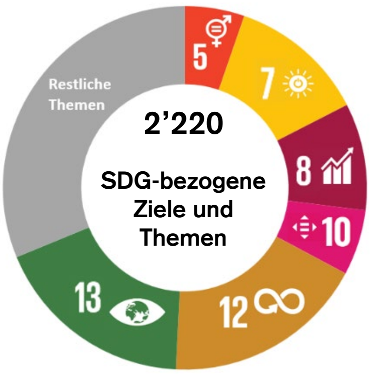
2.8 Mrd. CHF
im aktiven Dialog

26%
Soziale und ethische Themen

7%
Strategie- und Risiko-Themen

39% der Aktien und Unternehmens-obligationen

Engagement-Themen in Abstimmung mit den UN Sustainable Development Goals
Das folgende Diagramm zeigt die Aufteilung der insgesamt 2’220 strategischen Engagement-Ziele (mit systematischer Zielformulierung und -messung) und den Ad-hoc-Themen (offener Dialog ohne spezifische Zielsetzung), die unserer Meinung nach direkt mit einem Sustainable Development Goal (SDG) verbunden sind (wobei ein Ziel oder Thema direkt mit mehr als einem SDG verbunden sein kann).



Übersicht zur Zielerreichung
Damit der Fortschritt der strategischen Engagement-Dialoge gemessen werden kann, wird für jeden Dialog ein konkretes Engagement-Ziel definiert und dessen Fortschritt anhand der Erreichung von vier Meilensteinen gemessen. Der gemeinsame Prozess mit den Unternehmen beginnt mit der Meldung des Problems an das Unternehmen und endet mit der Implementierung einer spezifischen Lösung. Die untenstehende Tabelle zeigt, in welchem Stadium des Engagement-Prozesses sich jedes der strategischen Engagement-Ziele per 31.12.2024 befand.

Prozessschritte	Aufteilung der strategischen Engagement-Dialoge nach Themenfelder			
	Umwelt	Soziales	Governance	Strategie und Risiko
1) Bedenken an Unternehmen gemeldet	145	100	37	11
2) Unternehmen hat Bedenken anerkannt	334	195	71	19
3) Unternehmen entwickelt Lösung	206	99	42	16
4) Lösung wird implementiert	80	39	33	10

Portfolio-Kennzahlen

Listed Equity und Listed Credit

Treibhausgasemissionen

Basierend auf Daten zu jährlichen Kohlenstoffemissionen von MSCI (Transparenzquote: 95% Portfolio, 97% Benchmark), EVIC Basis, SAA Benchmark

Absolute Treibhausgasemissionen
(Tonnen CO2e)

Scope 1+2	Scope 3 – upstream	Scope 3 - downstream
171'582 Tonnen CO2e	376'380 Tonnen CO2e	844'205 Tonnen CO2e
(-36% vs. Benchmark)	(-19% vs. Benchmark)	(-11% vs. Benchmark)

Fussabdruck
(Tonnen CO2e/Mio. CHF investiert)

Scope 1+2	Scope 3 – upstream	Scope 3 - downstream
40t CO2e pro Mio. CHF invest.	89t CO2e pro Mio. CHF invest.	199t CO2e pro Mio. CHF invest.
(-36% vs. Benchmark)	(-19% vs. Benchmark)	(-11% vs. Benchmark)

Weighted Average Carbon Intensity
(Tonnen CO2e/Mio. CHF Ertrag)

Scope 1+2	Scope 3 – upstream	Scope 3 - downstream
106t CO2e pro Mio. CHF Ertrag	260t CO2e pro Mio. CHF Ertrag	474t CO2e pro Mio. CHF Ertrag
(-33% vs. Benchmark)	(-4% vs. Benchmark)	(+4% vs. Benchmark)

Exposition in Kohle (Unternehmensumsatz in Kohleaktivitäten >5%)

Vermögen in Mio. CHF, gruppiert nach Anteil am Gesamtunternehmensumsatz in Kohle

		Verwaltetes Vermögen		
% der Einnahmen	**Bergbau**	**Elektrizitätserzeugung**	**Alle Aktivitäten**	**In % vom Gesamtportfolio**
5-50%	6.9	13.9	20.9	0.1
51-100%	0.0	4.0	4.0	0.0
Total	**6.9**	**17.9**	**24.9**	**0.1**

Exposition in Öl und Gas (Unternehmensumsatz >5%)

Vermögen in Mio. CHF, gruppiert nach Anteil am Gesamtunternehmensumsatz in Öl und Gas

		Verwaltetes Vermögen		
% der Einnahmen	**Gewinnung und Vertrieb**	**Elektrizitätserzeugung**	**Alle Aktivitäten**	**In % vom Gesamtportfolio**
5-50%	159.7	86.4	204.1	1.2
51-100%	242.3	8.1	251.5	1.4
Total	**402.0**	**94.5**	**455.7**	**2.6**

Immobilien Schweiz (direkt)

Bei den Zahlen zu Immobilien Schweiz (direkt) handelt es sich um Werte des Jahres 2023. Eine Aktualisierung findet alle zwei Jahre im Rahmen des PACTA-Klimatests statt (nächst Durchführung im Jahr 2026).

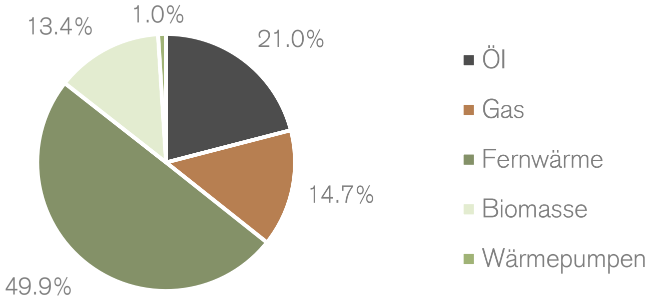
Basierend auf jährl. Daten des Immobilienbewirtschafters Wincasa AG (Transparenzquote Portfolio 88% Daten zu Energie, 62% Daten zu Wasser)

Energie-Intensität (kWh pro m2 Energiebezugsfläche): **77.0**

CO2-Intensität (kg CO2e pro m2 Energiebezugsfläche): **12.4**

Wasserintensität (m3 pro m2 Energiebezugsfläche): **0.8**

Energieträgermix:



Immobilien Schweiz (kotiert)

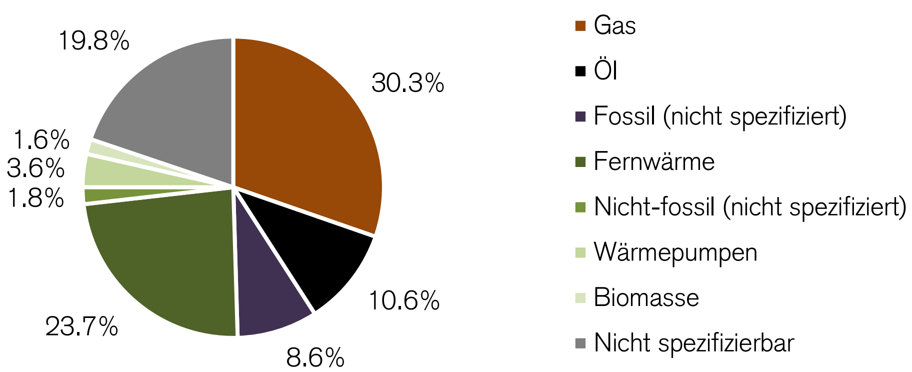
Basierend auf Daten von Alphaprop AG (Transparenzquote Portfolio 97%)

Energie-Intensität (kWh pro m2 Energiebezugsfläche): **110.3**

CO2-Intensität[1)] (kg CO2e pro m2 Energiebezugsfläche): **11.6**

[1)] Die Daten zu Scope 1 und 2 waren nicht einheitlich verfügbar. Die Berechnung der ausgewiesenen CO2-Intensität basiert auf einer Mischung von Scope 1 und 2.

Energieträgermix:



Staatsanleihen

Treibhausgasemissionen (Scope 1)

Basierend auf Daten zu jährlichen Kohlenstoffemissionen von MSCI (Transparenzquote: 24% Portfolio, 23% Benchmark), EVIC Basis, SAA Benchmark

Weighted Average Carbon Intensity (Tonnen CO2e/Mio. CHF BIP der Staatsanleihen)

214t CO2e per Mio CHF BIP nominal
(-38% vs. Benchmark)

Anmerkungen zur Berichterstattung

Die mit der Berichterstattung ausgewiesenen ESG-Kennzahlen beziehen sich auf folgende Anlagepositionen des Portfolios:

Zur Analyse verwendete Daten

	Listed Equity	Listed Credit	Total (Listed Equity und Listed Credit)	Staats-anleihen	Immobilien Schweiz (direkt)	Immobilien Schweiz (kotiert)	Gesamtvermögen per 31.12.2024
Marktwert in Mio. CHF	2'997.3	1'797.2	4'794.5	5'422.0	1'799.0	1'483.9	17'515.1
% der totalen Assets der PK CSG	17.1%	10.3%	27.4%	31.0%	10.3%	8.5%	100.0%

Zur Bewertung der Portfoliopositionen bei Listed Equity, Listed Credit und Listed Rates in Bezug auf ESG wurden Daten und Analysen des Datenproviders MSCI verwendet. Bei den direkten Immobilien wurden Daten des Immobilienbewirtschafters Wincasa AG und bei den kotierten Schweizer Immobilien wurden Daten von Alphaprop AG verwendet.

Glossar

EVIC	Der Enterprise Value Including Cash (EVIC) ist eine Kennzahl, die den Wert eines Unternehmens schätzt, indem sie die Barmittel und Barmitteläquivalente zum EV hinzurechnet. Die der EVIC-Berechnung zugrunde liegenden Daten stammen aus den Jahresabschlüssen eines Unternehmens. Der EVIC wird einmal im Jahr aktualisiert und berücksichtigt, da die Daten jährlich bezogen werden. = Marktkapitalisierung zum Geschäftsjahresende + Vorzugsaktien + Minderheitsanteile + Schulden
Marktkapitalisierung	Die Marktkapitalisierung bezieht sich auf den Gesamtwert aller Aktien eines Unternehmens. Sie wird berechnet, indem man den Kurs einer Aktie mit der Gesamtzahl der ausstehenden Aktien multipliziert. Ein Unternehmen mit 20 Millionen Aktien, die zu einem Preis von 50 USD pro Aktie verkauft werden, hätte zum Beispiel eine Marktkapitalisierung von 1 Milliarde USD.
Absolute Treibhausgasemissionen	Dies ist die einzige Kennzahl, mit der sich die Gesamtauswirkungen eines Unternehmens auf die Erwärmung des Klimas ohne die exogenen Auswirkungen von Umsatz oder EVIC bewerten lassen. Die Emissionen werden auf der Grundlage des Aktienbesitzes aufgeteilt (entweder als Prozentsatz des EVIC oder der Marktkapitalisierung). **Schwäche:** Veränderungen in der Größe des Unternehmens werden nicht erfasst. Bei den Gesamtemissionen werden die Emissionen auch nicht auf die verschiedenen Investoren aufgeteilt; dies wird durch die finanzierten Emissionen gelöst. $\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{issuer's\ EVIC_i} \times issuer's\ Scope\ 1\ and\ Scope\ 2\ GHG\ emissions_i\right)$
Weighted Average Carbon Intensity	Berücksichtigt die Unternehmensgrösse und gibt die CO_2-Effizienz pro erwirtschaftetem USD an. Misst die CO_2-Effizienz eines Portfolios, definiert als das Verhältnis von CO_2-Emissionen, für die ein Investor verantwortlich ist, zu den Umsätzen, auf die ein Investor durch seinen Aktienbesitz einen Anspruch hat. **Schwäche:** Die Volatilität der Kennzahl wird durch Umsatzschocks verursacht und Änderungen in der Portfolio-Gewichtung wirken sich ebenfalls auf die Ergebnisse aus. $\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{current\ portfolio\ value} \times \frac{issuer's\ Scope\ 1\ and\ Scope\ 2\ GHG\ emissions_i}{issuer's\ \$M\ revenue_i}\right)$
Fussabdruck	Allen Geldgebern zugewiesene Emissionen (EVIC), normalisiert auf investierte Millionen USD. Misst die Kohlenstoffemissionen, für die ein Investor verantwortlich ist, pro investierter USD-Million, bezogen auf seinen Aktienbesitz. Die Emissionen werden auf der Grundlage des Aktienbesitzes (% Marktkapitalisierung) aufgeteilt. **Schwäche:** Grössere Investoren besitzen mehr finanzierte Emissionen, weil sie einfach mehr AUM verwalten und der Besitz von Emissionen, der sich im Laufe der Zeit aufgrund von Marktbewegungen ändert, wirkt sich auf die Veränderungen im EVIC-Besitz aus. $\frac{\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{issuer's\ EVIC_i} \times issuer's\ Scope\ 1\ and\ Scope\ 2\ GHG\ emissions_i\right)}{current\ portfolio\ value\ (\$M)}$

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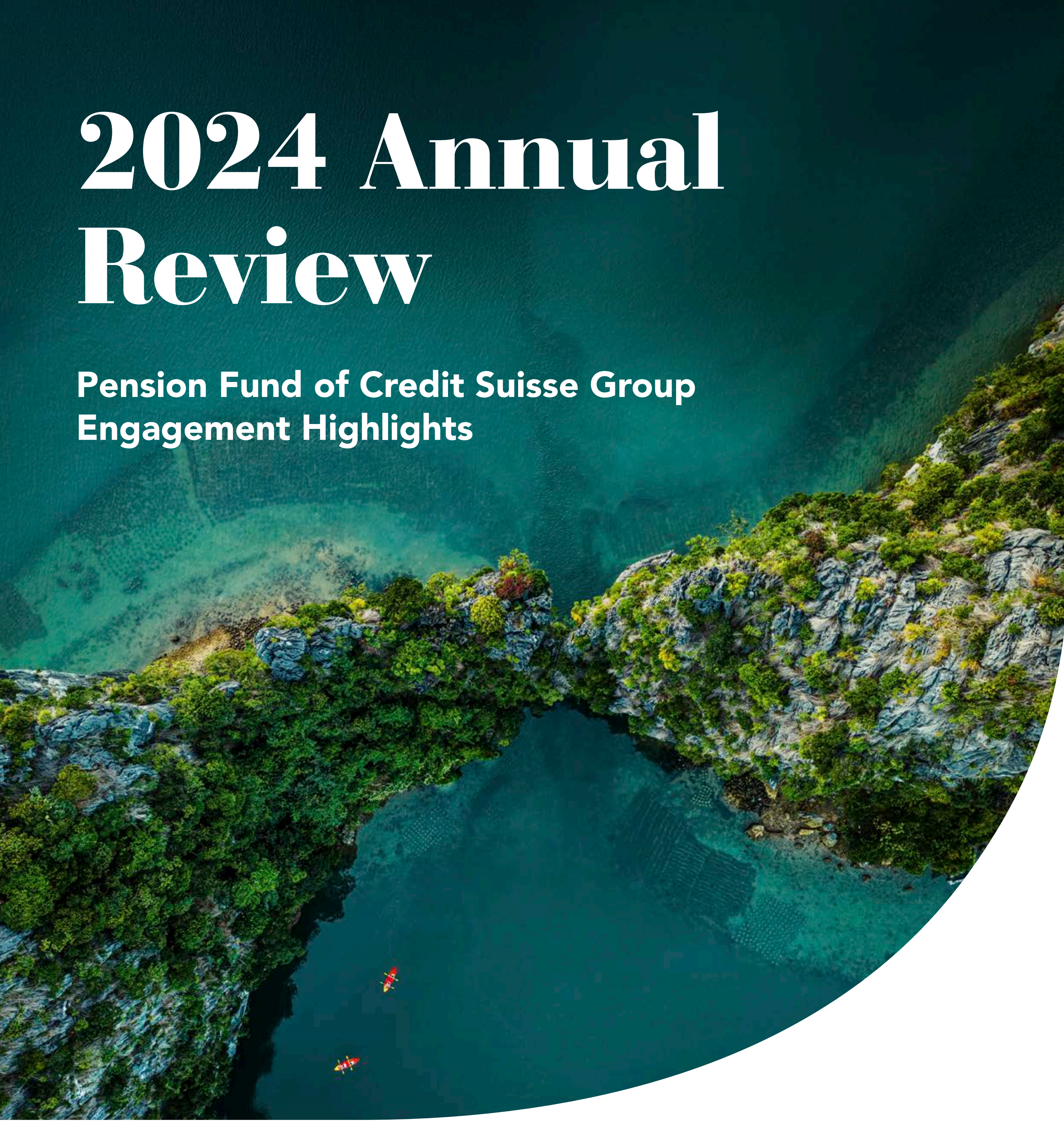
2024 Annual Review

Pension Fund of Credit Suisse Group Engagement Highlights



CREDIT SUISSE
Pension Fund of Credit Suisse Group (Switzerland)

Federated Hermes
EOS

www.hermes-investment.com
For professional investors only

Welcome to our 2024 Annual Review, which outlines the engagement, voting and public policy work carried out by EOS at Federated Hermes Limited on behalf of its clients.

In 2024, EOS celebrated its 20th anniversary, and we were honoured to win the International Corporate Governance Network's Excellence in Stewardship Award. This was given in recognition of our pioneering systemic engagement approach to reducing methane emissions – work led by Diana Glassman, with support from engagers across the EOS regional teams.

The world breached 1.5°C of warming for the first time in 2024, deemed the hottest year on record.[1] We remained at the forefront of engaging with companies and policymakers for climate action, cognisant of the rising cost of extreme weather events.

Hurricanes in the US, combined with storms and flash flooding in Europe, Brazil and Asia, racked up billions of dollars of damage in 2024. In their article, Will Farrell and Hannah Heuser examine how, as physical climate risks escalate, investor engagement is increasingly vital to steward companies through the transition.

Also in this year's Annual Review, Ellie Higgins and Ross Teverson outline how we have engaged with companies on human rights issues in high-risk regions. Since we first set out our engagement approach to this topic in 2020, we have seen new flashpoints erupt in Europe and the Middle East.

Our Annual Review also includes Q&As with engagers on AI and digital rights, our biodiversity work, including our attendance at COP16 in Colombia, and our vote policies and guidelines for the 2025 proxy season.

We hope you find this review of our year useful and informative.

Claire Milhench
Associate Director – Communications & Content

[1] World breaches 1.5C global warming target for first time in 2024.

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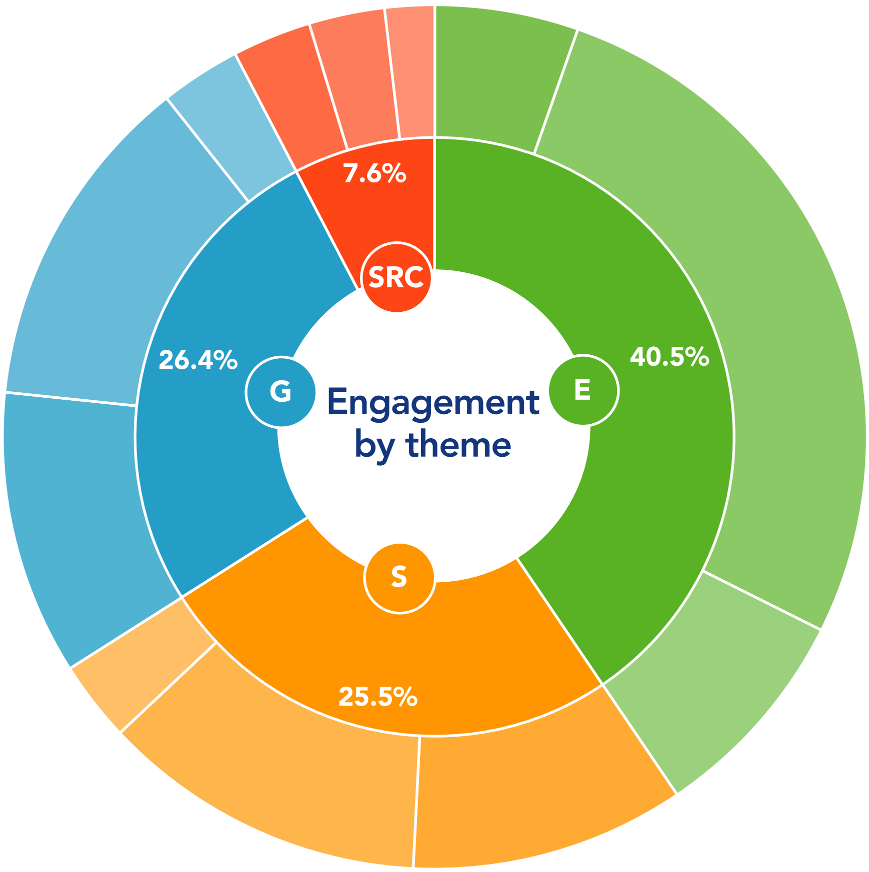
Pension Fund of Credit Suisse Group’s activity for 2024

Engagement overview

In 2024, EOS engaged with **729** companies on **3,388** environmental, social, governance, strategy, risk and communication issues and objectives. Its holistic approach to engagement means that it typically engages with companies on more than one topic simultaneously.



96

companies featured engagements with the CEO or chair

405

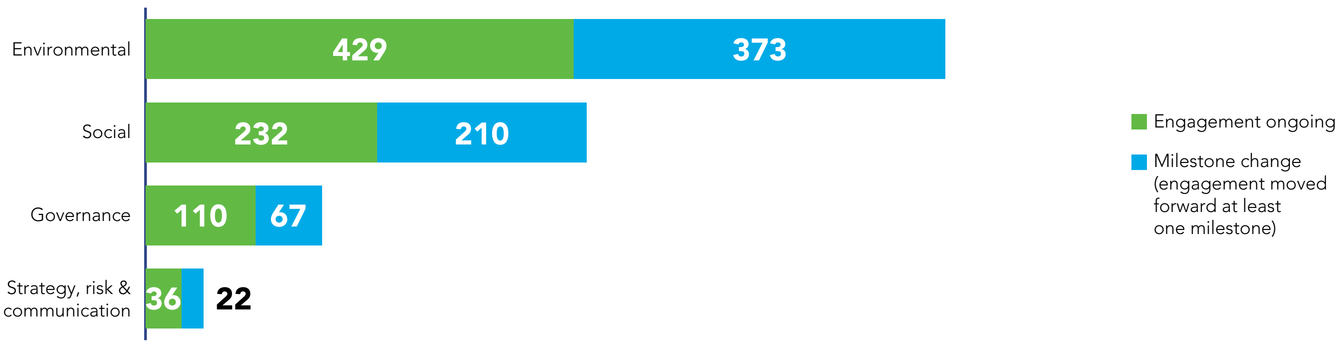
companies featured engagements with senior management or board members

121

public policy interactions, including consultation responses, letters, meetings and discussions

Engagement progress in 2024

EOS made solid progress in delivering engagement objectives across regions and themes. At least one milestone was moved forward for about 45% of its objectives during the year. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



* The closure rationale is manually selected by each engager from a menu of options, taking a view of the extent to which they believe the objective has been implemented by the company. In most cases this is necessarily a subjective assessment.

In 2024, there were an additional **70** administrative closures associated with companies removed from the Engagement Programme.

Supporting the UN Sustainable Development Goals

The chart below illustrates the proportion of **2,220** engagement objectives and issues on which we have engaged in 2024, which we believe are directly linked to an SDG (noting that one objective or issue may directly link to more than one SDG).

1 NO POVERTY	No poverty	4%
2 ZERO HUNGER	Zero hunger	6%
3 GOOD HEALTH AND WELL-BEING	Good health and well-being	7%
4 QUALITY EDUCATION	Quality education	1%
5 GENDER EQUALITY	Gender equality	10%
6 CLEAN WATER AND SANITATION	Clean water and sanitation	7%
7 AFFORDABLE AND CLEAN ENERGY	Affordable and clean energy	23%
8 DECENT WORK AND ECONOMIC GROWTH	Decent work and economic growth	18%
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Industry, innovation and infrastructure	4%
10 REDUCED INEQUALITIES	Reduce inequalities	11%
11 SUSTAINABLE CITIES AND COMMUNITIES	Sustainable cities and communities	5%
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Responsible consumption and production	34%
13 CLIMATE ACTION	Climate action	34%
14 LIFE BELOW WATER	Life below water	5%
15 LIFE ON LAND	Life on land	10%
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Peace, justice and strong institutions	8%
17 PARTNERSHIPS FOR THE GOALS	Partnerships for the goals	2%

The EOS approach to engagement

EOS at Federated Hermes Limited 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, with the objective of enhancing long-term, enduring business performance.

This is achieved through dialogue with companies and policymakers on governance and strategy, including relevant and material environmental and social issues.

We believe this is essential to support a global financial system that aims to deliver improved long-term returns for investors, and better outcomes for society and the environment.

Our Engagement Plan is client-led. We undertake a formal consultation process with multiple client touchpoints each year to ensure that the Plan is based on their long-term objectives and covers their highest-priority topics.

Our services

Engagement

We engage with companies that form part of the public equity and corporate fixed income holdings of our clients to seek positive change for our clients, the companies and the societies in which they operate.

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 sustainably.

Screening

We help our clients to fulfil their stewardship obligations by monitoring their portfolios to regularly identify companies that are in breach of, or near to breaching, international norms and conventions.

Advisory

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

Foreword

Leon Kamhi
Head of Responsibility and EOS

EOS was formed two decades ago with the aim of helping our clients improve the long-term fundamental performance of their investment portfolios through engagement with companies and policymakers, aligning their decisions and the outcomes they achieve with investors' interests.

Back then, stewardship focused on good corporate governance and value-creating capital allocation, with environmental and social concerns addressed by thematic, so-called Socially Responsible Investment (SRI) funds. Today, environmental and social issues have rightly become mainstream, and can drive the success of the wider economy as well as the performance and capital allocation decisions of a company.

Due to polarisation in many societies and the potential impact of climate change and technology on jobs and household budgets, sustainability – particularly 'ESG' – has become politicised. The resulting turbulence underscores how important it is for all in the investment chain to remain focused on fiduciary duty and the long-term financial interest of the investor.

Practically, this means driving real world change to help companies perform across different business cycles, regardless of the political backdrop of the day. Environmental and social issues will likely be an integral part of this picture. For example, the transition to a low carbon economy presents risks and opportunities for multiple sectors.

For a universal owner widely invested in the economy, fulfilling fiduciary duty is also about engagement with policymakers and standard setters. The aim is to address systemic risks and incentivise the private sector to further the societal and environmental goals so crucial to the financial wellbeing of the end investor. But to do so, policy engagement and advocacy has to be driven by investor need and long-term financial interest, not politics or culture wars.

Action versus disclosure

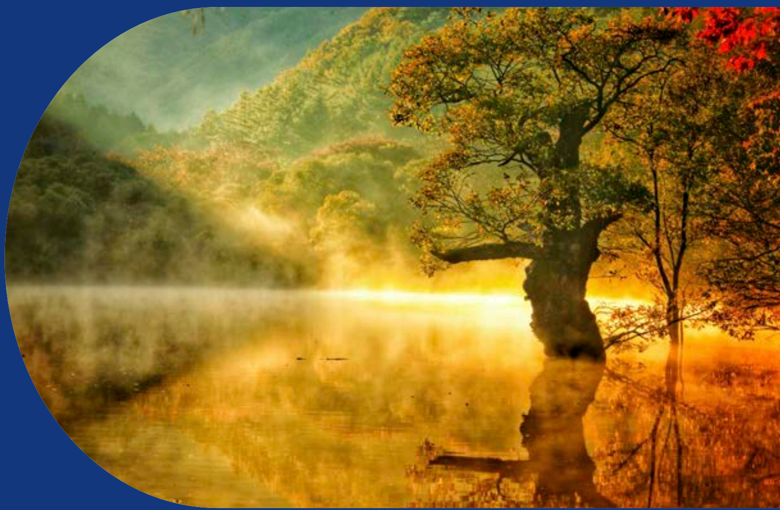
In 2025 and beyond, policy and company engagement will necessarily evolve to be more action-oriented and complementary. Arguably, stewardship and regulation has over-focused on disclosure rather than purposeful governance and real-world outcomes – now we need to move towards action.

To engage effectively with a company and respect its limitations, stewardship professionals will need to bring a solid understanding of how the business works, as well as a familiarity with the market in which it operates. Without this knowledge, there is a danger of promoting box-ticking solutions for board composition, executive remuneration, and environmental and social considerations. The focus should remain on the fundamental performance of the business and not short-term market valuations.

Two decades ago, poor corporate governance often misdirected capital allocation as company boards went about building business empires rather than achieving financial returns. But a focus solely on disclosure and better corporate governance has prompted some company boards to become risk averse in their capital allocation. Purposeful, business-oriented corporate governance provides the crucial foundation for company boards to take decisions – hence its importance to stewardship.

As the climate and technology disruptions relentlessly manifest, companies will need to invest to be relevant for the future, and the returns of those investments will be far from certain. But those companies that do nothing will most likely fail. As a result, investor stewardship will need to evolve, working collaboratively with boards, and empowering them to invest for responsible and profitable growth.

Maybe universal asset owners can help to drive a cultural change in the industry, as they have the power to set investment management mandates that acknowledge systemic risks across portfolios. Effective stewardship should be a key part of those mandates.



Our engagement plan

Our engagement plan identifies 12 key themes and 36 related sub-themes. We find this breadth of coverage is necessary to reflect the diversity of the issues affecting companies in our global engagement programme.

2024 delivered extreme weather events with record heatwaves, droughts, wildfires, storms and severe flooding worldwide, reinforcing the urgent need to limit global heating. Geopolitical instability continued, with the Russia-Ukraine war ongoing and conflict in the Middle East. While inflation concerns eased, low real wage growth has left households with the lingering perception of a high cost of living.

Against this backdrop, half the world's population went to the polls in 2024, leading to changes in government in the US, UK and India. This is likely to herald new approaches to tackling mega-trends such as climate change, the risks to nature and biodiversity, and digitisation/AI. We are also likely to see new policy responses to ease the cost of living and reduce geopolitical conflict. Given the rising risks and opportunities for companies, the importance of good governance and a responsive strategy is as high as ever.

Priority themes

In 2025, we will continue to focus on the most material drivers of long-term durable wealth creation, with our four priority themes:

Board effectiveness

To enhance the quality of board performance, which is foundational for good company decision-making, we want boards to set their risk appetite in alignment with the company's strategic goals, including profitable growth. We will continue our focus on seeking improvements in board skills and experience through dimensions of diversity, whilst avoiding a box-ticking approach. This includes improvements to ethnic diversity, following the recent progress on gender diversity. The goal is to achieve representation reflective of the diversity of the stakeholders that the company aspires to serve.

We remain committed to improving a board's "software," relating to how it functions, in addition to its "hardware," relating to its composition and structure. This means ensuring that boards are assessing their combined technical expertise, knowledge and experience to match their upcoming challenges, such as cybersecurity, artificial intelligence and the evolving legislative landscape. The board should monitor and assess the prevailing company culture to ensure it is in line with the company's purpose, strategy and values.

Climate change

Our engagement remains focused on companies having a strategy and greenhouse gas emissions reduction targets aligned with the goals of the Paris Agreement, pursuing efforts to limit global warming to 1.5°C. The importance of taking action was reinforced by the Alliance of CEO Climate Leaders ahead of COP29, highlighting the alliance's progress in reducing emissions by 10% while delivering aggregate growth revenue of 18% between 2019 and 2022.[1]

Bruce Duguid
Head of Stewardship, EOS

Engagement themes for 2025-27

We will evaluate the credibility of company transition plans, including their acknowledgement of key policy, technology and market dependencies. Areas of focus will include engagement with high methane-emitting sectors and standard setters to ensure best practices in methane management. We will also engage with the technology sector, seeking action to mitigate emissions associated with the high energy demand for AI-related services.

For physical climate risks, all relevant sectors will be engaged to build resilience, and we will ask impacted companies to work towards a just transition for employees and communities. We will continue to support best practice standards via the Institutional Investors Group on Climate Change and net-zero initiatives such as the Net Zero Asset Managers initiative (NZAM) and the Net-Zero Asset Owner Alliance (NZAOA).

Human and labour rights

We expect companies to acknowledge the likelihood that human and labour rights impacts are present within some operations and supply chains and to demonstrate appropriate board and executive-level governance. We will focus on protecting indigenous and community rights, and human rights in high-risk regions such as disputed territories or areas of conflict. We will also continue our emphasis on supply chain rights with an elevated risk of forced labour, unsafe working conditions, and other adverse human rights impacts.

We are increasing our focus on the protection of digital rights in the virtual world, such as the right to data privacy, the right to freedom of expression, and protection from unfair biases. More than a decade after the implementation of the UN Guiding Principles (UNGPs) on Business and Human Rights,[2] we seek compliance as a norm. We consider recommending voting against directors of companies where material breaches are not being adequately remediated, or if the company underperforms on human rights benchmarks.

> **We are increasing our focus on the protection of digital rights in the virtual world, such as the right to data privacy, the right to freedom of expression, and protection from unfair biases.**

As companies transition to a low-carbon economy, we expect them to plan for a just transition that considers the impact on human and labour rights within the company and in the surrounding value chain. We will engage to ensure that companies implement the requirements of new EU legislation, such as the Corporate Supply Chain Due Diligence Directive and the AI Act.

[1] Governments and business must double down on climate action | World Economic Forum.
[2] OHCHR | UNGPs next 10 years project.

Human capital

We are intensifying our engagement on upskilling and reskilling workers amid anxiety about a just transition to a low carbon economy, negative AI impacts from redundancies, and potential bias in hiring. We are also seeing continuing issues around the cost of living driving renewed interest in collective bargaining.

We will maintain our focus on inclusion and representation, asking companies to develop a strategy and action plan to close the ethnicity pay gap and achieve proportionate ethnic and gender representation at all levels. We will also challenge companies to consider an expanded range of inclusion metrics beyond representation. These include those related to employee engagement and a sense of belonging, upskilling and advancement, and pay gaps[3] for different groups.

Our engagement on health and safety is extending to encompass mitigating climate-related risks in the workplace, such as heat stress. It will continue to focus on mental wellbeing and actions to halt sexual harassment.

Expanding themes

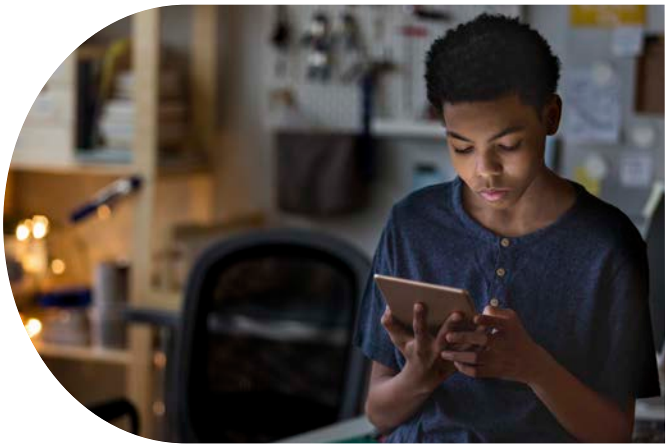
In addition to the above priority themes, we will intensify our engagement on two rapidly evolving topics in 2025:

Nature and biodiversity

We ask companies to address marine and terrestrial biodiversity loss across their value chains, in line with the COP15 mission to halt and reverse biodiversity loss by 2030. COP16 made historic strides in recognising the role of indigenous and local communities in biodiversity conservation, but challenges remain in securing the necessary funding, and the monitoring mechanisms to achieve global biodiversity targets.

The production and selling of food will remain a priority for engagement, alongside other sectors with significant impacts, such as mining and agrochemicals. We ask companies to reduce their impacts on biodiversity across the value chain, and aim for a net-positive impact on biodiversity as best practice. Depending on the specific company context, engagement will cover deforestation, water stress, regenerative agriculture, infectious diseases and antimicrobial resistance (AMR), sustainable proteins and chemical runoff management.

As we outlined in our white paper on biodiversity, published in February 2021,[4] we encourage companies to identify, assess and measure their impacts and dependencies on biodiversity and ecosystem services, in line with the 2023 Taskforce on Nature-related Financial Disclosures (TNFD)[5] recommendations, and then to develop strategies and targets to address the most material risks. We will continue to work with investor coalitions such as the Rainforest Alliance,[6] the PRI's Spring initiative[7] and Nature Action 100[8] to bring added weight to engagements with affected companies.



Digital rights and AI

We will continue to engage companies on our Digital Rights Principles,[9] which outline the responsible development and deployment of AI. These will be updated in 2025 to encompass the latest concerns, issues and opportunities. We engage companies on negative societal impacts, including problematic content on social media, reinforcement of unintended bias, and health and safety impacts on children and young people.

We encourage companies to balance freedom of expression with their obligations to remove problematic content and respect privacy rights online. Ensuring that the appropriate controls are in place is becoming critical, particularly with rising concern over the use of social media to spread misinformation and disinformation. This is driving a lack of trust in traditional media outlets. Cybersecurity, and concerns over the use and impact of AI, are also rising up the agenda. Although AI is creating new opportunities for companies, it also brings the potential for workforce disruption, regulatory infraction or reputational damage, and we will be engaging with companies on how they mitigate these risks.

In addition to these themes, we maintain a comprehensive engagement plan covering a broad range of other issues. These include responsible tax practices, increasing resource efficiency through the circular economy, reducing harmful pollution, and seeking positive wider societal outcomes through increased corporate responsibility.

[3] Race, Gender, and LGBTQ+ wage gaps are real – and they end up costing us all | DiversityJobs.com.
[4] Our commitment to nature | Federated Hermes Limited.
[5] The Taskforce on Nature-related Financial Disclosures.
[6] About | Rainforest Alliance (rainforest-alliance.org).
[7] PRI | Spring (unpri.org).
[8] Nature Action 100 – Supporting greater corporate ambition and action on tackling nature and biodiversity loss.
[9] EOS Digital Rights Principles.

A guide to engagement terminology

Our engagement approach is systematic and transparent. Our proprietary milestone system allows us to track the progress of our engagements relative to the objectives set for each company.

Objectives

We set clear and specific objectives within our company engagements to ensure we achieve positive outcomes. An objective is a specific, measurable change defined at the company – an outcome we are seeking to achieve. Each objective is tracked using milestones. Objectives are regularly reviewed until they are completed – when the company has demonstrably implemented the change requested – or discontinued. Objectives may be discontinued if the objective is no longer relevant, or because the engagement is no longer feasible or material.

We may engage with a company on multiple objectives at any one time, covering a variety of material ESG issues. An example of an objective could be: "Development of a strategy consistent with the goals of the Paris Agreement, including setting science-based emissions reduction targets for operating emissions (Scopes 1 and 2 emissions)." Each objective relates to a single theme and sub-theme.

> **To measure our progress and the achievement of engagement objectives, we use a four-stage milestone strategy.**

Issues

How does an objective differ from an issue, another term we use within our engagement? An issue is a topic we have raised with a company in engagement, but where we do not precisely define the outcome that we are seeking to achieve. This can be more appropriate if the issue is of lower materiality and so we do not anticipate engaging with the frequency required to pursue an objective. Or perhaps we are still in the process of identifying what type of change we may want to see at a company and so are not yet able to set a precise objective. Issues are frequently used for companies outside our continuous engagement programme, for example those where we typically engage only around the annual shareholder meeting and our voting recommendation.

Milestones

To measure our progress and the achievement of engagement objectives, we use a four-stage milestone strategy. When we set an objective at the start of an engagement, we will also identify recognisable milestones that need to be achieved. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

Actions

These are the interactions that take place between our engagement professionals and the companies or public policy bodies with whom they are engaging. Every call, meeting or correspondence is recorded as an action. Actions can be linked to objectives or issues. We only consider companies to be engaged when we have an individual interaction with the company that relates to an objective or issue.

Measuring the success of 20 years of engagement

EOS has been engaging with companies for two decades, across a variety of governance, environmental, social and risk issues. But just how successful has it been, and how do academic studies measure this? Bruce Duguid and Hannah Heuser assess the evidence.

Engagement is an effective tool for investors to ensure that businesses are managed in a way that aligns with their long-term interests. It can mitigate risks and support resilience, helping companies identify opportunities for responsible growth.

Academic studies from the last two decades have demonstrated that companies with better ESG credentials perform better, and that engagement can reduce risk at individual companies. EOS's systematic log of engagement activity and outcomes over the past 20 years has provided a basis for some of these studies, as well as research by Professor Andreas Hoepner presented at our client advisory councils.

When looking at the evidence that disentangles the relationship between ESG integration, engagement, and company performance, we can split the type of research that exists into two broad categories: studies that analyse whether robust governance and responsible business practices are associated with better economic performance, and studies that analyse the effectiveness of engagement on company performance.

Greater resilience

A 2015 meta-study found that companies with better ESG performance had, on average, a lower chance of going bankrupt, more stable cash flows, and were more resilient to external policy shocks, such as tightening regulation.[1] These findings were largely confirmed by a 2021 meta-study.[2] This paper reviewed more than 1,000 other studies exploring the relationship between the management of material ESG-related risk factors and financial performance between 2015-2020.

Bruce Duguid
Head of Stewardship, EOS

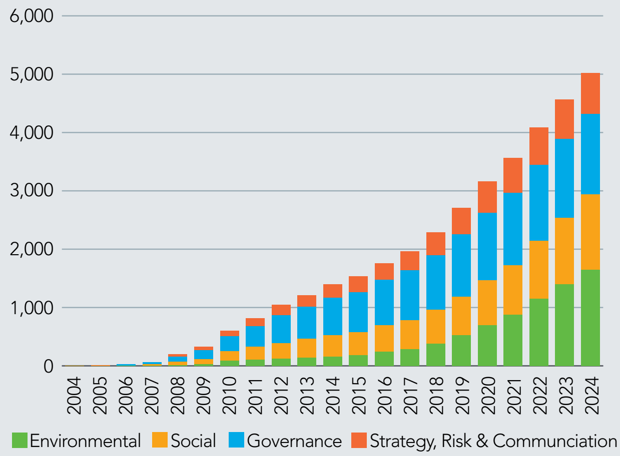
Hannah Heuser
Theme co-lead: Climate Change

The majority of the peer-reviewed studies found a positive relationship between ESG-risk management and financial performance when measured by operational metrics such as return on equity, return on assets, or stock price, and investment performance measures of alpha or metrics such as the Sharpe ratio on a portfolio of stocks. The authors found that enhanced ESG-driven financial performance improves particularly when looking at longer time horizons. Mediating factors, such as improved risk management and more innovation at the companies that implement an ESG strategy into the wider business strategy, are the key drivers of better financial performance.

Studies conducted by teams over the years at Federated Hermes Limited (FHL) similarly show strong correlations between corporate responsibility and shareholder returns.[3] In a study conducted by FHL in 2016, the authors found that companies with poor governance practices underperform their peers, with the observation holding true across different geographies and sectors.

[1] 1 – From the Stockholder to the Stakeholder.pdf.
[2] NYU-RAM_ESG-Paper_2021 Rev_0.pdf.
[3] Hermes: ESG investing – It still makes you feel good, it still makes you money; 4 – hermes-esg-investing-2018.pdf.

Cumulative number of live and completed/ discontinued objectives



Source: EOS data

A later iteration of the study concluded that beyond governance, companies with good or improving social characteristics tend to outperform their lower-ranked competitors. Additionally, during down markets, companies with poor environmental performance lag their peers in terms of value. Using the FHL global equities team's QESG score, which combines quantitative ESG research from a range of data providers with engagement insights from EOS, a 2019 study[4] found that instruments from issuers with higher ESG scores had narrower credit default swap spreads, indicating a lower credit risk.

Does engagement work?

In line with these studies, a 2024 paper[5] found that a higher Thomson Reuters ESG score was positively associated with better overall company performance, defined by the authors using Tobin's Q – a measure of the market's assessment of a company's long-term expected value. The authors found that this positive relationship was enhanced where a company outlined the processes in place for engagement with its stakeholders, which the authors used as a proxy for stakeholder engagement taking place.

Another recently published study[6] found that companies engaged on climate risk are more likely to commit to adopting science-based emissions reduction targets and enhancing climate-related reporting. Additionally, targeted companies reduce emissions by 7.5% a year in the two years following the climate risk engagement, relative to other firms.

Other academics have explored the link between engagement and the long-term performance outcomes of companies. To isolate the effect of engagement on company performance, and to unravel the drivers of the most effective type of engagement, academics have considered how engaged companies have fared, when compared with a similar group of companies that have not been engaged on ESG topics by investors.

Does engagement manage risks?

In an award-winning study conducted by Hoepner et al,[7] which uses EOS data, the authors found that engagement on ESG issues reduces companies' downside risk. To disentangle this relationship, the researchers compared a treatment group of engaged companies with a control group of companies comparable in key characteristics to the treatment group, except that they had not been targeted by EOS.

Using EOS's milestone system to track engagement progress, the authors found that over a two-year timeframe, there was a significant risk reduction effect where the company had acknowledged the existence of an issue (milestone two). Milestone three indicates that a company has committed to taking action to resolve an issue. The findings suggest that the risk reduction effect increases as engagement progresses from milestone two to three. Where engagers have raised issues, but the companies have not acknowledged them as such, risks were not reduced, highlighting the potency of engagement.

Hoepner and his co-authors also found that engagements around environmental topics, primarily climate change, offered the largest potential for risk reduction. Taking this a step further, the findings of the study indicated that firms exposed to engagement experience an actual reduction in exposure to risks from environmental incidents. The number of incidents for those companies targeted by engagement falls by 26% post-engagement.

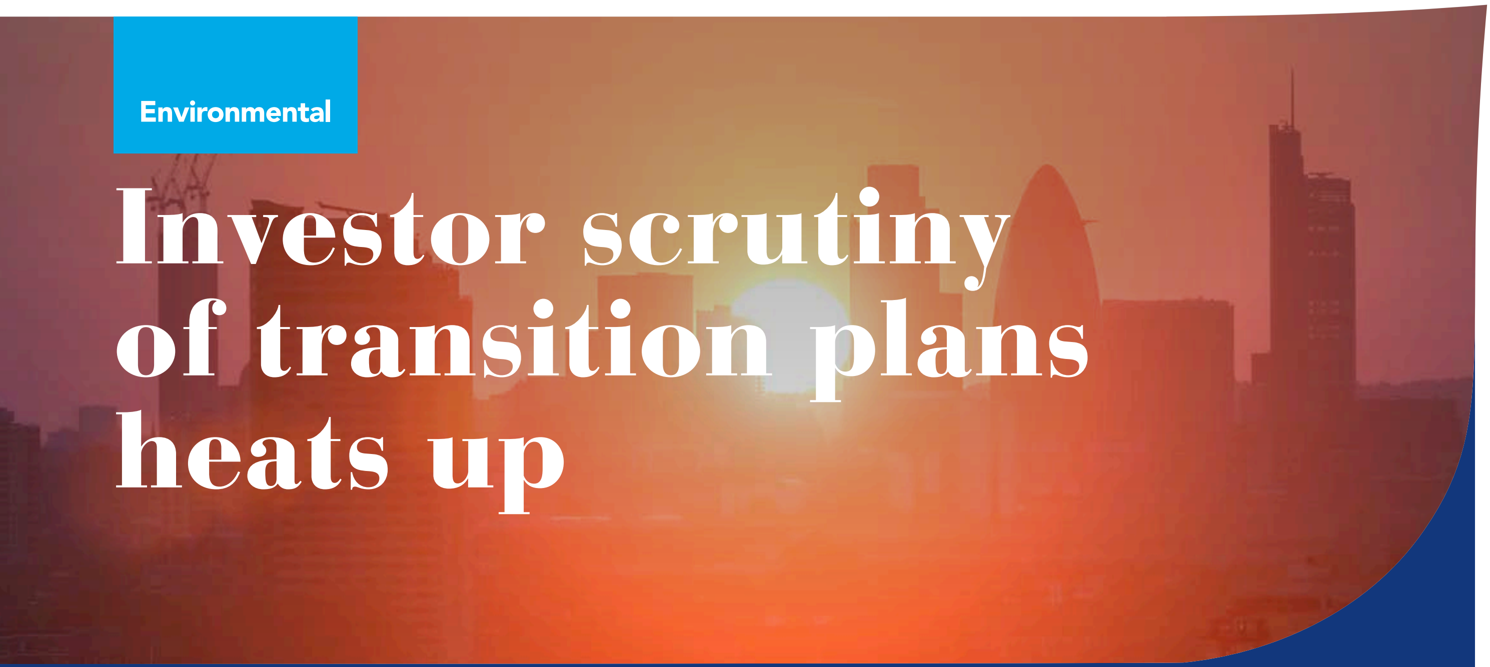
Does engagement improve ESG ratings performance?

While the Hoepner study explores the effectiveness of engagement on risk reduction using EOS data, other research has indicated similar results. For example, a 2021 research paper[8] found that companies with low ESG ratings, on average improve their scores after engagement. The ESG ratings of companies with initially higher scores are reduced as engagement uncovers hitherto unrevealed ESG risks. Following a successful engagement, the authors found, sales growth increases on average, and buy-and-hold stock returns are positive up to 12 months after the completion of an engagement.

What are the hallmarks of effective engagement?

Reinforcing EOS's approach of prioritising personal meetings with senior company executives and board members, the 2017 independent study *Talk is not Cheap*[9] found that engagement with chairs was the most important factor when seeking to promote change at companies. The study further showed that, on average, for each additional personal meeting, the chance of progress in engagement increases by about 5%.

[4] 7 – pricing-esg-in-sovereign-credit-q3-2019.pdf.
[5] JABES-08-2023-0306_proof 263..276.
[6] Climate Risk Engagements by François Derrien, Alexandre Garel, Arthur Romec, Feng Zhou :: SSRN.
[7] OP-ROFF230039 483..510.
[8] Shareholder Engagement on Environmental, Social, and Governance Performance.
[9] Hermes EOS – Research Report – Sep 17.



Environmental

Investor scrutiny of transition plans heats up

As physical climate risks escalate, investor engagement on climate change is increasingly vital to steward companies through the transition. Will Farrell and Hannah Heuser explain how our engagement has continued to advance action on climate risks and opportunities.

2024 was the first full year where average global temperatures surpassed the 1.5°C mark, making it the hottest year on record. While the El Niño phenomenon contributed to high global temperatures in early 2024, record temperatures persisted throughout the year. Extreme weather events increased in scale and frequency, with floods in Spain, hurricanes in the US, and droughts in Brazil.

By 2050, damage caused by climate change is projected to cost global economies up to US$3tn every year.[1] As transition risks and physical climate risks become more pronounced, investor engagement on climate change is increasingly vital to steward companies through the major transformation required. This is in line with investor fiduciary duties to enhance the long-term shareholder value of each company we engage.

Through its extended coverage, the Institutional Investors Group on Climate Change (IIGCC)-initiated Net Zero Engagement Initiative (NZEI), facilitates EOS in engaging the 'long tail' of companies exposed to climate-related risks and opportunities. The IIGCC banks engagement group also allows for systematic engagement around how banks are managing the systemic transition and physical climate risks building on their balance sheets.[2]

The Climate Action 100+ (CA100+) initiative also supports intensive engagement on companies' decarbonisation strategies, capital allocation alignment, climate governance, and emissions performance. In October 2024, the CA100+ Net Zero Benchmark (NZB) tracked further progress with 81% of the largest corporate greenhouse gas emitters now having committed to net zero by 2050 covering at least Scope 1 and 2 emissions. This is an increase of four percentage points on 2023.

Will Farrell
Theme co-lead: Climate Change

Hannah Heuser
Theme co-lead: Climate Change

Some 59% of companies assessed under the benchmark have identified a set of actions they will take to achieve emissions reductions in line with their targets, but only 26% have quantified these individual levers. Similarly, 81% of the banks captured by the Transition Pathway Initiative's banking assessment have set sector-level financed emissions targets, with 77% of these banks identifying climate-related financial risks as a material risk in annual reporting.

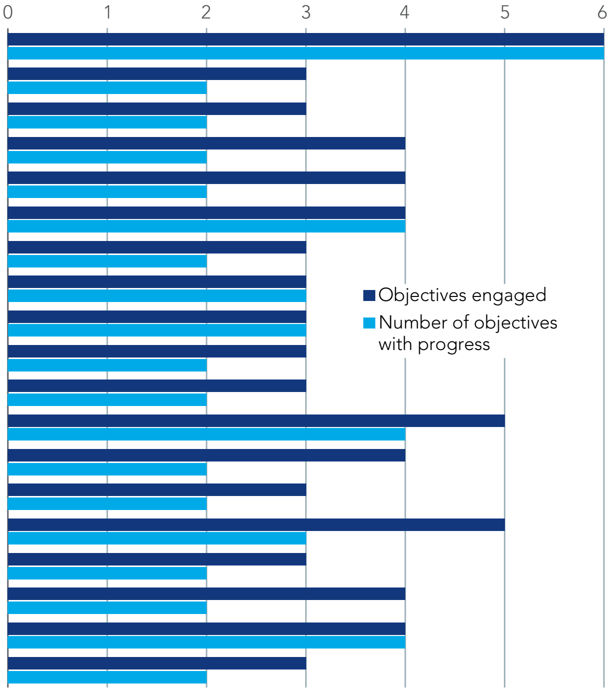
> **As transition risks and physical climate risks become more pronounced, investor engagement on climate change is increasingly vital.**

As many companies are moving from ambition to action, investors generally want to see emissions being reduced in line with targets, and capital allocated towards climate solutions and away from unabated carbon-intensive assets and products. Although only 3% of companies have made a commitment to shift capex away from emissions-intensive

[1] Climate change is costing the world $16 million per hour | World Economic Forum; The global costs of extreme weather that are attributable to climate change | Nature Communications.
[2] Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

Progress of environmental objectives for selected CA100+ companies engaged by EOS, 2024

Company Name	EOS Sector	Participation
Air Liquide	Chemicals	Co-lead
LyondellBasell Industries	Chemicals	Co-lead
Danone	Consumer Goods	Co-lead
Lockheed Martin	Industrials	Co-lead
Siemens Energy	Industrials	Co-lead
Holcim	Mining & Materials	Support
Anhui Conch Cement Co	Mining & Materials	Support
CRH	Mining & Materials	Support
POSCO Holdings	Mining & Materials	Co-lead
Rio Tinto	Mining & Materials	Support
thyssenkrupp	Mining & Materials	Support
TotalEnergies	Oil & Gas	Co-lead
Marathon Petroleum	Oil & Gas	Support
Valero Energy	Oil & Gas	Support
Bayer	Pharma & Healthcare	Support
Carrefour	Retail & Consumer Services	Support
Caterpillar	Transportation	Co-lead
Engie	Utilities	Support
Fortum	Utilities	Support



Source: EOS data

activities, the benchmark sees much higher numbers investing in climate solutions. Some 38% of companies assessed disclose the stated value of their capital expenditure towards climate solutions, with 37% of companies saying they intend to allocate capital expenditure to climate solutions in the future.

As studies suggest that the greatest impediments to achieving the 1.5°C-aligned goals of the Paris Agreement are now political barriers rather than technological ones, it is imperative that companies outline policy dependencies and support policy frameworks that are supportive of companies' transitions.[3]

> **Since 2020, we have been co-leading engagement to ensure the alignment of TotalEnergies' capital expenditure with the Paris Agreement's goals.**

Through EOS's engagement across these initiatives in 2024, we continued to seek progress where companies lagged best practice, while encouraging efforts where progress had been made. We also elevated our engagement on areas of emerging best practice, such as the due consideration of material climate-related risks and opportunities in financial statements, and the financial resilience of any significant capital expenditure.

Making progress through CA100+

At Air Liquide, we have co-led the CA100+ engagement for several years. In 2024, it responded to our requests that its financial statements demonstrate the consideration of material climate-related risks and opportunities. Through a detailed discussion of the material climate risks facing different segments, investors may now improve their understanding of the company's financial exposure to transition risks.

Following engagement on Air Liquide's claims about public policy dependencies getting in the way of accelerating decarbonisation capital expenditure, we also sought clarity over the company's advocacy efforts to overcome these hurdles. We obtained reassurance over these activities through the company's publication of its public policy positions and a detailed review of the alignment of its industry associations' actions with these positions.

Since 2020, we have been co-leading engagement to ensure the alignment of TotalEnergies' capital expenditure with the Paris Agreement's goals. After meeting with and writing to the chair/CEO on multiple occasions over several years, we were pleased to welcome the company's increased focus on ensuring portfolio resilience through capital expenditure guardrails. In 2024, we welcomed improved disclosure on pipeline economics, the evidencing of the low break-even point of the existing portfolio, and the company's commitment for pipeline projects' production costs to sit below the $20 per barrel mark.

[3] Feasibility of peak temperature targets in light of institutional constraints | Nature Climate Change.

Other CA100+ engagements continued to show progress on routine elements of the CA100+ benchmark – for example, Caterpillar and Power Assets Holdings disclosed some categories of their Scope 3 emissions. At Danone, we welcomed the introduction of a Scope 1-3 emissions metric in the executive remuneration policy, while CRH raised the ambition of its Scope 1-3 targets, validated as aligned with a 1.5°C pathway by the Science-Based Targets initiative (SBTi).

Other climate engagements

As part of NZEI, EOS engages with Ahold Delhaize, a company involved in the management and operation of supermarkets, as well as an e-commerce business. In line with our requests to Ahold Delhaize, the company published a new transition plan with information on the levers for achieving Scope 3 decarbonisation, its public policy work, its engagement with its suppliers and the investment requirements for decarbonisation.

Hyundai Steel is another company where progress was made against the core NZEI requests. It has now made a commitment to reach net zero emissions by 2050 and has published details on its plans to achieve this ambition, including the technological changes required.

> **We were pleased to see enhanced disclosure and methodologies from the banks.**

Finally, utilities company Veolia has significantly improved its overarching approach to reducing emissions. In February 2024, the company published a net-zero strategy incorporating feedback provided over several rounds of investor meetings. Veolia's climate change target was validated by the SBTi in July and assessed by the Moody's Net Zero Assessment as 1.5°C-aligned.

Through the banks initiative, following our engagement on the adequacy, quality, and coverage of sector-level financed emissions risk management, BNP Paribas announced an absolute financed emissions reduction target for the oil and gas sector. Also in 2024, UBS increased the coverage of its sector-level financed emissions reduction targets to 81% of loan book emissions.

> **We co-led the IIGCC collaborative engagements at the three Japanese megabanks to reiterate our climate-related engagement requests.**

We co-led the IIGCC collaborative engagements at the three Japanese megabanks – Mizuho Financial Group, Sumitomo Mitsui Financial Group (SMBC) and Mitsubishi UFJ Financial Group – to reiterate our climate-related engagement requests. We sought more disclosure around the banks' assessment of risks relating to the financing of their fossil fuel sector clients and their mitigation through energy transition plans that are more aligned with the goals of the Paris Agreement.

We were pleased to see enhanced disclosure and methodologies from the banks, as well as an update to SMBC's transition finance playbook and the introduction of environmental and social due diligence. Overall, however, there remains a lack of disclosure around any consequences if client transition plans are found to be misaligned with the banks' climate goals. We have engaged with the banks on considering competencies for managing climate-related business risks and opportunities in the board director nomination process. We also want to see them elaborate further on the consequences of their clients not producing credible Paris-aligned transition plans.

While the majority of our engagement on climate change is led by EOS alone, we continue to support certain collaborative engagement initiatives. These follow guidelines to ensure that at all times EOS and investors act in line with all relevant laws and regulations, and focus on the most material opportunities and risks at each company. This is in line with investor fiduciary duties to seek enhanced long-term shareholder value at each company engaged.

Q&A: Natural Resource Stewardship

Joanne Beatty
Theme co-lead:
Natural Resource Stewardship

Ming Yang
Theme:
Natural Resource Stewardship

In 2024, nature-related issues remained an engagement priority across key sectors including food and beverage, mining and chemicals companies. In addition to this direct engagement, we increased our collaborative engagement, including through Nature Action 100, FAIRR, PRI Spring, the Ceres Valuing Water Finance Initiative, the Investor Initiative on Hazardous Chemicals, and the Finance Sector Deforestation Action initiative.

Q. How has engagement around nature and biodiversity evolved in 2024?

A. We expect companies to address marine and terrestrial biodiversity loss across their value chains in line with the mission to halt and reverse biodiversity loss by 2030, as agreed within the Global Biodiversity Framework (GBF). We continued to encourage companies to assess and disclose their nature-related impacts, dependencies, risks and opportunities in line with the Taskforce on Nature-related Financial Disclosure (TNFD) recommendations.

The insights from this assessment should be used to develop a strategy and transition plan, with time-bound targets, to address the most material nature-related risks and impacts. We also emphasised the importance of supply chain oversight and the governance of nature-related issues, including ensuring robust understanding at board-level and the alignment of lobbying positions.

In 2024 we responded to three TNFD sector guidance consultations for food and agriculture, beverage, and apparel, accessories and footwear. For the apparel sector we made recommendations related to circularity, human health issues caused by chemicals, human rights, and the sector's power to influence.

Biodiversity also made a strong showing during voting season via shareholder resolutions[1] on plastic pollution, deep sea mining, deforestation, pesticide use, microfibre pollution, antimicrobial resistance (AMR) and animal welfare. For example, at PepsiCo, we recommended support for a shareholder resolution asking for a report on the risks related to biodiversity and nature loss. 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.

Q. Concerns about water quality and scarcity remained high on the agenda in 2024. How did we respond?

A. EOS intensified its engagement with companies, pressing them to identify their impacts and dependencies, and to mitigate related risks. We raised the issue of water security and pressed for risk assessments and robust targets and strategies in engagements with Yum! Brands, Hormel Foods, Asahi Group and McDonald's. All four have conducted water risk assessments, and Asahi has set a goal to identify 100% of its manufacturing sites located in water risk areas by 2030.

We also engaged with agricultural commodity company Cargill on its target of enabling the restoration of 600 billion litres of water in water-stressed regions by 2030, encouraging it to consider setting targets across all of its watersheds. To date the company has restored 9.2 billion litres against its target and continues to take a prioritised approach to watershed selection.

We also engaged with Nestlé on plastic pollution, Bayer on plastic's impact on aquatic life, and chemical companies on the harmful effects of PFAS on the environment and humans. The threat of unchecked deep-sea minerals mining remained a concern. Federated Hermes Limited became a co-signatory to a joint statement[2] urging governments to protect the oceans and not proceed with deep-seabed mining until the risks are comprehensively understood and the alternatives fully explored.

We recommended support for shareholder resolutions seeking reports about sourcing minerals from deep-sea mining at automotive manufacturers General Motors and Tesla. We considered that greater clarity and a commitment to a moratorium on deep-sea mining would signal the importance of supply chain oversight as vehicle electrification accelerates.

We engaged with Nestlé on plastic pollution, Bayer on plastic's impact on aquatic life, and chemical companies on the harmful effects of PFAS on the environment and humans.

[1] EOS Public Engagement Report.
[2] Leading financial institutions call on governments to not permit deep-sea mining – Finance for Biodiversity Foundation.

Q. The UN High Level Meeting (HLM) on antimicrobial resistance (AMR) took place in September 2024. What are the key actions we have taken to address this systemic risk?

A. The HLM was a chance for global leaders to review the progress made on AMR and find solutions. In the run up to the HLM, we co-signed the Investor Action on Antimicrobial Resistance (IAAMR) Public Investor Statement[3] alongside 80 investor signatories. It called for global leaders and policymakers to reinvigorate efforts, coordinate action, and reaffirm their commitments on AMR. The HLM resulted in the adoption of an extended Political Declaration.[4] Commitments were made around reducing human deaths associated with AMR by 10% by 2030. It called for sustainable financing on national action plans on AMR, the development of alternative treatments such as vaccines, and the promotion of responsible use in animal health.

We also provided input to a consultation on the draft World Health Organization Guidance on waste and wastewater management from pharmaceutical manufacturing, with an emphasis on antibiotic production. We suggested the guidance should recommend that risk assessments be required at each stage of the antibiotic production value chain and require publicly available information on antibiotic pollution. Increased transparency enables us to gauge whether a company has sufficiently robust practices in place to manage the risks associated with antibiotic residues entering the environment and the development of AMR. Other comments related to the need for annual updates, the names and locations of manufacturing facilities and how antibiotic pollution is managed.

In terms of our AMR engagement, we have targeted pharmaceutical and food and beverage companies such as Zoetis, GSK, and Hormel Foods. We generally ask companies to limit their contribution to the spread of AMR, develop alternatives to the use of antimicrobials, and assess the risk that a high AMR scenario may have on their business. Following Zoetis's success in developing vaccines as alternatives to its antibiotics offerings, we encouraged the company to publish an AMR policy outlining its governance and risk guardrails to guide decision-making on AMR-relevant product development.

We also welcomed Hormel Foods' attempts to reduce the use of antibiotics in its supply chain through its investments in animal husbandry facilities, and the replacement of antibiotics with vaccination and alternative therapies. We encouraged the company to publish an AMR stewardship policy highlighting its ambition to reduce antibiotic use, including via preventative care. During voting season, we recommended support for a resolution on AMR at Yum! Brands, as we thought the company could reduce the risks in its animal supply chain and protect its returns by adopting a stronger AMR policy.

We also welcomed Hormel Foods' attempts to reduce the use of antibiotics in its supply chain through its investments in animal husbandry facilities.

Q. What progress has been made to address deforestation?

A. Halting and reversing deforestation remains critical for addressing climate change and biodiversity loss. Many companies have committed to deforestation and conversion free (DCF) sourcing by 2025. Our engagement focuses on maintaining momentum towards that goal (or asking companies to commit if they have not yet done so). In line with our Finance Sector Deforestation Action (FSDA) expectations to demonstrate DCF status for all commodities, regions, and suppliers, we also encouraged full traceability of commodities across all tiers of company supply chains.

In 2024, EOS led and supported FSDA engagement with 27 focus companies, including Adidas, Cargill, Home Depot, Walmart, Unilever and Yum! Brands. Following direct engagement and collaborative engagement through Nature Action 100, we welcomed Chinese dairy producer Inner Mongolia Yili Industrial Group's commitment to achieving a deforestation-free supply chain in palm oil, pulp and paper, soy, and soy in livestock feed by 2030.

We continued to implement our deforestation voting policy, targeting 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. At Tyson's AGM, we recommended support for a shareholder proposal on deforestation-free supply chains.

We provided informal feedback to the FSDA initiative and the Institutional Investors Group on Climate Change (IIGCC) on the deforestation investor criteria for commercial banks, which were published in September 2024. Banks that fail to address deforestation are exposed to financial risk through various channels, including physical risk, transition risk and failure to align

[3] US $13 Trillion Investors Call on Global Leaders To Tackle Antimicrobial Resistance Crisis | FAIRR.
[4] World leaders commit to decisive action on antimicrobial resistance.

with net zero. As shareholders in banks, investors have a fiduciary duty to ensure that banks consider and manage deforestation and the associated financial risks.

The document sets out investor criteria for banks on eliminating commodity deforestation, conversion and associated human rights abuses in their lending and investment practices and builds on the general FSDA expectations.[5] While the EU's deforestation due diligence regulation has been postponed, it will still require companies to achieve supply chain traceability. Therefore, deforestation will continue to be a key focus topic for 2025.

Q. How were these themes brought together at the Biodiversity COP16, and what were the key outcomes?

A. We attended COP16 as part of the Finance for Biodiversity (FfB) Foundation delegation, where we co-chair the Policy Advocacy Working Group. The working group published a policy recommendations paper[6] for governments in April 2024. In the run up to COP16, we led or joined engagements with policymakers and negotiators to share the recommendations and understand the progress being made on implementing the Global Biodiversity Framework at the national level. We contributed to developing the FfB Foundation delegation's position[7] for COP16 and summarised our expectations in an article.[8] At COP16, we followed the negotiations, particularly on resource mobilisation, and participated in a range of events to share our policy recommendations and our approach to engagement with companies.

COP16 resulted in progress on Digital Sequencing Information, with the formation of the Cali Fund to recognise the value of nature for scientific research. Companies in the pharmaceutical, cosmetic and other sectors that rely on nature for research will be expected to contribute to the fund, resulting in increased financial resources for the protection and restoration of tropical rainforests and other ecosystems. Additionally, more

formal participation of Indigenous people and local communities in the negotiations was secured through the creation of a subsidiary body.

At the Finance Day, we were pleased to see our policy criteria well-reflected, including the need for policies and economic incentives that enable private sector action; sectoral transformation pathways and change in the real economy; aligning public and private financial flows with biodiversity targets alongside raising more money for nature; and a whole-of-government approach to this challenge.

Other announcements included a new milestone for the TNFD, with over 500 organisations now committed to adopting the recommendations. The International Advisory Panel on Biodiversity Credits (IAPB) also launched a framework for high integrity biodiversity credit markets.[9] We responded to an IAPB survey earlier in 2024 to share our expectations on biodiversity credits, emphasising that these should be a last resort, and that the market would need robust governance and independent oversight.

Q. What can we expect for 2025?

A. We look forward to more companies conducting assessments and disclosing in line with the TNFD recommendations. We will be examining sector impacts on aquatic life and biodiversity more closely, as well as the potential threats to ocean health from climate change, acidification, pollution (including plastic waste), over-fishing and deep-sea minerals mining. The goal is to ensure that raw materials are responsibly sourced.

Collaborative engagement efforts through initiatives such as PRI Spring, Nature Action 100, and the Valuing Water Finance Initiative will continue to be leveraged to amplify our requests on nature. Our focus will remain on sectors with material nature-related risks and impacts, with engagement continuing to encourage companies to ensure meaningful natural resource stewardship that contributes to the goal of halting and reversing biodiversity loss by 2030.

5 FSDA Investor Expectations for Commercial and Investment Banks makes the case for eliminating deforestation.
6 Aligning Financial Flows with the Global Biodiversity Framework: Translating Ambition into Implementation – Finance for Biodiversity Foundation.
7 FfB Foundation Urges World Leaders to Implement Concrete Actions to Align Financial Flows with the GBF Ahead of COP16 – Finance for Biodiversity Foundation.
8 COP16 to challenge governments to deliver on Biodiversity Plan | Federated Hermes Limited.
9 https://www.iapbiocredits.org/framework.

CASE STUDY

Carrefour

We have engaged with Carrefour, a leading French supermarket operator, since 2008. Over the last two years we have intensified our engagement on biodiversity given Carrefour's significant impacts and dependencies as a food retailer.

Our engagement

We started our engagement on biodiversity in 2022, outlining our requests in a letter for the company to identify, assess, and measure its most material impacts and dependencies on biodiversity, including any associated risks. We encouraged it to develop a strategy to address these factors and articulate a plan with milestones to deliver this. We also shared our biodiversity white paper with Carrefour.[1]

We followed up with the company later that year, asking it to provide more information on its sourcing of raw ingredients and its approach to deforestation. We were pleased to hear that it was working on assessing its impacts on biodiversity through its supply chain and stores. We pressed for the company to publish these results and for Carrefour to develop a biodiversity roadmap.

We asked if it could commit to having a positive impact on biodiversity. Carrefour stated that its intention was to have a neutral impact on biodiversity. We also asked for increased disclosure on water quality and quantity impacts in the supply chain. The company acknowledged our request.

We reiterated our requests in early 2023. We recognised that the company had taken a step forward as Carrefour was working with the Science Based Targets for Nature (SBTN) programme. The company was responsive to our engagement and spoke of its intention to define a biodiversity strategy.

In early 2024, as part of the Farm Animal Investment Risk and Return (FAIRR) collaborative engagement on protein diversification, we were pleased to hear from the company that it intended to report against the Taskforce on Nature-related Financial Disclosures (TNFD) framework.

That year, we also joined the Nature Action 100 (NA100) collaborative engagement as a lead engager for Carrefour. We held our first NA100 meeting with the company in mid-2024 to challenge the biodiversity impacts it had disclosed in its report.

Changes at the company

In early 2024, the company published its 2023 universal registration document, which outlines its biodiversity impacts and dependencies, and related risks and opportunities. The company assessed its entire value chain, in line with our recommendations. It provided a representation of the group's biodiversity footprint by country and type of pressure, showing that its most significant impacts were in Brazil and France due to land use change.

It also showed the pressures exerted on biodiversity from several raw materials identified as high impact by the SBTN, including palm oil, beef, cocoa, soy, fishery products, aquaculture products and cotton. The report provided a narrative on pollution-related risks, including air, water and soil pollution and microplastics. Carrefour outlined an action plan to promote responsible consumption and sustainable agriculture.

Carrefour also followed our suggestions on water disclosures, reporting that it seeks to limit the water footprint of its products in the procurement process. For example, it supports suppliers in managing water by helping them set up efficient irrigation systems. The company also identified textile supply chains as a major water pollution risk. It has developed a programme to raise awareness, and to train and audit textile suppliers.

We will continue our discussions on nature through our direct engagement and the NA100 group.

Hannah Naumoff
Theme:
Natural Resource Stewardship

[1] https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/our-commitment-to-nature/.

Social

Human rights engagements in high-risk regions

Since we outlined our engagement approach on human rights in high-risk regions in 2020, we have seen new flashpoints erupt in Europe and the Middle East. Ellie Higgins and Ross Teverson explain what we seek from companies.

A strong commitment to protecting human rights is crucial for responsible business development and long-term wealth creation. Without this, companies may lay themselves open to legal and financial penalties, operational disruption, and stakeholder backlash, harming their social licence to operate and ability to deliver value for their investors.

Certain geographies carry heightened human rights risks and therefore require enhanced due diligence and consideration from companies. EOS does not have a fixed definition of high-risk regions, but we consider factors such as the presence of conflict and the degree of legal protection in place for workers.

In 2020, we outlined our engagement approach for human rights in high-risk regions. Since then, we have seen the invasion of Ukraine by Russia in 2022, and an escalation of violence in and around Israel and the Middle East. Meanwhile, the proportion of global land mass impacted by conflict has increased by 65% since 2021.[1]

Our engagement remains apolitical and is guided by the expectation that all companies should operate in alignment with the UN Guiding Principles on Business and Human Rights (UNGPs). We primarily ask that companies take the following steps, with particular emphasis on vulnerable and marginalised populations:

- **Enhanced due diligence and monitoring:** Companies should conduct enhanced human rights due diligence through human rights impact assessments to identify salient human rights risks and their leverage to address them, followed by monitoring of any changes to the initial assessments.
- **Stakeholder engagement:** Companies should engage with stakeholders impacted by their business operations in order to understand the nature of their relevant human rights impacts. They should then use their influence appropriately to promote positive human rights outcomes.
- **Governance:** Companies should ensure they have appropriate policies and oversight of all human rights risks, and enhanced governance processes for higher risks. Depending on the level of risk, this should involve the top levels of management and the board in order to consider the range of appropriate responses and actions.
- **Action:** Companies should consider the appropriateness of changes to their way of business including operations, terms of employment, products, services, and supply chain partners. They should also consider their use of leverage with relevant stakeholders to positively influence human rights outcomes. If human rights abuses cannot be successfully avoided, companies should weigh the merits of disengagement and the likely effectiveness, with regard to the severity of the abuse and any negative consequences of withdrawal.

Ellie Higgins
Theme:
Human and Labour Rights

Ross Teverson
Theme co-lead:
Human and Labour Rights

[1] Global conflict zones grow by two thirds since 2021, topping 6 million km

- **Transparency:** Companies should publicly disclose comprehensive information regarding their business in, or related to, the high-risk region. This should include a summary of their enhanced human rights due diligence using the UNGPs reporting framework, their current and proposed actions, and a summary of relevant governance.

Our underlying approach and commitment to the UNGPs has been relatively unchanged, but we may emphasise certain aspects on a case-by-case basis depending on the region in question and the nature of a company's involvement.

As part of our public policy advocacy and collaborative work, EOS participates in working groups related to human rights. These include knowledge sharing on high-risk regions engagement approaches and collaborative engagement, such as through the Investor Alliance for Human Rights and the Principles for Responsible Investment's Advance initiative.

In recent years regulatory changes have provided increased protection for human rights, with some jurisdictions banning the import of goods produced with forced labour.[2] New reporting requirements such as the EU's Corporate Sustainability Reporting Directive and Canada's Modern Slavery Act will require companies to be more transparent about their human rights practices. While these changes represent positive progress in the management of human rights risks and impacts in the private sector, they also increase the need for companies to proactively identify and mitigate their human rights impacts to avoid legal and financial penalties.

Identifying high-risk regions

EOS identifies priority high-risk regions to address in engagement with companies on an ongoing basis. These have included Myanmar, Western Sahara, the Xinjiang Uyghur Autonomous Region (XUAR), and Ukraine. We may also engage on a region for individual companies where a major controversy arises. We had 15 open objectives related to human rights in high-risk regions as of the end of 2024.

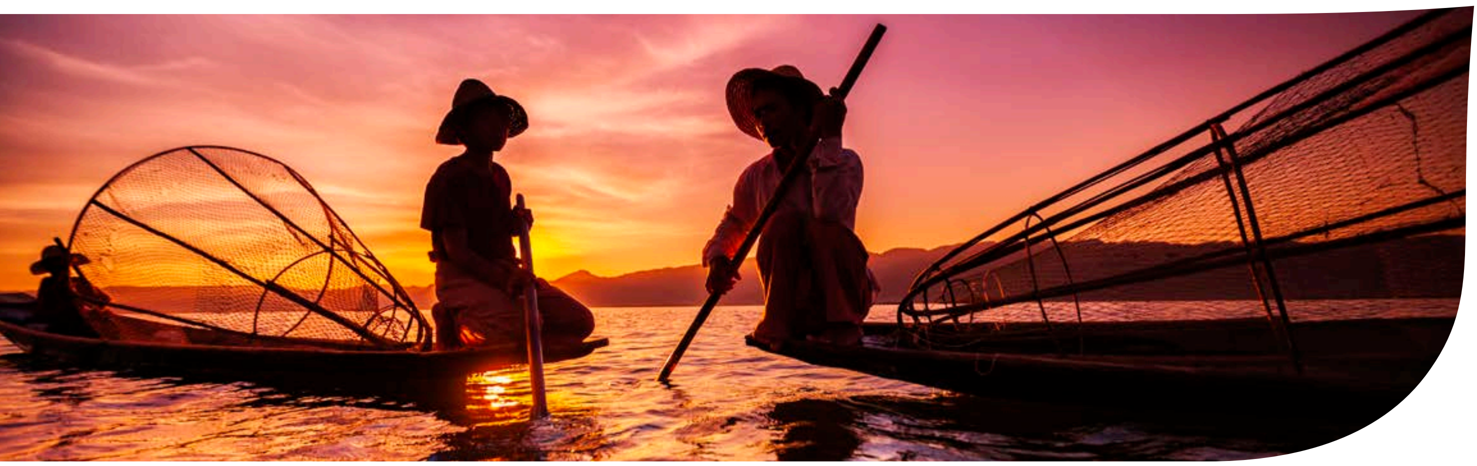
In 2024, companies and investors faced significant pressure from stakeholders to divest from operations and holdings potentially exposed to the Israel-Gaza conflict or heightened tensions in the West Bank.[3] EOS undertook outreach to a select group of companies, including some of those identified by the United Nations Human Rights Council (UNHCR), to clarify their exposure and discuss human rights within the framework of our approach. We sought evidence that companies had rigorous human rights practices that applied across all business activities and that they were effectively managing associated risks.

In total, we engaged with 22 companies regarding their exposure via correspondence and virtual meetings. We will continue our dialogue with these companies on this issue and their wider human rights performance.

Voting season shareholder proposals

Shareholder proposals relating to high-risk regions appeared at several companies in 2024. We recommended support for proposals regarding the impacts of products reaching high-risk regions at companies such as Microchip Technology, RTX, and Texas Instruments.[4] We also recommended support for proposals examining companies' business activities in high-risk regions, such as at JPMorgan Chase & Co and Mondeléz International.[5]

EOS may also recommend voting against directors responsible for human rights oversight at companies where performance is poor. For example, in 2024, we recommended a vote against a director at a major food processing company due to concerns that risks of child labour were not being properly addressed. We expressed this rationale and expectation to the company through engagement. We also did this at a major aerospace company due to an apparent failure to oversee product quality and safety issues, which resulted in adverse human rights impacts. Our human rights voting policy has been applied in the context of high-risk regions in previous years.



[2] Implementation of the Uyghur Forced Labor Prevention Act, Products made with forced labour to be banned from EU single market
[3] Companies Are Getting Caught in the Israel-Hamas War's Crossfire, Some European firms retreat from Israel-linked finance amid war pressure
[4] MCHP 2024 Proxy Statement, RTX 2024 Proxy Statement, TXN 2024 Proxy Statement
[5] JPMorgan Chase 2024 Proxy Statement, Mondelez International Inc 2024 Proxy Statement

CASE STUDY

Volkswagen

Volkswagen produces and sells passenger cars and light commercial vehicles and develops vehicles and components for group brands including Porsche, VW, Audi, Skoda and Seat.

In late 2022, Sheffield Hallam University published a report highlighting concerns about the high risk of human rights abuses in the Xinjiang region of China, particularly linked to the automotive industry. Volkswagen Group had a long-standing joint venture with SAIC, which was implicated in the report. Although the company had previously conducted an internal investigation and found no evidence of forced labour, MSCI applied a red flag to the Volkswagen Group, due to a lack of third-party, independent verification.

> **Under pressure from investors, the company investigated the concerns raised and in July confirmed it would carry out an independent audit of the plant to assess the situation.**

In March 2023 we raised our concerns with the company and it confirmed that it had a joint venture with SAIC in the area inspecting, testing and approving cars for the Chinese market.

Under pressure from investors, the company investigated the concerns raised and in July confirmed it would carry out an independent audit of the plant to assess the situation. In September 2023 the company published the results of the audit and confirmed that the audit had found no human rights abuses, Although this was sufficient for MSCI to remove its red flag, we highlighted a number of apparent inconsistencies with the audit and met with the company in January 2024 to press for a fuller explanation.

We also asked the company to evaluate its other joint ventures in the region. In February, the company stated that it had carried out a review at other sites and found no evidence of human rights abuses. We continued to request further information and in September the company published the full audit report.

This highlighted the difficulties faced by companies operating in the area when carrying out fully independent audits. This was due to local regulations requiring government oversight, state-appointed interpreters, restrictions on collecting data and a risk of reprisals against workers and the companies carrying out the audit. After increased concerns from investors and media reports, in November 2024, the company announced that the sites in the Xinjiang region had been sold, citing economic reasons.[6]

> **We continued to request further information and in September the company published the full audit report.**

While this relieves Volkswagen of potential direct links with forced labour in the region, the risk of issues in the supply chain remains and we will continue to press the company to demonstrate appropriate due diligence, particularly in the high risk areas of its supply chain.

Justin Bazalgette
Themes: Climate Change, Corporate Reporting

[6] VW buckles after years of pressure to sell up in Xinjiang | Reuters

Q&A: Digital Rights & AI

Ross Teverson
Theme co-lead:
Human and Labour Rights

Navishka Pandit
Theme:
Human and Labour Rights

The release of OpenAI's ChatGPT3 in November 2022 and the subsequent arrival on the market of other large language models (LLMs) raised awareness of the transformative impacts that AI may have on business and society. We have seen a proliferation of use cases for AI, which extend beyond early adopting industries, such as technology and finance, into all sectors. A recent study by the International Data Corporation suggests that worldwide spending on AI-enabled applications, infrastructure, and related services will more than double by 2028 to US$632bn.[1]

While digital technologies, particularly AI, have the potential to drive a fourth industrial revolution and are creating unprecedented new opportunities for businesses, their deployment also introduces ethical dilemmas, as well as reputational and legal risks. These include potential breaches of privacy rights, cybersecurity threats, and unintended bias or a lack of transparency or explainability in AI models. Other issues include misinformation, a potentially unsustainable rise in data centre energy demand, and disruption to the workforce.

Q. Why should a responsible approach to digital rights and AI be a priority for businesses?

A. The EU's General Data Protection Regulation (GDPR) came into effect in 2018. By 2023, we were seeing record fines issued by the EU for the mishandling of personal data.[2] This illustrates the need for companies to rigorously manage the risks associated with digital rights and AI, especially given that an urgency to address some of the concerns relating to AI has led to a global, yet fragmented drive to introduce new regulations.

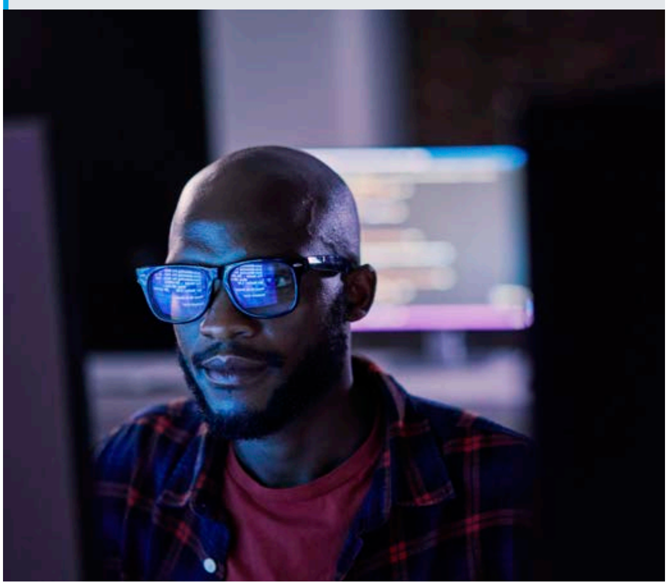
The business case for a responsible approach to digital rights and AI hinges not only on the mitigation of downside risks, but also the opportunity to enhance a company's returns and reputation. Users of digital services and AI are understandably concerned about the potential for unintended personal and societal harms, and this creates opportunities for companies to derive long-term value from establishing themselves as trusted digital and AI brands. Research conducted by the consultancy Bain & Co found that companies with a comprehensive, responsible approach to AI earned twice the level of return on their investment in AI.[3]

Users of digital services and AI are understandably concerned about the potential for unintended personal and societal harms.

Q. How would you summarise EOS's approach to engaging on these topics?

A. We have been engaging on digital rights since 2012, and the business and wider societal impacts of AI since 2018. In 2019, we published our Investor Expectations on Responsible AI and Data Governance[4] paper and a collaborative paper on AI Applications in Financial Services.[5] Later, in 2022, EOS's Digital Rights Principles[6] set out our core expectations of companies regarding privacy rights, freedom of expression, mitigation of negative societal impacts (including the need to prioritise children) and the implementation of robust AI governance structures and policies.

Developing and agreeing on ethical AI and data governance principles is important to a company's own internal understanding of how best to manage the associated risks, such as algorithmic bias. These principles should explain the structures for digital rights and AI governance, the ethical use principles to which a company adheres, examples of use cases, and explanations of how risks, including algorithmic bias, are identified and mitigated.



[1] Worldwide Spending on Artificial Intelligence Forecast to Reach $632 Billion in 2028, According to a New IDC Spending Guide
[2] Chart: EU Data Protection Fines Hit Record High in 2023 | Statista
[3] Adapting Your Organization for Responsible AI | Bain & Company
[4] https://www.hermes-investment.com/uploads/2021/10/4f7c68d220b2d3e1b1c89fa0be3d9906/investors-expectations-on-responsible-artificial-intelligence-and-data-governance.pdf
[5] https://www.marsh.com/en-gb/industries/financial-institutions/insights/artificial-intelligence-applications-financial-services.html
[6] https://www.hermes-investment.com/uploads/2022/04/5a8aadeb037fb131b1889c3f6b1a85aa/eos-corporate-digital-rights-principles-04-2022.pdf

Developing and agreeing on ethical AI and data governance principles is important to a company's own internal understanding of how best to manage the associated risks.

To protect privacy and freedom of expression, we expect companies to obtain user consent in a clear and transparent manner for the collection, storage, and use of data, including targeted advertising, and ensure the responsible use of facial recognition technology. We also encourage companies to endorse the Global Network Initiative (GNI),[7] a multistakeholder forum for accountability, collective advocacy and practices at the intersection of technology and human rights.

We ask that companies seek to understand where their business models generate or contribute to negative social impacts and be transparent about the findings. They should take steps to mitigate negative societal impacts, and cede the appropriate authority to regulators where appropriate. We encourage companies to prioritise children and young people when considering potential negative societal impacts.

Q. Can you give some examples of positive engagement outcomes?

A. We have been engaging with Baidu on AI and digital rights since 2019, when we first encouraged the company to establish and publish AI governance principles. As a leading Chinese AI company, with products and services that reach over a billion devices monthly, we believed this would provide important reassurance to investors that the company was appropriately mitigating AI risks.

In 2020, in a letter to the chair and CEO, we outlined our concerns regarding AI and data governance and the company subsequently provided us with a detailed response. It explained its processes for blocking harmful content, training customers on AI use, and its approach to collecting user feedback and reducing algorithmic bias.

We have been engaging with Baidu on AI and digital rights since 2019.

In 2022, when we published our Digital Rights Principles, we shared these with Baidu and reiterated our suggestions regarding AI governance principles. Again, in 2023, we explained that investors would welcome comprehensive AI ethical use principles from the company. In 2024, it published its Baidu AI Ethics Measures,[8] which cover many of the key aspects that we expect to see, including core principles, oversight by the technology ethics committee, ongoing AI training, participation in the development of industry standards, and stakeholder engagement.

In 2022, we asked Meta to strengthen its children and teenagers safety policy to go beyond the prevention of exploitation and make an explicit commitment to acting in the best interests of children and teens. We repeated this expectation in our feedback to the company's first human rights report, released later in 2022, saying that we would like it to address mental health, device addiction, and other emerging issues that more holistically impact young users' safety, health, and well-being.

During 2023, the company faced increased scrutiny and legal action on this issue after the US surgeon general issued a warning on social media harms to adolescent mental health. That same year, Meta published its second

[7] https://globalnetworkinitiative.org/
[8] https://esg.baidu.com/detail/560.html#:~:text=Baidu%20has%20formulated%20its%20AI,equality%2C%20empowerment%2C%20and%20freedom.

human rights report, which included a commitment to acting in the best interests of children and teens and launched tools allowing parents or guardians to view how much time their teenage children spent online.

In 2022, we asked Meta to strengthen its children and teenagers safety policy to go beyond the prevention of exploitation.

In 2024, having observed that these tools rely on self-monitoring, we asked if the company had considered more far-reaching, app-wide limits on user interactions or hours spent. Meta has since unveiled an overhaul of additional changes to its children and teens safety policy, with all Instagram users under 18 placed into "teen accounts" that allow parents or guardians greater control over their activities, and the ability to see the content categories that their child is viewing.

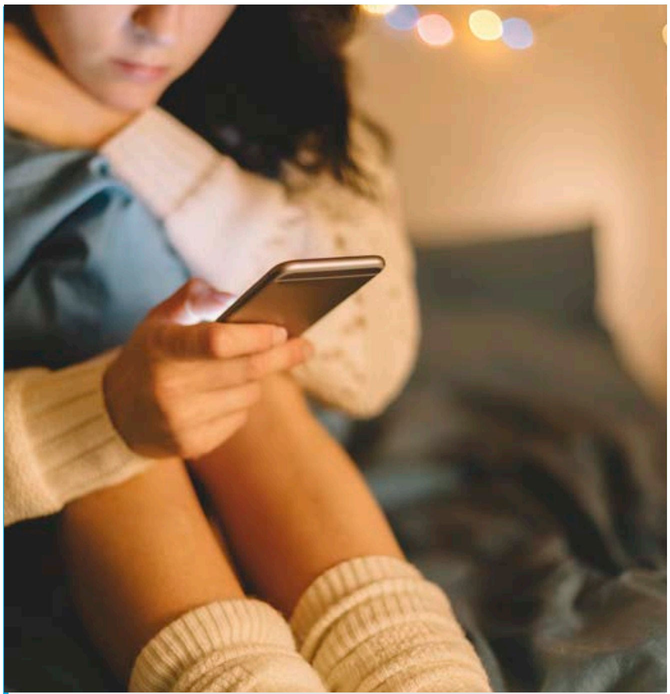
Q. What progress have we seen beyond the tech sector?

A. Pharmaceutical company GSK is exposed to emergent trends in AI adoption and is likely to benefit from various AI use cases. In our engagement with the company in 2023, we asked it to adopt a responsible use policy for AI, which outlines its approaches to safeguarding patients, and its ethical commitments. In early 2024 GSK shared a draft responsible AI use policy with us and sought our feedback.

We suggested that it could include details on which board members had oversight of AI use, as well as clarity on what reporting structures and procedures were in place for AI use. The company reached out to us again in March 2024 to confirm that it had published its Responsible Artificial Intelligence[9] policy on its website and highlighted that it was able to incorporate some of our recommendations into its final policy document.

Within the financial services sector, Royal Bank of Canada (RBC) received a 2023 shareholder proposal on AI governance and enhancing the mandates of the governance committee and the risk management committee. In response, the company disclosed its five principles for the responsible use of AI, along with the board's oversight on strategic direction and priorities.

In June 2023, we met the global head of market and counterparty credit risk and the interim head of Borealis AI, RBC's lab for AI. The company stated that no single board member had AI oversight, but it relied on the expertise of all directors, including those with technology or digital competencies. Considering the proxy disclosures and the engagement context, we believe that RBC has sufficiently addressed board-level AI oversight.



Q. What is our focus for 2025?

A. Over the coming year, we will continue to engage on AI governance and ethical use principles, privacy and freedom of expression, and negative societal impacts with a strong focus on children and young people. However, we will expand the scope of our engagement, emphasising areas of rising materiality, including the upstream environmental and social impacts of the data centres required for increased AI deployment, and human capital management considerations.

Investors and regulators are increasingly concerned that data centres will divert electricity from renewable sources that would otherwise improve the sustainability of the energy mix in the broader economy. The high level of water consumption by data centres for cooling represents an additional risk. Companies that are seen as part of the solution to these challenges, rather than part of the problem, should benefit from a stronger social licence to operate and lower regulatory risk.

Companies also need to think about how digital services and AI impact their employees, viewing the digital revolution as an opportunity to reinforce their commitments to their workforce. There is a strong case to be made that companies which encourage employee engagement on responsible AI, as well as AI use case development and deployment, are likely to benefit from improved risk mitigation and identification of new growth opportunities.[10]

Companies also need to think about how digital services and AI impact their employees.

[9] https://www.gsk.com/media/10977/gsk-position-on-responsible-ai.pdf
[10] Workers could be the ones to regulate AI (ft.com)

Responsible Tax Practices

In 2024 we published our Responsible Tax Principles, which set out our guidelines on practices and disclosures. Joanne Beatty explains the rationale.

Asset owners have a responsibility to consider the tax implications of their investments and to ensure that the companies in their portfolios follow responsible tax practices. Companies engaging in aggressive tax practices face financial and reputational risks, prompting investors to seek increased tax transparency.

Investors want to know that their portfolio companies are paying taxes in line with business activities and complying with the letter and spirit of the law. They want to understand the extent to which a company is relying on access to subsidies and credits, or any artificial shifting of profits to operations in low tax jurisdictions. There is a risk that companies deploying aggressive tax strategies may also have weak corporate governance and compliance practices more generally, leading to wider concerns.

Responsible tax is a key theme in our engagement with companies. Two years ago, we wrote about our increased focus on responsible tax practices, highlighting the financial and reputational risks to investors from companies' aggressive tax practices.[1] We emphasised that investors needed sufficient information to gauge a company's tax position and governance approach, as well as to anticipate future risks to their holdings. Through our tax engagement with companies we are seeking increased transparency, including country-by-country reporting in line with international standards such as the GRI Tax 207. Our responsible tax focus continued in 2024 with the achievement of several milestones.

Our responsible tax principles,[2] published in 2024, set out our guidelines on responsible tax practices and disclosures. The principles are primarily directed at boards, executives and tax practitioners. We expect companies to articulate clearly to shareholders how their tax practices meet the principles in a manner appropriate for their specific situation. We have aligned our 2025 regional vote policies, corporate governance principles and engagement approach with our responsible tax principles.

Tax-related shareholder proposals

In the US, responsible tax remained the subject of shareholder action. Tax-related shareholder proposals were filed by charity Oxfam at Chevron, Kosmos, ExxonMobil and ConocoPhillips.[3] Two of the four proposals were successfully challenged by ConocoPhillips and ExxonMobil on procedural and ordinary business grounds respectively. While the two remaining proposals did not receive majority shareholder support, Chevron increased its tax transparency releasing an updated tax transparency report.[4]

We continued our engagement with priority watchlist companies focusing on the four critical areas in our responsible tax principles: policy, governance, stakeholder engagement and transparency. During the year we engaged with tax experts at General Motors, Coca-Cola, Barclays and Bayer among others, which provided us with useful insights into best practices. In our engagement with General Motors' chief tax officer, the company acknowledged the importance of responsible tax practices, working with the tax authorities through the compliance assurance process, which helps to reduce the overall risks associated with tax practices.

At Coca-Cola, we discussed the company's tax strategy and disclosure with the head of tax, who confirmed that the company has a plan to report taxes paid on a country-by-country basis as required under upcoming EU legislation. We appreciate the detailed tax reporting that Barclays provided against the GRI Tax 207 standard and encouraged the bank to go further by providing more in-depth reporting on a country-by-country basis. We continued to engage with Bayer, seeking more transparency on its tax policies and a willingness to expand its country-by-country reporting to more countries.

We will continue our responsible tax focus, seeking to achieve engagement outcomes in line with our principles.

Joanne Beatty
Theme co-lead:
Natural Resource Stewardship

[1] EOS Public Engagement Report
[2] EOS Responsible Tax Principles Doc July 24
[3] EOS Public Engagement Report
[4] Approach to tax & transparency

CASE STUDY

Dominion Energy

Dominion Energy is a US utility company that supplies electricity and natural gas to homes, businesses, and wholesale customers. It operates through its power delivery, power generation, and gas infrastructure business segments in 15 states serving nearly seven million customers.

Our engagement

We have engaged with the company on its climate strategy since 2011, including as part of Climate Action 100+ (CA100+). In 2020, Dominion committed to achieving net zero emissions by 2050, with ambitious plans to phase down its coal-fired plants.

To help protect long-term shareholder value through the transition, we asked the company to develop and articulate a decarbonisation strategy incorporating just transition principles. The aim was to help mitigate any anticipated adverse impacts on workers and the wider community.

In 2020, we engaged the company privately and in meetings organised by CA100+ to discuss the coal plant phase out. It highlighted the challenges of meeting its timeline, but added that it was working with the regulator to accelerate the policy context for a faster coal phase out, especially in South Carolina.

It described its plan for a just transition to a clean economy, including the involvement of the board in workforce planning. It also highlighted the importance of providing well-paid jobs and clean and affordable energy within its energy and environmental justice policy. We encouraged the company to develop this narrative, covering areas such as the number of employees impacted, the new skills required and timelines for transitioning.

We followed up in 2021 in an engagement with the company's senior sustainability representatives to review progress. We also continued to engage with the company as part of CA100+, with further engagements in 2023 and 2024.

Changes at the company

In 2023, the company updated us on its latest comprehensive business review, including its updated environmental justice policy. This presented a more comprehensive strategy covering a range of just transition concerns. These included details of how it was reskilling workers for roles in new growth areas, such as renewable energy generation, and its work with local businesses to re-employ workers in harder impacted areas and take advantage of renewables growth opportunities in Virginia. It covered how best to meet customer needs, including ensuring reliable access to energy during periods of storms, and access to affordable energy.

It also contained examples of its impact on workers and engagement with communities, such as the Virginia Beach offshore wind project. It confirmed that the board now reviews the impact of coal unit closures on local communities as part of a full board review of sustainability and climate risks.

The company also updated us on the management of its closure of two coal units in March 2023. Dominion said it is helping to prepare workers for alternative roles in solar energy and improving access to internal retraining and tuition programmes. This includes partnerships with community colleges and access to an employee career centre.

In its 2023 sustainability report, published in September 2024, the company expanded the disclosures related to its just transition strategy. The report included more details on its employees, customers and communities, providing anecdotes and data related to how these groups felt about plant closures and how often Dominion engaged with stakeholders.

The company also proposed language in a draft Virginia legislative bill to prioritise local hires, military veterans, and minorities where the impact of the transition is being felt. Dominion was also planning 20 hiring events related to its offshore wind project alone and had trained over 1,000 employees to drive its environmental justice processes earlier in the design or procurement of a project.

We will continue to monitor the delivery of Dominion's energy transition strategy, including how the company tracks key performance indicators such as net jobs created/lost and the quality of its community engagement.

Michael Yamoah
Themes: Climate Change, Wider Societal Impacts

Governance

Climate and biodiversity dominate 2024 proxy season

The 2024 vote season was beset by legal disputes as battle lines hardened between shareholders and fossil fuel companies resistant to change. In a more positive trend, biodiversity-related proposals made a strong showing.

Shareholders attempting to exercise their rights found themselves frustrated in the 2024 vote season as some companies resisted investor proposals. Across Europe, biodiversity-related resolutions were a growing trend with a focus on chemicals and pesticides, deforestation, deep-sea mining, plastics, AMR and animal welfare. In Asia and some emerging markets, there were signs of improvement in board gender diversity and independence, although worrying practices continued in some areas.

In 2024, we made voting recommendations at 14,701 meetings, covering 143,075 proposed resolutions. This was up from 12,963 meetings in 2023 and 128,181 proposed resolutions. Overall, we made at least one voting recommendation against management at 67% of meetings, versus 65% in 2023. For North America we recommended voting against management on 6,040 proposals, or 19%, versus 18% in 2023.

Climate change

In line with investor fiduciary duties, we consider recommending votes against directors at companies identified as falling behind peers in managing climate-related opportunities and risks, using various region and sector-specific climate risk indicators and team analysis. In 2024, we recommended voting against the re-election of directors or relevant proposals at 298 companies, due to concerns about insufficient management of climate-related risks.

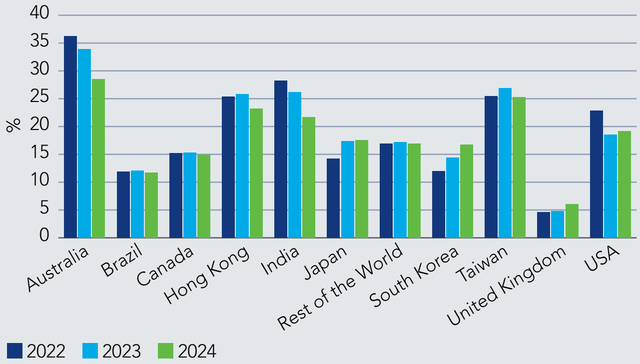
In the European market, there was an advisory vote on Shell's energy transition and a climate-related shareholder proposal from Dutch non-profit Follow This. Shell's recent scaling back of ambition in its medium-term transition targets, a lack of comprehensive indicators, and its relative loss of energy 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.

> **We also saw a range of climate-related shareholder proposals at financial services companies, addressing their role in financing different carbon-intensive sectors.**

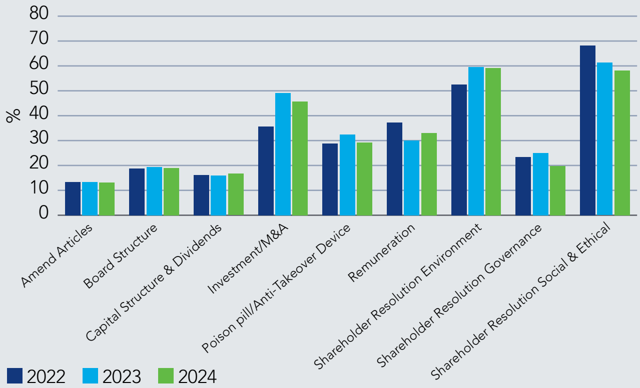
We also saw a range of climate-related shareholder proposals at financial services companies, addressing their role in financing different carbon-intensive sectors. EOS attended the annual shareholder meetings of Royal Bank of Canada, Bank of Montreal, Scotiabank, TorontoDominion Bank and the Bank of 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.

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. 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.

Proposals with recommended votes against management by key market, 2022-2024



Proposals with recommended votes against management by theme, 2022-2024



Source: EOS data

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. 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 generally ask 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.

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.

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 were pleased to hear the chair confirm that the company will make sure that no new products will contain substances of very high concern. The company noted our request on future reporting and said it would review its reporting on hazardous chemicals.

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 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

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 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 and inclusion

In line with our fiduciary duties to support board composition characteristics which, in our view, improve governance and the effectiveness of management in pursuit of long-term value creation, we consider recommending a vote against the re-election of responsible directors where we do not see clear indicators of cognitive diversity.

In Europe, we support a goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as non-binary), race and ethnicity, and other diversity traits such as LGBTQ+ and disability. Where best practice or listing rule obligations exist in a country, we expect companies to adhere to these at a minimum. 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 look 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, our guideline is for companies to demonstrate 40% or more overall diversity across a range of indicators as available, reflective of good management of inclusion. This is in line with our fiduciary duties to enhance long-term value at each company.

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 developed Asia and emerging markets we still came across instances of all-male boards that gave cause for concern, given the more diverse board perspectives increasingly being acquired by peers. At Power Grid Corp of India, we recommended voting against the election of a new male non-independent director, in the absence of nomination committee members or the board chair being up for election. At Grupo México, which has historically maintained an all-male board, the company continued to bundle the director elections and failed to disclose information on candidates prior to the AGM, which led us to recommend voting against the slate of directors.

For 2024, we tightened our board gender diversity criteria to 15% in Japan and South Korea. This was to signal our minimum expectation of around two female directors and in anticipation that companies achieve the long-term ambition of 30% women on boards by 2030. This resulted in more recommendations of votes against for board gender diversity in both markets. We recommended voting against the longest tenured independent director at Posco, and against the presidents of Keyence, SoftBank and Omron. We observed progress in the appointment of mostly outsider female directors in Japan due to the government target and increasing investor pressure, but there is still a lack of female executive directors.

In general, it was positive to see that all-male boards in Hong Kong were becoming rare, as companies listed on the Hong Kong stock exchange needed to have at least one female board director by the end of 2024.

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.

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 held by Patrick Pouyanné. 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

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.

80 years or more, with no review or consideration of auditor rotation. In 2024 we recommended opposing the auditor and audit committee chairs for 258 companies, including Target, Dow, Goodyear, Sherwin-Williams, Archer DanielsMidland, Deere & Co, Kimberly-Clark, Coca-Cola and Johnson & Johnson.

Board independence

We continued to look for higher levels of independence to achieve more effective boards at companies in Asia and emerging markets. At Mexico's Cemex, we recommended a vote against the re-election of three directors with long tenures, two of whom had served on the board for over 25 years. We question the independence of long-serving directors as their tenures could indicate over-familiarity and insufficient challenge to management and other board members. In previous engagements and at AGMs, we had asked for a gradual refresh of the board to bring in new independent directors with skills aligned with the company's strategy, but Cemex did not take appropriate action.

In India, we observed increasing levels of board independence, but our concerns about the quality of independent directors remained. For example, we recommended voting against two directors at Reliance Industries, who were classified as independent by the company. They had indirect connections that raised concerns about their genuine independence, such as one director's firm providing legal services to Reliance Industries.

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.

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. 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, 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, updated disclosures, including a Scope 3 emissions disclosure, and the announcement of the company's withdrawal from the Independent Petroleum Association of America. 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.

Diana Glassman
Themes: Climate Change, Board Effectiveness

Voting escalations in 2024

EOS believes that engagement and voting go hand in hand. Below we have provided examples of significant votes where we have used our vote recommendations to clients to reinforce our engagement approach. Compiled by Elissa El Moufti.

Company	Sector	Engagement Objective/Issue	Escalation through voting
Meta Platforms	Software & Communication Services	Elimination of dual class share structure, to adhere to the one share, one vote principle	Following engagement on Meta's use of a dual class share structure, and in the absence of any indication from the company that it is looking to address this, we recommended that our clients oppose the chair and the longest tenured member of the compensation/governance/nomination committee at the 2024 AGM.
TotalEnergies	Oil & Gas	Separation of chair and CEO roles	Due to concerns about the impact on shareholder rights, associated with the board's decision not to allow a shareholder proposal on to the AGM ballot relating to the separation of the CEO and chair roles, we recommended voting against the lead independent director at the 2024 AGM.
Alphabet	Software & Communication Services	Board composition	We had ongoing concerns over board independence due to the potential conflicts of interests of several board directors and an unclear board refreshment process. This prompted us to recommend opposing the longest-tenured independent directors. We also had concerns about the multi-class share structure and board-level gender diversity.
Wells Fargo & Co	Financial Services	Worker voice and corporate culture, human capital management	We have long engaged with the company on labour issues and corporate culture following the sales practices scandal. More recently, we have been concerned by the allegations relating to discrimination, unpaid overtime, freedom of association, and other human capital issues, at various company branches and locations. As a result, we recommended opposing the human resources committee chair, in accordance with our human rights voting policy.
Toyota Motor	Transportation	Controversy linked to UNGC Principle 10: Corruption and bribery	Following reports that the company had falsified data relating to engine emissions and fuel performance, we recommended voting against the re-election of the chair and a long-serving executive director. This was due to concerns about the failure to oversee internal controls related to the various instances of non-compliance with safety testing procedures.
Tesla	Transportation	Declining board independence, ESG disclosures	We have engaged with the company since 2019 asking it to improve ESG disclosure, and since 2020 have had concerns about a decline in board independence. This prompted us to recommend opposing the re-election of both director nominees at the 2024 AGM. Our recommendation to vote against director Murdoch in his capacity as the standing member of the nomination and governance committee, related to concerns over the classified board structure, low diversity, diminished board independence, inadequate disclosure of climate-related risks and pledging of company stock. We also recommended a vote against the re-election of Kimbal Musk due to board independence concerns.
McDonald's	Retail & Consumer Services	Human rights, executive remuneration, corporate culture	Following engagement with the company on human rights, we recommended opposing the chair of the sustainability and corporate responsibility committee. This was in accordance with our human rights policy and due to persisting allegations of discrimination, harassment, and other labour issues. We also recommended opposing the compensation committee chair and the say-on-pay proposal due to concerns about pay structure and quantum.
Berkshire Hathaway	Financial Services	Misalignment of pay and performance, board gender diversity	While we were supportive of the say-on-pay item in 2023, we disagree with the compensation committee's decision to abdicate compensation decisions for the vice chairs to the chair/CEO. As a result, in 2024 we recommended that clients withhold their vote for the chair and members of the compensation, nomination and governance committee. This was due to concerns regarding the impact on shareholder rights, the low gender and overall board diversity, the board's responsiveness to shareholder concerns and the performance of the remuneration committee.
Amazon.com	Retail & Consumer Services	Freedom of association, data collection for enhanced health and safety management	We have engaged with the company on human rights, due to concerns about its stated policies on respecting freedom of association. We have engaged on health and safety as the company's stated improvements on health and safety run counter to reports from workers and third parties alleging anti-union behaviour, health and safety violations, and other labour issues. Due to these concerns, we recommended opposing the longest-standing member of the leadership development and compensation committee, in accordance with our human rights voting policy.
Anglo American	Mining & Materials	Gender diversity	The company does not align with the Financial Conduct Authority's targets for board diversity. These require at least one woman to be in a senior board position - the chair, senior independent director, CEO or CFO. As a result, we recommended voting against the chair in his capacity as nomination committee chair.
Tyson Foods	Consumer Goods	Human rights: labour rights in the supply chain; dual class shares	Following our engagement with the company on human rights and the multiclass share structure, we recommended opposing the governance chair. Despite the enhancements made to the company's human rights reporting mechanisms following the child labour related controversies, we do not see sufficient evidence through its reporting and disclosure that human rights risks are sufficiently addressed.
SoftBank Group	Software & Communication Services	Governance and succession planning	Following engagement with the company on its succession planning to mitigate the key-man risk related to the combined chair/CEO, the board structure and board gender diversity, we recommended a vote against the re-election of the combined chair/CEO.
Naspers	Retail & Consumer Services	Board composition, remuneration structure	Following the company's lack of response to our engagement, and the consistent opposition of minority shareholders to the remuneration policies over the last few years, we recommended a vote against the re-election of the remuneration committee chair.

Q&A: Key updates to global voting policy guidelines

Richard Adeniyi-Jones
Theme co-lead: Human Capital

Dana Barnes
Themes: Executive Remuneration, Human and Labour Rights

Each year we update our global voting policy guidelines, which inform the recommendations we make to our clients. Going into 2025, we identified several focus areas, including company culture, executive remuneration and climate change.

Q. How do we consider the oversight of company culture by boards and directors? Have we made any updates to our voting policies in relation to this?

A. In our view, creating an inclusive culture can be linked to positive company performance through outcomes such as lower attrition and a more productive and fulfilled workforce. We encourage companies to put in place effective board oversight and management structures across the employee lifecycle. Therefore, we seek to hold boards accountable for more effective oversight of human capital across all levels of a company's workforce.

We believe that boards and directors are ultimately responsible for the culture of a company, and should therefore have effective oversight of an inclusive culture and diversity across all levels of the company's workforce. Where we believe that companies are failing to do so, we will seek to engage on the topic, and potentially recommend votes against directors who we identify as being most responsible for the topic.

As part of last year's voting policy review process, we sought to raise our minimum criteria in areas where board progress has been slower, such as in Japan and South Korea. We also harmonised our committee independence guidelines for all countries across Asia and Global Emerging Markets (GEMs). We now encourage all companies to have a fully independent audit committee (where one is present), and majority independence of the nomination and remuneration committees (where present), with an independent chair and no executives on the committee.

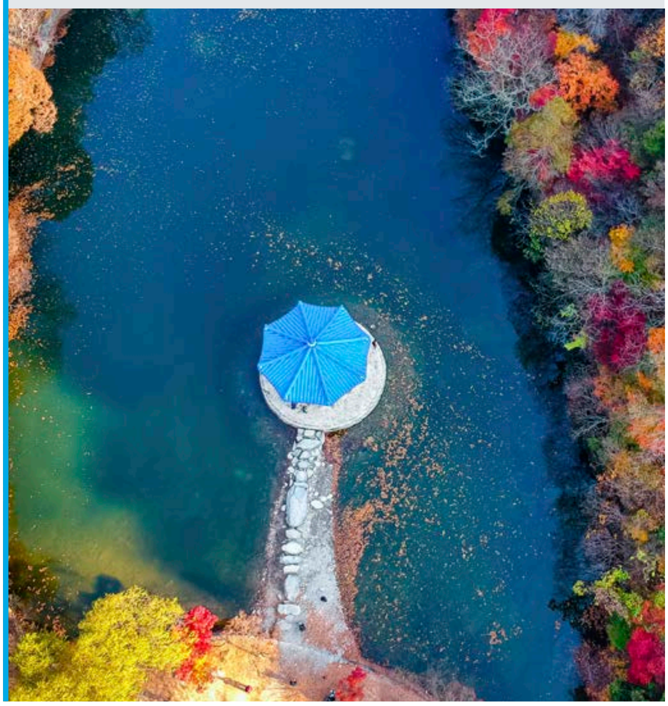
As part of our updates for 2025, we are adjusting how we escalate our voting approach on gender diversity for companies in the Asia/GEMs region. In most markets, where we would like to recommend votes against directors for insufficient progress on gender diversity, we will target the nomination committee chair and members, including independent directors on the committee. This marks a shift from our previous approach of targeting executives, and aligns more closely with our approach in other regions, which seeks to hold the nomination committee accountable for the task of increasing board independence.

> **We believe that boards and directors are ultimately responsible for the culture of a company.**

In some markets, where there is a lack of disclosure or the appropriate committees, we will adopt a more case-by-case approach. For European countries, we are aware of the upcoming EU Women on Boards Directive, which requires that, by mid-2026, every company listed on a stock market within the EU needs to have at least 40% female non-executive directors, or a female representation of executive and non-executive directors of at least 33%. We will engage with companies on this topic ahead of the Directive's implementation, and will look to update our voting policies accordingly ahead of the 2026 voting season.

Q. We have also seen increasing demand from investors to hold boards and directors accountable for strategy decisions and company performance. How do we integrate this into our voting approach?

A. We generally consider strategic decisions and capital allocation as part of our ongoing assessments of boards and directors. However, in certain markets we continue to integrate capital allocation as part of our formal assessment when recommending votes on director elections.



For example, during 2024 we piloted an engagement and voting approach for a target list of companies whose price-to-book ratio was consistently trading below one. A significant portion of these companies were South Korean, but some companies in Europe and the Americas were also identified. Following the success of this approach, we will maintain this policy, and will consider expanding the criteria and target list of companies in future years.

This builds on a similar approach that we have taken in Japan, where we continue to implement our vote policy to oppose directors of companies with cross-shareholdings exceeding 10% of net assets.

> **We believe that executive pay must be accompanied by robust justification, and disclosure on how the broader stakeholder experience has been taken into account.**

Q. Are we making any major changes to our policy or engagement approach for executive remuneration?

A. The debate around executive remuneration remained at the top of the agenda for many stakeholders in 2024, driven by broader conversations around market competitiveness and company ambition. We are aware of this, and are cognisant that executives at truly global organisations will receive remuneration that is commensurate with that at their global peers. However, we do not believe that this should be a justification for continual increases in pay quantum for all executive teams, particularly at a time when the broader workforce is navigating a high cost of living environment at a lower level of pay in real terms.

We believe that executive pay must be accompanied by robust justification, and disclosure on how the broader stakeholder experience has been taken into account. We welcome the Investment Association's revised Principles of Remuneration for the UK market, which encourage companies to consider flexible approaches that are different from the conventional bonus and long-term incentive plan (LTIP) packages used by many in the market. We see this as a good opportunity to re-emphasise our positive views on restricted shares-based packages, which aim to simplify executive remuneration. We continue to be supportive of companies seeking to make such changes.

In 2025, our voting approach will maintain its focus on priority issues such as excessive variable pay and poor alignment with shareholder interests. We continue to see high shareholding requirements as an important factor in demonstrating alignment, and will consider recommending votes against remuneration structures where we feel the levels required are insufficient.

Q. Have we made any changes to our climate change voting policy this time?

A. In our view, it is important to review our benchmark indicators of good practices on a regular basis, in order to recognise improved company performance while also seeking to continue capturing companies that appear to be failing to adequately manage climate-related risks.

The Transition Pathway Initiative's Management Quality score continues to form a part of our voting approach to climate-related issues. To develop a more nuanced approach, we now consider certain sub-criteria below different levels when making an assessment of overall risk management in addition to the headline score.

We use several other assessments and watchlists as part of our broader climate change voting policy, and will be making further updates to how we integrate these for 2025. For example, we plan to use a benchmark assessment of methane-leak risk management at upstream oil and gas companies as an indicator of potentially poor climate-related risk management. Other indicators that we use include those covering potentially inadequate risk management of deforestation and a wider appraisal of the quality of climate-related risk and opportunity management.

Overall, in common with the appraisal of governance quality across many different dimensions of company performance, we recognise the challenge in relying on third-party indicators of climate-related risk management. For this reason, we have increased the range of indicators considered and we seek to engage with companies to inform our final approach to voting recommendations, where practicable.

CASE STUDY

AstraZeneca

AstraZeneca is one of Europe's leading pharmaceutical companies. In 2014, as part of its defence against the Pfizer takeover bid, it announced an ambitious revenue target. We engaged on the robustness of succession planning and compensation alignment.

Our engagement

In 2014, we initiated engagement on the company's long-term revenue target, which was the basis of its defence against Pfizer's takeover bid. We signalled the importance of shareholders holding the board to account on this commitment, and heard of the chair's intention to tie management incentives to long-term targets.

We held regular meetings with the company between 2015 and 2024, including with the chair, to ensure that progress was made. We were given assurances over the commitment to tie remuneration to the long-term strategy. We encouraged the company to disclose performance against confidential metrics in the long-term incentive plan (LTIP), noting that this would provide transparency and accountability while protecting commercial interests.

By 2019, the company had made notable improvements, including the simplification of the bonus structure and greater disclosure on targets, thresholds, performance and outcomes. We also discussed succession planning for the CEO. With the chair also likely to reach the end of his tenure, we raised concerns about the senior independent director's capacity to effectively support the CEO succession, given his additional roles as remuneration committee chair, and CEO of another company.

We believed that robust succession planning at the CEO and board level was essential to ensure strategy consistency. While the CEO's departure was still a few years away, we highlighted our concerns, but heard that the company was confident in its internal talent pool, and that the CEO was focused on ensuring business performance post-departure.

We met the outgoing chair in 2021 and reviewed the progress on CEO succession planning, again hearing that the company was confident in its internal pipeline given that the CEO had retained a strong executive team. In 2023, we requested greater clarity over the progress made, including how far the company had gone to identify and develop internal candidates, especially with the CEO's 11-year tenure coming under the media spotlight.

Changes at the company

In April 2023, we welcomed the appointment of one of the existing board directors as chair. We were also pleased to learn that the company had achieved its ambitious target, announcing annual revenues of US$45.8bn. In April 2024, AstraZeneca became the UK's largest public company by market capitalisation.

Early in 2024, we met the new chair to gain an understanding of the strength of the internal pipeline for the CEO succession. We were pleased to hear that the chair was working to ensure that candidates for the role had gained experience across the business ahead of the formal selection process. We obtained reassurance over the diversity of this pipeline and that the company was also looking at external candidates.

Throughout our engagement on CEO succession planning, we raised concerns about the high level of variable pay, which increased significantly as recently as the 2024 AGM. The company had consistently justified such pay levels to retain a high-performing incumbent in a competitive global environment. We recognised the global competition for talent, but were not convinced that delivering such significant pay increases was warranted, especially if a robust internal CEO pipeline was available, as the company claimed.

This led us to recommend voting against the proposed remuneration policy at the 2024 AGM. Afterwards, we met the chair and obtained reassurance that a future CEO would not necessarily be remunerated under such a generous performance plan.

We also asked how the company would approach its next phase of growth. The chair espoused a strong continuity message, which was followed by the setting of another stretching revenue target of $80bn for 2030.

Will Farrell
Theme co-lead: Climate Change

Regional public policy highlights

Throughout 2024 we have participated in public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties to contribute to the development of policy and best practice. The aim is to protect and enhance value for our clients by improving shareholder rights. This is a selection of some of the key market trends and highlights.

Continental Europe

We continued to express our desire for greater access to board directors, including beyond the chair, in markets where this remained low, such as Scandinavia, Italy and Spain. We also outlined our growing expectation that companies should be clear about how their Paris Agreement-aligned climate transition plans are reflected in their audited accounts. Where it is material, we want the company to confirm what is being included in the audited accounts, how this is being assessed and the implications.

We provided informal feedback to the Finance Sector Deforestation Action (FSDA) initiative and the Institutional Investors Group on Climate Change (IIGCC) on the draft deforestation investor guidelines for commercial banks. Banks can be exposed to deforestation risks through the financial services they provide to companies that produce and/or use products contributing to deforestation within their direct operations or value chains. Banks that fail to address deforestation are exposed to financial risk through various channels, including physical risk, transition risk and failure to align with net zero.

We continued to express our desire for greater access to board directors, including beyond the chair, in markets where this remained low.

Developed Asia

We introduced a new policy in 2024, to identify and address potential corporate governance concerns in companies where the equity persistently trades at a price-to-book valuation of below one. In the absence of any mitigating factors such as highly regulated sectors, a protracted industry downturn or long-term structural challenges, a price-to-book valuation of below one signals that a company is being assessed by investors as potentially worth more liquidated than if it continues operating. It suggests that the directors, rather than creating value, are destroying it – or are viewed as doing so.

In formulating a global voting policy to address cases where the persistent undervaluation of companies may be the result of corporate governance concerns, we assessed 29 major markets. It became clear that the prevalence of companies with depressed price-to-book valuations was much higher in Japan and South Korea than elsewhere, suggesting there were systemic issues in these markets.

The Korean Stock Exchange published its Value-Up Index in Q4 2024, one of the measures aimed at incentivising companies to improve their valuations.

In our engagements with the Tokyo Stock Exchange, Japan's Financial Services Agency, and several major Japanese companies with depressed price-to-book valuations, we saw evidence that Japan had begun to address this problem. The Tokyo Stock Exchange, for example, has been vocal about this issue and requires companies to explain how they will address their undervaluation. In South Korea, on the other hand, there was no parallel policy. In our engagements, companies usually dismissed our concerns about hoarding cash, arguing for the need to be conservative.

Given this context, our new price-to-book voting watchlist included 30 South Korean companies and another 10 companies elsewhere. For South Korean companies outside those sectors where a persistent low price-to-book valuation might be explained by regulatory or other factors, we considered recommending voting against the re-election of directors.

In Q1 2024, South Korea's Financial Services Commission, the Korean Stock Exchange and other government entities launched an initiative aimed at reforming the capital markets and addressing the persistent undervaluation of South Korean companies. The 'Value-Up Programme' was based on voluntary disclosure and action by companies to address their undervaluation.

A few South Korean companies have since published their voluntary value-up plans, with different levels of quality and credibility. The Korean Stock Exchange published its Value-Up Index in Q4 2024, one of the measures aimed at incentivising companies to improve their valuations. A hundred companies were selected according to market capitalisation, profitability, payout ratios, market valuation relative to book value and capital efficiency.

UK

We submitted a further response to the UK Financial Conduct Authority's consultation on changes to the UK's Listing Regime, following the initial consultation period and publication of the finalised changes. We expressed disappointment that our feedback did not appear to have been taken on board, and that the proposed reforms were largely unchanged from the original proposal. In particular, we highlighted the removal of requirements for historical financial information for companies seeking to list, and the removal of shareholder votes on related party transactions, as having a negative impact on overall shareholder rights and protections.

We recognise that there is an increased focus on the competitiveness of the UK market, and we remain committed to ensuring that UK companies can grow and succeed in their home territory. We will continue to engage with all stakeholders in discussions on the UK market, and while we are supportive of initiatives to help drive competitiveness, we will work to ensure that this does not come at the cost of shareholder rights and protections.

US

In the US, we have been active within the Human Capital Management Coalition (HCMC), where our regional team lead for North America, Emily DeMasi, is vice-chair. The HCMC is a diverse group of influential institutional investors and their representatives, working to elevate human capital management as a critical component in company performance. The Coalition engages companies and other market participants with the aim of understanding and improving how human capital management contributes to the creation of long-term shareholder value.

As active members of the HCMC and in our role as vice-chair, we sent a letter to the US Securities and Exchange Commission (SEC) chair Gary Gensler. We asked the SEC to respond to the September 2023 findings and recommendations of the Investor Advisory Committee (IAC), regarding human capital management disclosure. We reaffirmed our desire for the Commission to propose rule amendments to standardise registrant disclosures around human capital management policies and practices.

We also participated in the second annual Workforce Valuation Summit, which focused on the workforce transition, shaped by climate change action and AI.

To recap, the HCMC has urged regulators and standard-setters to improve access to workforce data through a balanced approach, where principles-based disclosures are anchored by four foundational, decision-useful disclosures that apply to all companies. Those metrics are the number of full time, part-time and contingent or contracted workers directly involved in firm operations; the total cost of the company's workforce; turnover; and diversity data that allows investors to understand the nature and effectiveness of the company's efforts to access and develop new sources of talent.

We also participated in the second annual Workforce Valuation Summit, which focused on the workforce transition, shaped by climate change action and artificial intelligence. We asked why resources like those available through the Workforce Disclosure Initiative were not more widely adopted in the US. The response was that our focus should instead be on encouraging reporting on the four foundational disclosures.

Investors can encourage companies to complete government reporting requests.

We heard that local governments and economists were seeking more robust data on skillsets to support a just transition, given the impacts of climate change and artificial intelligence on the workforce. A representative from the US Chamber of Commerce acknowledged that companies face a heavy reporting burden from the government and outlined ongoing work to streamline reporting.

Investors can encourage companies to complete government reporting requests to create a more accurate picture of emerging trends and workforce transition needs. We will continue to seek opportunities to engage on public policy through the HCMC and engage with companies to disclose evidence that they have robust human capital strategies in place.

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