

# 2023 Annual Review

**LOTHIAN PENSION FUND**  
**Engagement Highlights**



During 2023 we renewed our commitment to being a responsible asset owner by producing our third Stewardship Report to maintain our status as a signatory to the UK Financial Reporting Council's Stewardship Code. EOS at Federated Hermes, provides us with breadth and depth of engagement coverage as well as overlaying analysis of environmental, social and governance matters into our voting activities. We sometimes also engage directly or through our membership of Climate Action 100+, the Institutional Investors Group on Climate Change and the Principles for Responsible Investment.

During the year we also became an investor supporter of the Global Investor Commission on Mining. Irrespective of engagement model, the goal at all times is to achieve good financial outcomes for our members and to encourage positive corporate behaviour for the benefit of society. We have committed to support the goal of transitioning the real economy to net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C by 2100 and we have adopted an approach focused on influencing positive real-world outcome.



**David Vallery**  
Chief Executive Office



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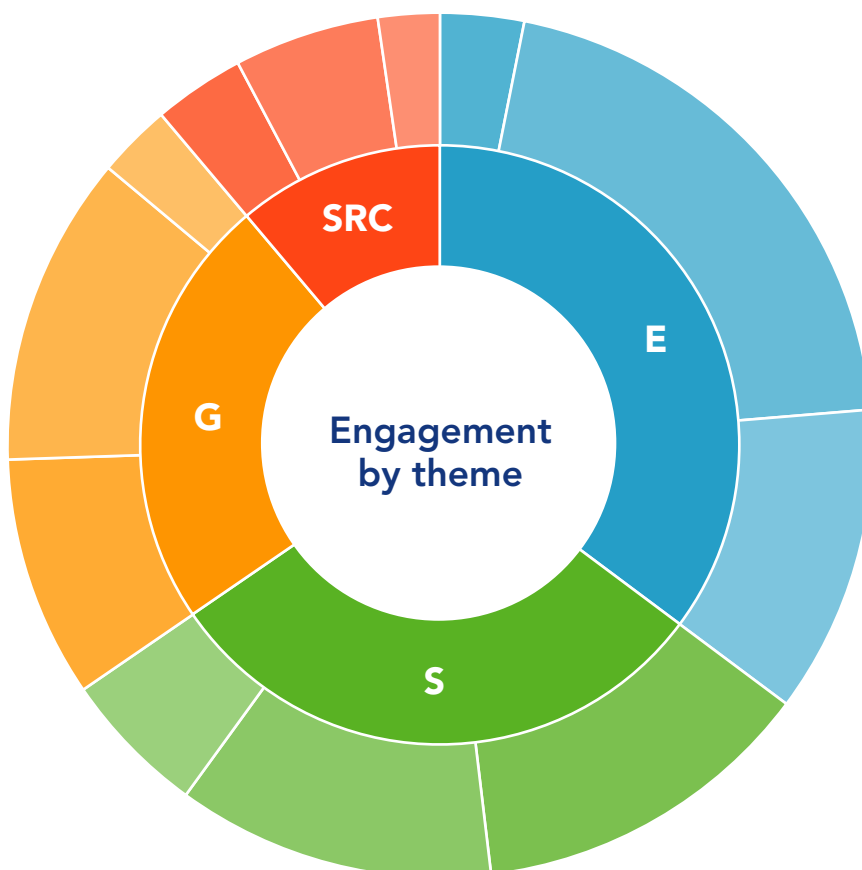
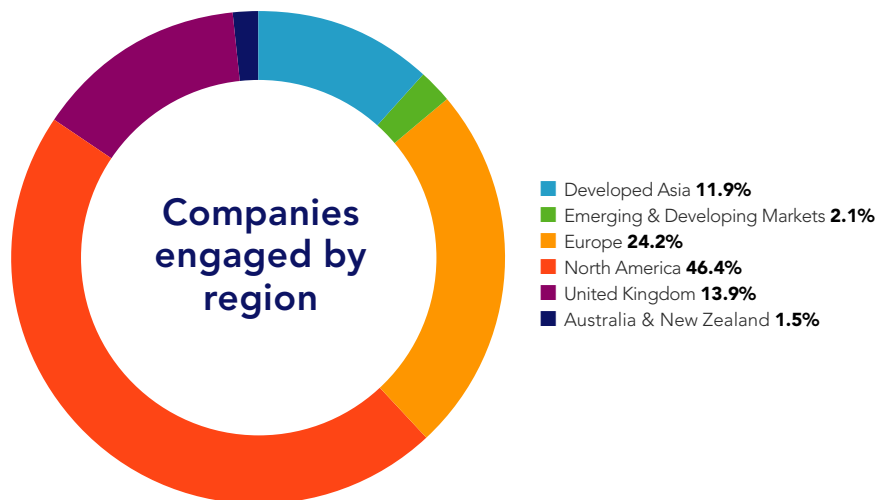
# Lothian Pension Fund's activity for 2023

## Engagement overview

In 2023, EOS engaged with **194** companies on **1,085** environmental, social, governance, strategy, risk and communication issues and objectives.

# 194

companies engaged



## Engagement by theme

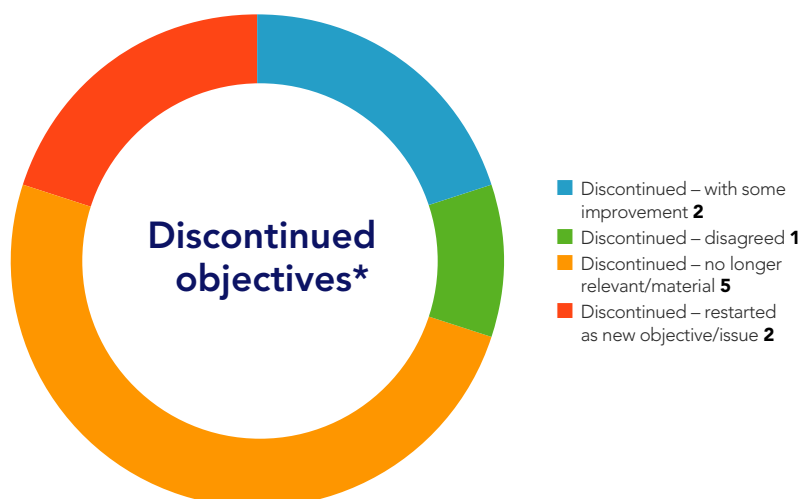
A summary of the **1,085** issues and objectives on which EOS engaged with companies in 2023 is shown below. Its holistic approach to engagement means that it typically engages with companies on more than one topic simultaneously.

- **Environmental 35.2%**
  - Circular Economy & Zero Pollution 8.9%
  - Climate Change 58.4%
  - Natural Resource Stewardship 32.7%
- **Social 30.2%**
  - Human & Labour Rights 42.7%
  - Human Capital 39.3%
  - Wider Societal Impacts 18.0%
- **Governance 23.4%**
  - Board Effectiveness 38.6%
  - Executive Remuneration 49.6%
  - Investor Protection & Rights 11.8%
- **Strategy, Risk & Communication 11.2%**
  - Corporate Reporting 30.6%
  - Purpose, Strategy & Policies 48.8%
  - Risk Management 20.7%



# 37

companies featured engagements with the CEO or chair



# 114

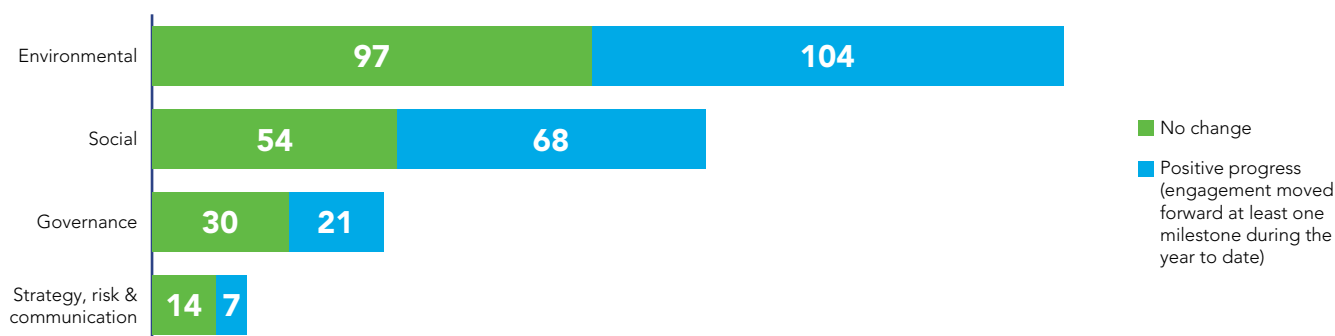
companies featured engagements with senior management or board members

# 121

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

## Engagement progress in 2023

EOS made solid progress in delivering engagement objectives across regions and themes. At least one milestone was moved forward for about **51%** 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.



## Voting overview

In 2023, EOS made voting recommendations on **7,789** resolutions at **513** meetings. At **329** meetings, votes were instructed to oppose one or more resolutions, and at **1** meeting, votes were instructed to abstain. **34** meetings were instructed in line with the recommendation to vote in favour by exception to EOS policy, and **149** supported management on all resolutions. **1,038** resolutions were instructed against management.

# 513

Meetings instructed

Please note: Double counting can occur if ballots for the same meeting have been voted in different directions.



## Supporting the UN Sustainable Development Goals

The chart below illustrates the proportion of **743** engagement objectives and issues on which we have engaged in 2023, which we believe are directly linked to an SDG (noting that one objective or issue may directly link to more than one SDG).



# The EOS approach to engagement

EOS at Federated Hermes is a leading stewardship service provider. Our engagement activities enable long-term institutional investors to be more active owners of their equity and fixed income assets.

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



## Advisory

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

## Our services



## Engagement

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



## Voting

We make recommendations that are, where practicable, engagement-led and involve communicating with company management and boards around the vote. This ensures that our rationale is understood by the company and that the recommendations are well-informed and lead to change where necessary.



## Public policy and market best practice

Engaging with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and investors can operate more 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.

## The EOS advantage

- Relationships and access** – Companies understand that EOS is working on behalf of pension funds and other large institutional investors, so it has significant leverage – representing assets under advice of over US\$1.4tn as of 31 December 2023. The team's skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards and executive management teams.
- Client focus** – EOS pools the priorities of like-minded investors, and through consultation and feedback, determines the priorities of its Engagement Plan.
- Tailored engagement** – EOS develops engagement strategies specific to each company, informed by its deep understanding across sectors, themes and markets. It seeks to address the most material ESG risks and opportunities, through a long-term, constructive, objectives-driven and continuous dialogue at the board and senior executive level, which has proven to be effective over time.

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

# Foreword



**Leon Kamhi**

Head of Responsibility and EOS

At EOS, we have been engaging with companies on material environmental, social and governance issues for two decades, and in 2024 we are very proud to celebrate our 20th anniversary.

2023 was an eventful year of record-breaking temperatures, signalling that the stakes for COP28 could not have been higher, and I was privileged to attend the summit in Dubai. In recent years there has been greater acknowledgement that policymakers and companies need to raise their ambitions around climate, and in Dubai I was encouraged to see fresh attempts to address some longstanding issues in the global energy and food systems.

For the first time, a deal was reached to transition away from fossil fuels in a just, orderly and equitable manner. We also saw a commitment by over 50 oil and gas companies to reach near zero methane emissions by 2030, and a pledge of over US\$7bn to help farmers reduce their emissions, and adapt to climate change through innovation and regenerative agriculture.

Such commitments are essential if we are to move away from carbon-intensive approaches and maintain the availability of energy and other essential consumer goods and services. The business case for doing so is becoming clearer, and something we emphasise in EOS's engagements.

At EOS we have long advocated for a just transition, because without a plan to make the transition to net zero one that considers the needs of the ordinary consumer and worker, it is unlikely to happen at the pace and scale required. Energy, food, and work are among our most basic needs. Making sure they remain available to, and affordable for all is therefore essential.

Progressive subsidies can play a role in boosting renewable energy supplies, while limiting food waste and reducing meat consumption can help mitigate environmental harm. Throughout 2023, EOS engaged with food manufacturers and retailers asking them to consider how they could positively influence consumer behaviour to encourage more sustainable choices.

Our engagement approach on the just transition also spans reskilling, local community impacts, and supporting customers through the energy transition. We also encourage companies to pay the living wage and provide sufficient hours – green economy jobs must be attractive to help build support for the transition.

## Nature increasingly at the fore

COP28 also presented an opportunity for countries to discuss the progress made since the biodiversity COP15, and to focus on effectively integrating nature into the response to climate change. Many countries pledged funding, such as the UK, which announced more than £85m to tackle global deforestation, but a large funding gap for nature-based solutions remains.

EOS has been at the forefront of advocating for the protection and conservation of the natural world and our related engagement has intensified. At COP28, Federated Hermes Limited announced its intention to work with the Global Alliance for a Sustainable Planet on innovative investment solutions. The ambition is to create a scalable platform that aligns impact-focused patient capital with the development needs of countries on the frontlines of climate change.

Some of the biggest challenges facing the transition to a low-carbon economy are social rather than simply technical. Therefore, successfully addressing climate change means considering financial and wellbeing impacts, particularly for those likely to be adversely affected by the transition. We aim to continue doing so through our engagement, which is carried out on behalf of our clients and their underlying beneficiaries.

Without a just transition there will be no transition.





# 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.

**In 2023, extreme weather-related events, ranging from wildfires in Canada and the Mediterranean, to floods in California and South Korea, served as stark reminders of the climate crisis. At the same time, the energy trilemma that defined 2022 – managing climate risks while ensuring energy security and affordable access to energy – continued into 2023.**

However, the US Inflation Reduction Act (IRA) of August 2022 underpinned an increase in renewable energy and clean tech investment,<sup>1</sup> and energy prices eased in many markets. This helped to reduce inflation pressures, although a cost of living crisis persisted.

Geopolitical tensions remained heightened in 2023, with no sign of an end to the war in Ukraine while the Israel-Gaza conflict threatened to undo years of progress in Middle Eastern diplomatic relations. We continued to engage with companies on how they addressed geopolitical risks facing their businesses and their approach to safeguarding human rights in high-risk regions.

## Priority themes

**In 2024, we will continue to focus on the most material drivers of long-term value, with our four priority themes:**



### Climate change

Our engagement remains focused on companies having a strategy and greenhouse gas reduction targets aligned with the Paris Agreement, seeking to limit climate change to 1.5°C, together with aligned financial accounts and political lobbying. The recent UN Emissions Gap report, which stated

that greenhouse gas emissions must still fall by 28% by 2030 to achieve the Paris Agreement 2°C pathway, and by 42% for the 1.5°C pathway;<sup>2</sup> highlighted the urgency with which companies and governments must seek to limit and reduce greenhouse gas emissions.

The recent UN Emissions Gap report stated that greenhouse gas emissions must still fall by

**28%** by 2030 to achieve the Paris Agreement 2°C pathway, and by 42% for the 1.5°C pathway.



We will evaluate the credibility of companies' transition plans, including their reliance on technologies, and seek to ensure that the governance oversight of investments adequately tests risks and dependencies. We will also continue to engage with companies in high methane-emitting sectors, encouraging them to deploy the best available technology to identify and mitigate methane emissions. We will engage on physical climate risks and work towards a just transition for employees and communities.



**Bruce Duguid**  
Head of Stewardship, EOS

<sup>1</sup> <https://www.ft.com/content/6f83ed81-28a5-46e9-98c4-a2bcf3d5b9fc>

<sup>2</sup> [Emissions Gap Report 2023 | UNEP – UN Environment Programme](#)

## Engagement themes for 2024-26



### Human and labour rights

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

We will engage on the protection of digital rights in the virtual world, such as challenges to the right to data privacy, the right to freedom of expression and protection from unfair biases that may be amplified by the use of artificial intelligence (AI). In 2021, the UN Guiding Principles (UNGPs) on Business and Human Rights reached their 10-year anniversary, and a roadmap for the next decade of implementation was laid out.<sup>3</sup> In engagement, we will continue to promote the corporate application of the UNGPs, and consider recommending voting against directors of companies where material breaches are not being adequately remediated, or if the company is a laggard on human rights benchmarks.

<sup>3</sup> OHCHR | UNGPs next 10 years project

<sup>4</sup> Race, Gender, and LGBTQ+ wage gaps are real – and they end up costing us all | DiversityJobs.com

### Human capital

In 2023 we saw gains in artificial intelligence (AI) revive fears about the potential negative impacts, including redundancies in creative roles and increased bias in hiring. The ongoing cost of living crisis also drove renewed interest in collective bargaining, as workers fought for improved pay and benefits. In recognition of these twin pressures, we are intensifying our engagement on upskilling workers.

We will maintain our focus on diversity, equity, inclusion and representation, asking companies to develop a strategy and action plan to close the ethnicity pay gap and to achieve proportionate ethnic and gender representation at all levels. We will also challenge companies to consider an expanded range of diversity metrics, including those related to employee engagement and a sense of belonging, upskilling and advancement. We will ask for pay gaps<sup>4</sup> for different groups, and for companies to report on workforce changes and wider employee engagement.

Our engagement on health and safety will extend to mitigating climate-related risks in the workplace, such as heat-stress. At the same time, we will continue our focus on mental wellbeing and the actions companies are taking to address and prevent sexual harassment in the workplace.



## Board effectiveness

In 2024, to enhance the quality of board performance and corporate decision-making, we will focus on ensuring that boards make improvements to ethnic diversity that at least match the recent progress on gender diversity. The goal should be to achieve a representation that is reflective of the diversity of the stakeholders the board aspires to serve.

We remain committed to improving a board's software, which relates to how it functions, in addition to its hardware, which relates to its composition and structure. The board should continuously monitor and assess the prevailing company culture to ensure it is in line with the company's purpose, strategy and values.

## Expanding themes

**In addition to the above priority themes, we will intensify our engagement on these rapidly evolving topics, which rose up the agendas of investors, companies and policymakers in 2023:**



## Biodiversity

We will focus our engagement on halting and reversing marine and terrestrial biodiversity loss at companies that are involved in the retail and production of food, including their global supply chains, as well as other sectors with significant physical or deforestation impacts, such as mining. We expect companies to reduce their impacts on biodiversity across the value chain, following the mitigation hierarchy, and to aim for a net-positive impact on biodiversity as best practice.

Depending on the specific company context, engagement will cover issues such as deforestation, water stress, regenerative agriculture, antimicrobial resistance (AMR), sustainable proteins and chemical runoff management. As we outlined in our white paper on biodiversity,<sup>5</sup> companies must identify, assess and measure their impacts and dependencies on biodiversity and ecosystem services, in line with the final recommendations of the 2023 Taskforce on Nature-related Financial Disclosures (TNFD)<sup>6</sup> and then identify action plans.



## Digital rights and artificial intelligence (AI)

We will continue to engage companies on our Digital Rights Principles,<sup>7</sup> which outline our expectations for the responsible development and deployment of AI. Digital products and services can play a critical role in strengthening human rights, but have also brought unanticipated harms and new challenges. 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.

**While the accelerating deployment of AI is creating new opportunities for companies, it also brings with it new risks, including potential workforce disruption, regulatory infraction or reputational damage.**

We expect companies to balance freedom of expression with their obligations to remove problematic content and take action to respect privacy rights online. While the accelerating deployment of AI is creating new opportunities for companies, it also brings with it new risks, including potential workforce disruption, regulatory infraction or reputational damage.

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

<sup>5</sup> Our Commitment to Nature ([hermes-investment.com](https://hermes-investment.com))

<sup>6</sup> The Taskforce on Nature-related Financial Disclosures (TNFD) launches its final recommendations | UNEP Finance Initiative

<sup>7</sup> 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.

# Building towards a better future

In 2023 we were able to strengthen our relationship building with companies by returning to in-person engagements, including several site visits to factories, following the end of pandemic restrictions. Bruce Duguid, head of stewardship at EOS, looks back over some of the year's highlights.

**It was a tough start to 2023 for many companies due to the combined headwinds of higher inflation, interest rates and geopolitical risks. Many economies were still in the grip of a cost of living crisis driven by food and fuel shortages in the aftermath of Russia's invasion of Ukraine. This squeeze was compounded by labour shortages resulting from higher-than-average retirement rates at the end of the Covid-19 pandemic.**

Given this challenging backdrop, we stepped up the intensity of our engagement on behalf of our clients and took advantage of the end of Covid restrictions to increase our in-person engagements. We also returned to making site visits to improve our understanding of business risks and opportunities, and to appraise company mitigation strategies. Some examples included:

- **India** – investor roundtables and meetings with ICICI Bank and KEC International at their company headquarters in Mumbai.
- **China** – site visit of Hon Hai's Zhengzhou manufacturing plant where engager Kenny Tsang spent time, including eating in the facility's canteen. We also visited Alibaba's campus to discuss its approach to mitigating artificial intelligence (AI) risks, and saw Geely's electric vehicle manufacturing site in Hangzhou.
- **United States** – we visited the Permian Basin and the Marcellus Shale to review the risks and opportunities for oil and gas operations and to investigate company activity. We had meetings with Kinder Morgan, ExxonMobil and EQT at their company headquarters.
- **Japan** – we made site visits to vehicle manufacturers Toyota and Honda.



**Bruce Duguid**  
Head of Stewardship, EOS

- **Netherlands** – site visit to ArcelorMittal's steel plant in Ghent to visit its new carbon capture and reuse plant, and to watch steel smelting being carried out.

We find site visits to be a valuable complement to senior level engagement. Physical presence enables our engagers to understand the scale and nature of operational risks more deeply, and the extent to which companies are taking steps to resolve these. For example, the visit I made to shale gas operations in Pennsylvania enabled me to understand the nature of methane leaks and how these are relatively easily solved through the application of higher quality gas exchange values, as well as the environmental and social risks around construction (high) versus operations (low).

Also, seeing the scale of the investment for green solutions at individual plants is a reminder of the need for a high degree of confidence in the green transition, and the ability of companies to take those decisions, based on current public policy frameworks and the cost competitiveness of certain green technologies.

Climate change remained our clients' top concern in 2023 and we continued to engage companies to set net-zero goals and 1.5°C-aligned targets, including as a lead or co-lead at over 20 companies as part of the collaborative engagement initiative Climate Action 100+. Important areas of engagement included asking for climate-aligned accounting, as well as seeking to limit methane emissions at oil and gas companies.



At COP28 in Dubai, we were encouraged to see a pledge by 50 companies to reduce methane emissions to near zero by 2030. And although the probability of limiting climate change to 1.5°C is reducing, governments maintained their commitment to the goal. For the first time, all countries agreed to “transition away from fossil fuels in energy systems, in a just, orderly, and equitable manner,” with 116 countries endorsing the aim to triple renewable energy capacity by 2030 and to double the rate of energy efficiency.<sup>1</sup> This positive momentum at the intergovernmental level, coupled with significant incentives to transition to low carbon, such as those provided by the US Inflation Reduction Act, will enable companies to continue to commit to 1.5°C targets, which remains our engagement goal.

Throughout 2023 we also focused on natural resource stewardship, in line with the Kunming-Montreal Global Biodiversity Framework (GBF). This was the result of many hours of negotiation, including contributions by EOS’s Sonya Likhtman as a representative and spokesperson for the Finance for Biodiversity Foundation delegation.

The GBF comprises four goals for 2050 and 23 targets to spur action up to 2030. Highlights include a commitment to effectively conserve and manage at least 30% of land and oceans and a pledge to restore at least 30% of degraded ecosystems.<sup>2</sup> This has enabled enhanced engagement on biodiversity, including on the impact of forever chemicals and pesticides. We explored this in two articles in our Q2 Public Engagement Report, and we explain more about our work with food manufacturers, commodity traders and restaurant chains in the Environmental section of this Annual Review.

Turning to social themes, we continued engaging on sexual harassment and discrimination in the workplace, building on our experiences of engagement in 2022 at Activision Blizzard and with mining companies Rio Tinto and BHP. Other workplace tensions centred around the right to unionise, particularly in the US, and the fight for better terms and conditions.



Bruce Duguid and engager Ross Teverson outside Alibaba's HQ, as employees prepare for a major shopping day.



Engagers Ross Teverson and Sonya Likhtman in Mumbai.

One of the year’s major disputes by creative workers – the Hollywood actors’ and writers’ strike – was driven by renewed concerns about the use of artificial intelligence following the release of ChatGPT. In the absence of effective regulation, EOS has been engaging on the business and wider societal impacts of AI since 2017. In 2022, we consolidated our approach to engagement on this topic under the wider sub-theme of digital rights. And in our Q3 Public Engagement Report we took a fresh look at the societal challenges posed by the potential misuses of AI, with examples of our engagements in the financial services sector.

### Documenting engagement outcomes

Over the last two years we have steadily increased the number of case studies that we provide, to document our engagements with companies on specific objectives and to demonstrate the value of active ownership. This follows the trend in responsible investment to respond to stakeholder expectations for greater transparency over the nature and results of active ownership. We continue to work on new ways to demonstrate positive outcomes arising from engagement, including through case studies, which identify the metrics of success.

We were pleased to win the Engagement Award at the ESG Clarity Awards 2023, celebrating those who have put their heads above the parapet by showing a continued dedication to sustainable investing and meaningful stewardship. Commenting on our award, the judging panel cited our market-leading engagement approach and expertise, and how we affect change at companies.

In 2024, we will build on the in-person meetings and site visits of 2023, seeking to achieve enhanced engagement at board level and executive team level. We believe that good governance is foundational to achieving positive outcomes and sustainable wealth creation, and so we continue to focus on improving board effectiveness, including through board composition. Building relationships with board directors and senior company management, while challenging them, is the best way to influence change. This helps us to achieve positive outcomes aligned with our clients’ long-term fiduciary duty to act in their ultimate beneficiaries’ best interests.

<sup>1</sup> Fossil fuel companies sign up to emissions reduction pact at COP28 (ft.com)

<sup>2</sup> What does COP15 mean for investors and companies? | Federated Hermes Limited (hermes-investment.com)



## Environmental

# Climate Action 100+ eyes road to 2030

Six years into Climate Action 100+, the collaborative engagement initiative that targets the world's biggest emitters has now launched phase two of its programme, set to run until 2030. Will Farrell examines how CA100+ is enhancing its strategy.

**The UN's first global stocktake on climate change served as a stark reminder of the significant physical climate risks in an economy misaligned with the goals of the Paris Agreement.<sup>1</sup> The UN's technical report, published in September 2023 ahead of COP28, concluded that the world was not on track to limit global warming to 1.5°C above preindustrial levels, and urged the raising of ambitions to accelerate the energy transition, with transformation needed on all fronts.<sup>2,3</sup>**

The northern hemisphere summer of 2023 was the hottest since global records began in 1880,<sup>4</sup> but despite this, and the other extreme weather events of 2023, countries' Nationally Determined Contributions (NDCs) still fall short of what is required to stay within 1.5°C. Consequently, the effective management of climate risks and opportunities by companies is essential to promote long-term shareholder value. CA100+ is responding to this need for urgent action by increasing its emphasis on the implementation of robust transition plans – disclosure and pledges are no longer enough.

Economic and geopolitical turbulence persisted throughout 2023, pointing to a more divided world than that which signed the Paris Agreement. Higher interest rates hindered the growth of renewables, as these are usually financed with significant levels of debt, with major offshore wind projects scrapped across several regions. However, the International Energy Agency's (IEA's) updated Net Zero Emissions (NZE) by 2050 Scenario<sup>5</sup> depicted economies transitioning away from all fossil fuels faster than previously expected, to remain aligned with 1.5°C.



**Will Farrell**  
Theme: Climate Change

## Raising the bar

Encouragingly, in the run up to COP28, policymakers started to raise the bar on climate action, with a methane charge on oil and gas producers in the US, carbon border adjustment mechanisms planned for the EU and the UK, and rekindled China and US relations signalling greater international collaboration on climate change. In tandem, the Science Based Targets initiative (SBTi) continued to publish sector pathways, providing glide paths for companies in hard-to-abate sectors. The challenge for companies is to develop transition plans setting out decarbonisation strategies in line with these pathways.

Investor engagement on climate change remains vital to help steward companies through the major transformation required to adequately manage climate risks. Phase two of CA100+ recognises this with an updated Net Zero Company Benchmark, to drive greater company ambition, plus new sector and thematic engagements. This new phase should support more intensive engagement on companies' decarbonisation strategies, capital allocation alignment, climate governance, and emissions performance.

<sup>1</sup> <https://unfccc.int/topics/global-stocktake/about-the-global-stocktake/why-the-global-stocktake-is-important-for-climate-action-this-decade>

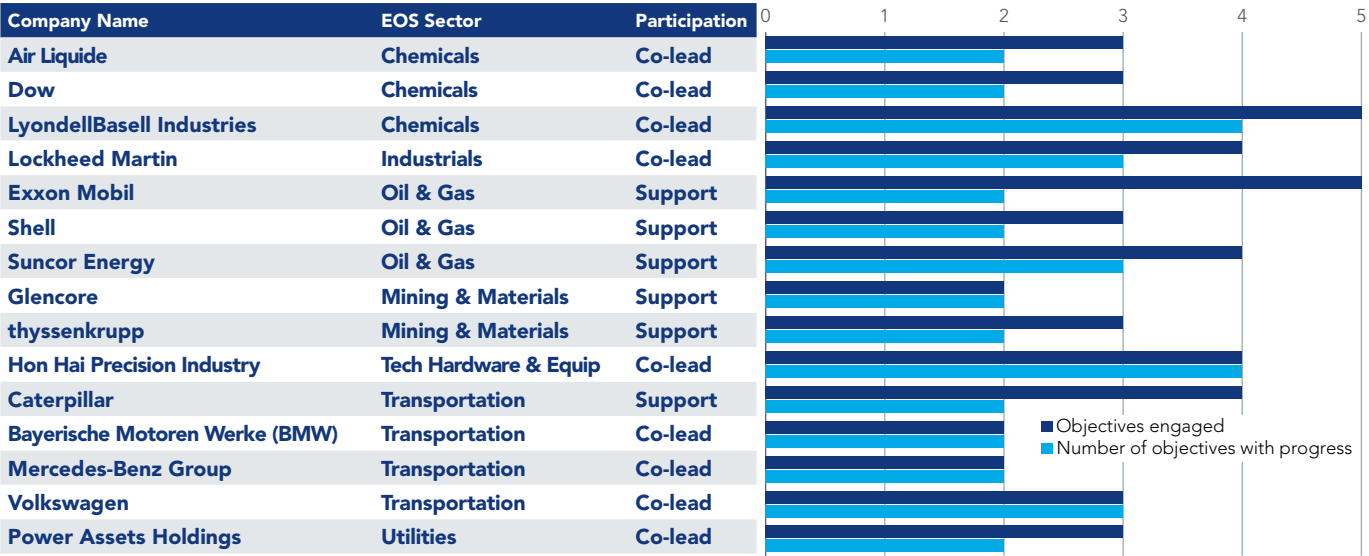
<sup>2</sup> <https://unfccc.int/news/implementation-must-accelerate-to-increase-ambition-across-all-fronts-taking-an-all-of-society>

<sup>3</sup> <https://www.theguardian.com/environment/2023/sep/08/un-report-calls-for-phasing-out-of-fossil-fuels-as-paris-climate-goals-being-missed>

<sup>4</sup> [https://www.nasa.gov/news-release/nasa-announces-summer-2023-hottest-on-record/#:~:text=The%20summer%20of%202023%20was,\(GISS\)%20in%20New%20York.](https://www.nasa.gov/news-release/nasa-announces-summer-2023-hottest-on-record/#:~:text=The%20summer%20of%202023%20was,(GISS)%20in%20New%20York.)

<sup>5</sup> Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach – Analysis – IEA

Progress of environmental objectives for selected CA100+ companies engaged by EOS, 2023



Source: EOS data

EOS will continue to play an active and important role within this global initiative, which has over 700 signatories, representing over US\$68tn in assets under management. Since the initiative’s inception, we have advised on high-level governance and engagement strategy, as well as leading or supporting a significant portion of company engagement dialogues. In 2023, we acted as lead or co-lead engager for 21 companies, while supporting on more than 30.

Investor engagement on climate change remains vital to help steward companies through the major transformation required to adequately manage climate risks.

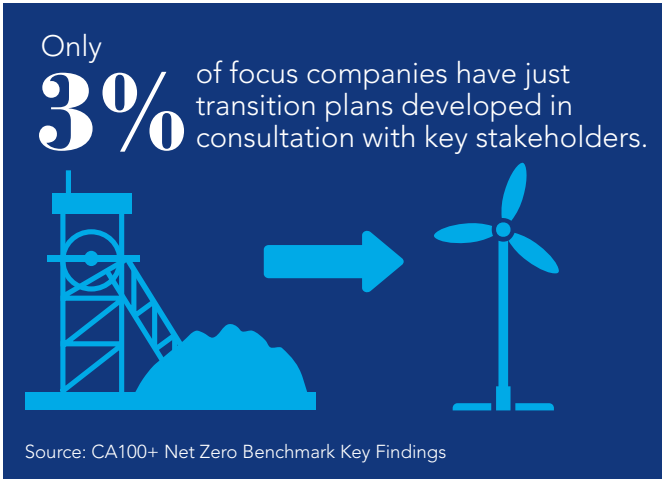
In October 2023, the CA100+ Net Zero Benchmark<sup>6</sup> tracked further progress with 77% of focus companies committed to net zero by 2050 across at least Scope 1 and 2 emissions. Also, 87% of focus companies had set medium-term emissions reduction targets, up from 81% last year. We expect to see more progress on target-setting as companies respond to the SBTi sector guidance. For example, following the publication of the SBTi cement pathway, Holcim and Heidelberg Materials published 1.5°C-aligned targets.

Some 93% of companies have now disclosed that there is board oversight of climate change, and 91% have aligned their climate disclosures with the TCFD recommendations. However, companies need to translate their climate ambition, risk management, and governance into credible decarbonisation strategies. Some 41% of focus companies have yet to disclose the decarbonisation actions they are taking to achieve their targets. And only 2% have already phased out, or are committed to phasing out, capital expenditure in unabated carbon-intensive assets.

Where companies have articulated transition plans, policy support is increasingly cited as needful, but only 31% of companies have committed to aligning their lobbying activities with the ambition of the Paris Agreement. This inconsistent messaging from companies can reduce policy action by legislators, dislocating decarbonisation incentives and stalling progress.

As the scale of the economic transformation required to achieve the goals of the Paris Agreement becomes increasingly apparent, companies run the risk of undermining their social licence to operate if they fail to act. Continued delay increases the risk of a disorderly transition, with negative social and economic consequences, particularly for those workers stranded in old economy industries.

To avoid this, companies should retrain and upskill workers for the low carbon economy, to ensure a just transition and buy in from communities where the company is a major employer. In phase two of CA100+, this will be an increasingly important benchmark pillar and we will engage with companies to develop just transition plans in line with best practices.



<sup>6</sup> <https://www.climateaction100.org/net-zero-company-benchmark/findings/>

## Challenging companies on climate action

In 2023, we continued to push for progress where companies lagged best practice, while also encouraging efforts where progress had been made. For example, we welcomed the reduction in carbon emissions at Stellantis in line with its commitments, and the development of a plan for transitioning to zero-carbon vehicles.<sup>7</sup>

In March, we led the CA100+ in-person meeting with ConocoPhillips, scrutinising the scenario analysis underpinning its capital allocation decisions. The company argued that it uses four scenarios, all of which are consistent with 1.5°C, but did not plan to adopt the IEA's NZE by 2050 Scenario. We asked the company to disclose the differences in assumptions between its internal scenarios and the NZE scenario. Since March, ConocoPhillips has explained that its internal scenarios assume an earlier use of direct air capture, nature-based offsets, and carbon capture and sequestration technologies. The credibility of these assumptions will be a focus of ongoing engagement.

Early in the year, we challenged Repsol on the inclusion of Scope 4 "avoided" emissions in its carbon intensity indicator. The company acted on this feedback, providing the relevant disclosure at its ESG day later in the year. We welcomed this, but continued to push on the ambition of its 2020 Scopes 1-3 emissions reduction target, given that this was almost achieved in 2022.

## Voting season focus

After a busy year of say-on-climate votes in 2022, we continued with intensive engagement in 2023 to inform the analysis distributed to CA100+ signatories and our vote recommendations to clients. However, as part of a wider market trend, some companies chose not to put their climate strategies to the vote this year. This was especially the case for oil and gas companies, which many investors suspected of stalling on climate strategy development.



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

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

## Planning to meet ambition

The value of strong emissions reduction targets will only be realised if company strategies can effectively transform businesses into something fit for the future. Increased scrutiny of decarbonisation strategies during collaborative engagements was therefore a key trend for 2023. This included encouraging the CA100+ focus companies' own value chain engagements, such as at Hon Hai, which has kicked off a supplier engagement programme to encourage progress on Scope 3 emissions reduction. In April 2023, EOS was invited to visit the Hon Hai production campus in Zhengzhou. As a CA100+ engagement lead, the visit provided us with significant insights into Hon Hai's net-zero commitment versus the on-site implementation, including via an exclusive presentation of the company's decarbonisation strategy.

For many focus companies, decarbonisation will not be linear and no single technology offers a complete solution. For example, the chemicals sector requires myriad solutions to decarbonise hundreds of different products, many of which remain nascent. This means that investors and their representatives must employ a holistic lens when engaging with companies, as the desired outcome may not be immediately obvious.

We have emphasised the importance of well-articulated and comprehensive transition plans across the chemicals sector. These go beyond serving investors assessing alignment with the Paris Agreement, because developing a comprehensive transition plan requires companies to confront abatement challenges and develop business models that capture the system transformation expected.

At Posco, we have asked for greater clarity over timelines for the company's implementation of hydrogen-powered steelmaking and how this is expected to transition the hard-to-abate sector. Continuing our co-lead role for Air Liquide, we are encouraging the company to provide a comprehensive and

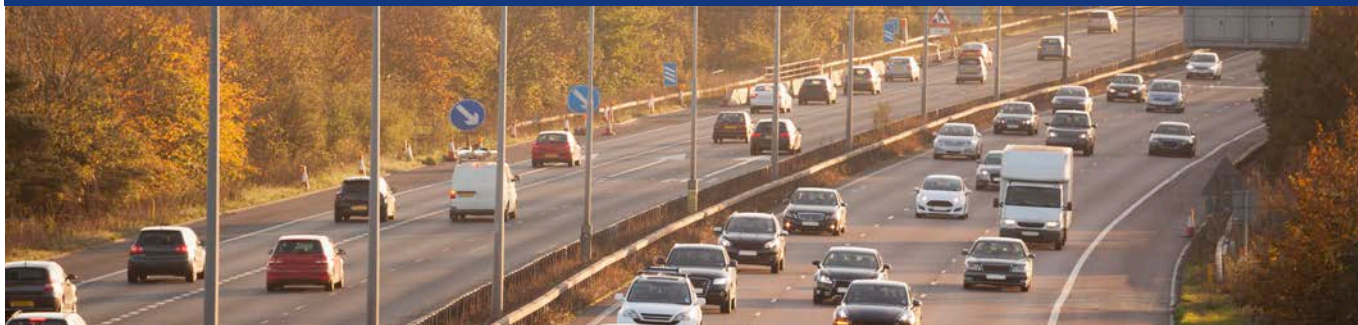
<sup>7</sup> <https://www.stellantis.com/en/responsibility/carbon-net-zero-strategy>





## VOTING CASE STUDY

## Volkswagen



**Our engagement with Volkswagen has focused strongly on climate lobbying since the start of 2019. We have asked the German automotive company to align with the Institutional Investors Group on Climate Change investor expectations on climate change-related corporate lobbying<sup>8</sup> and the new Global Standard on Responsible Climate Lobbying.<sup>9</sup>**

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

This shareholder proposal was rejected by the company, resubmitted in 2023, and again rejected. In February, we met with VW's public affairs department, which

confirmed that the company was planning to publish a report before the 2023 AGM. However, in the run up to the meeting we did not see any detailed drafts or a public commitment to publish the report.

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



**Lisa Lange**  
Sector lead: Transportation

coherent transition roadmap for the business, indicating implementation timelines for each green technology identified and how these will complement one another.

### The public policy challenge

In many sectors, companies are markedly reliant on the policy environment to guide how decarbonisation will look in different regions. For example, transitioning gas utility companies could opt for decarbonisation strategies based on district heating, electrification via heat pumps, or hydrogen heating. Companies are understandably unwilling to commit significant capital expenditure to one solution over another where policy has yet to guide investment. In these cases, we are asking companies to outline a roadmap for decision-making on technology, so that delayed policy guidance does not perpetuate planning for business-as-usual.

It is important for companies to develop strategies to reduce their emissions footprint, but we recognise that public policy and technology development will play a crucial supporting role. Companies must assess and disclose the financial consequences of the risks and opportunities that arise from their own climate-related actions and the systemic economic impacts of the energy transition and climate change. We are therefore increasingly scrutinising and engaging companies to ensure that their lobbying of policymakers helps rather than hinders the development of responsible climate policy.

At Repsol, Centrica, LyondellBasell and Danone, where we co-lead CA100+ engagements, we were pleased to see these companies working to improve transparency and the Paris Agreement alignment of their lobbying activities – for example, by reviewing the Global Standard on Responsible Climate Lobbying. We closely monitor company performance on this indicator in the Net Zero Benchmark.

<sup>8</sup> <https://www.iigcc.org/resource/investor-expectations-on-corporate-lobbying/>

<sup>9</sup> <https://climate-lobbying.com/>

## Q&A: Natural Resource Stewardship



**Sonya Likhtman**  
Theme co-lead:  
Natural Resource Stewardship



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

Throughout 2023, worrying reports of deforestation, water pollution and soil depletion continued to dominate news headlines, ensuring that preservation of biodiversity and the natural world remained high on the investor agenda. There is a growing recognition of the financial risks associated with companies' impacts and dependencies on nature and the ecosystem services it provides. These services include pollination, water quality management and fertile soils, all vital for life to thrive.

We responded to this challenge by engaging with companies in the sectors with the biggest exposures, such as food and beverage producers, encouraging them to develop strategies to avoid and mitigate their most material impacts on nature, whilst aiming for an overall net-positive impact.

### **Q. How did we engage on deforestation in 2023? Can you give some examples of successful engagements?**

**A.** We deepened our engagements on deforestation with food and beverage companies, commodity traders and fast fashion companies. Companies in these sectors source or produce soy, coffee, beef and leather, rubber, and pulp and paper – commodities commonly linked to deforestation, particularly in the Amazon rainforest.

We expect companies to commit to deforestation-free and conversion-free production and sourcing by 2025. The commitment should cover all commodities, regions and suppliers, including indirect suppliers. We encourage a commitment to achieving full traceability of commodities across all tiers of the supply chain, to demonstrate that the company's value chain is deforestation and conversion-free. There should also be an explicit commitment to respect human rights. Companies should focus on the implementation of this commitment by articulating a clear strategy for how their operations and supply chain will become deforestation and conversion-free. This includes setting clear expectations for suppliers and creating

mechanisms to enforce them. Ongoing due diligence and monitoring of suppliers and operations will be critical for effective implementation. Equally, ongoing collaboration will be necessary to tackle this complex issue.

We have seen progress from General Mills, following our engagements on deforestation in 2022 and 2023. We encouraged the company to set a commitment for its supply chain to be deforestation-free by 2025. It had previously shown some resistance to this, but in our most recent engagement in Q3 2023, its chief sustainability officer agreed to consider setting a deforestation-free target by 2025.

We also continued to engage on deforestation through the Finance Sector Deforestation Action (FSDA) collaborative initiative. Following the letters on deforestation that we sent to the target companies as part of the FSDA group, we had good engagements with numerous companies on the FSDA list. This included Adidas, a German sportswear apparel company, Yum! Brands, a US restaurant chain, Cargill, a global soft commodities trader, Bunge, a US agribusiness and food company, and Archer-Daniels Midland, a food processing and commodities trading company.

For example, we met with the chief sustainability officer of Yum! Brands on multiple occasions as part of our direct engagement, and with the FSDA collaborative engagement, and asked the company to increase commodity traceability in its supply chain. It underlined the challenge of tracing the soy in its cattle feed back to its origin. We shared some deforestation tools that the company could use to help improve traceability, which it agreed to consider.

We also engaged with Brazilian meat supplier JBS for a second time through the collaborative FSDA engagement to discuss enhancements to its deforestation due diligence process. Although the



**We have seen progress from General Mills, following our engagements on deforestation in 2022 and 2023.**

company has a commitment to achieve 100% traceability of its supply chain by 2025, we raised our concern about a recent controversy related to the purchase of cattle by JBS from a rancher involved in deforestation. We challenged the company on the lessons learned and how it could prevent this from happening again. The head of sustainability said that the due diligence process that feeds into the purchasing system had been enhanced to include a reputational assessment of the supplier, its subsidiaries and related companies, the individuals that control them, and their family members. We asked the company to confirm if its data on supplier due diligence was independently verified.

Our vote policy has included a deforestation dimension for several years, targeting those companies and financial institutions that are lagging on deforestation disclosure and risk management. In 2023, we recommended voting against the election of directors at food companies such as WH Group and Toyo Suisan Kaisha, and at financial institutions such as Charles Schwab and AIG due to deforestation concerns.

**Q. We also increased our engagement focus on pesticides and regenerative agriculture. What did we ask companies to do in this area?**

**A.** We're seeing more companies turn towards regenerative agriculture as a way to limit their contribution to land use change and pollution, both drivers of biodiversity loss. Regenerative agriculture can also help to reduce, and even sequester carbon emissions from agricultural supply chains. Common practices include reducing tilling in farming to avoid releasing carbon from the soil, reducing the use of fertiliser and pesticides to avoid pollution and the degrading of soils, and ensuring crop rotation to put nutrients back into the soil. We continued to engage companies on their targets and strategies to implement regenerative agriculture in their supply chains, and encouraged them to measure the outcomes of their approach on soil health, water, carbon, and biodiversity.

Our focus on reducing pesticide use is important because pesticide runoff can cause widespread pollution and contaminate soils, water and air. We expect companies to oversee how pesticides are used within their agricultural supply chain. This may include mapping their exposure and setting expectations for suppliers to limit pesticide use, starting with eliminating the most hazardous pesticides. Our engagement on pesticides is in line with the Kunming-Montreal Global Biodiversity Framework (GBF) which sets out the need to reduce the overall risk from pesticides and highly hazardous chemicals by at least half.

We also expect companies to monitor and respond to the potential regulatory and reputational risks associated with the misuse and overuse of pesticides. The EU has strengthened its focus on hazardous pesticides. Within its Farm to Fork and biodiversity strategies for 2030, it



**We continued to engage companies on their targets and strategies to implement regenerative agriculture in their supply chains.**

targets an overall 50% reduction in the use and risk of chemical pesticides and a 50% reduction in the use of the most hazardous pesticides. There is also a goal for at least 25% of EU agriculture to be organic by 2030.

The Swiss food manufacturer Nestlé integrates regenerative agriculture as a lever in its decarbonisation strategy to reach its net zero ambition by 2050. Nestlé has committed to sourcing 50% of its key ingredients through regenerative agriculture by 2030. We have encouraged members of its management team to set an ambition to reach 100% of ingredients from regenerative agriculture by 2050.

In the US, Kellogg's, the cereal and snack manufacturer, aims to support one million farmers in transitioning to regenerative agriculture. In engagements with Kellogg's chief sustainability officer, we challenged her to measure and disclose the impacts of Kellogg's work on land and biodiversity, and she agreed to consider this. General Mills, another US food giant, also has a commitment to widen regenerative agriculture to one million acres of land. The company told us about the results of its pilot on regenerative agriculture, and we encouraged it to share its learnings with the industry to help elevate this work.

We have also raised the topics of regenerative agriculture and pesticides in our discussions with agrochemical companies. For example, we had several engagements with Bayer around crop protection product reformulation to reduce the damage to the environment from its products.

Our public policy work is aligned with our engagement on regenerative agriculture and pesticide use. In 2023, we co-signed an investor statement coordinated by the Farm Animal Investment Risk and Return (FAIRR) initiative calling on G20 finance ministers to repurpose their agricultural



subsidies in line with climate and nature goals. This statement follows the GBF's target to identify incentives, including subsidies harmful for biodiversity by 2025, and eliminate, phase out or reform them in an effective way.

**Q. Water pollution and water scarcity were also in the news in 2023. How did we engage on these topics?**

**A.** Water scarcity and pollution pose a risk to human and ecosystem health, as well as a financial risk to nearly all economies. We have focused our engagements on food and beverage, and mining companies, due to their significant impacts and dependencies on water use and pollution. We expect companies to avoid negatively impacting water availability in water-scarce areas, throughout their supply chains. We encourage companies to set time-bound, science-based or contextual targets to reduce water use in areas of high water stress.

We also expect companies to consider water quality in their targets and to reduce their contribution to water pollution. This can come from agricultural runoff for agrifood companies, or heavy metal pollution for mining companies, among other sources. We expect water scarcity and pollution to be identified as long-term business risks, which are discussed at board level and effectively overseen.

We have raised the topic of water in engagements with Australian mining companies including BHP and Rio Tinto. We met with BHP's head of environment in Melbourne in May 2023 to discuss natural capital accounting and to outline our expectations around water management. We were pleased to see BHP set context-based water targets in June.

We have also engaged US food and beverage companies Domino's and Yum! Brands on water through the Ceres Valuing Water Finance Initiative (VWFI). Early in 2023, we held multiple engagements with Domino's head of legal to encourage the company to conduct a water risk

assessment across its entire value chain. We were pleased to see the company take our recommendation on board. It conducted a water risk assessment and presented its findings in our next meeting. We then asked the company to develop targets to reduce water use and pollution in areas of high water risk, and to set out a clear strategy outlining how it planned to work with its suppliers to reach its targets.

**Q. You've already mentioned our participation in collaborative initiatives such as FSDA and Ceres VWFI. Are we involved in any others?**

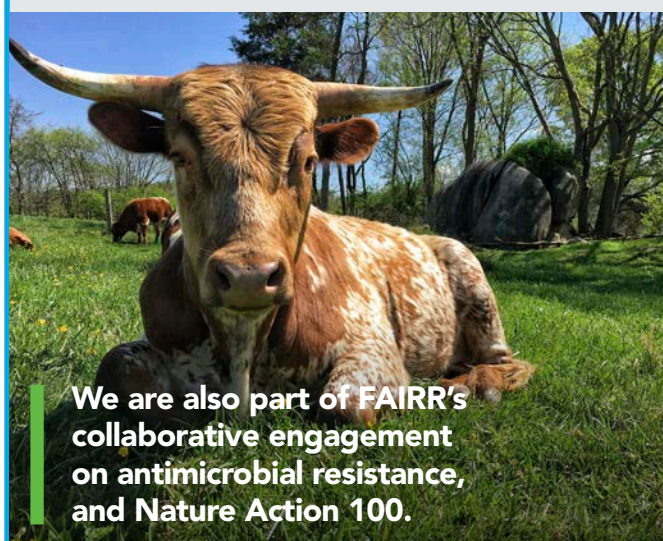
**A.** We are also part of FAIRR's collaborative engagement on antimicrobial resistance (AMR), and Nature Action 100, a new collaborative engagement initiative on biodiversity launched in 2023. We were really pleased to see the initiative kick off, with letters sent to 100 companies asking them to consider including nature in their business models, strategies, and climate transition plans. We look forward to engaging companies across the food and beverage, mining and chemicals sectors in 2024.

We also signed up to the UN PRI's Spring initiative for nature. This will focus on preventing biodiversity loss by engaging companies on their advocacy work on deforestation. We are members of the signatory advisory committee for this group and have held regular meetings to provide input into the investor statement and the methodology developed to select target companies.

**Q. What else can we expect for 2024?**

**A.** We expect our engagements on nature and biodiversity to deepen in the coming year. The publication of the Taskforce on Nature-related Financial Disclosures (TNFD) framework will stimulate and accelerate the assessments and disclosure of nature-related impacts and dependencies by companies. With more nature-related disclosures available, we can strengthen our engagement on biodiversity target-setting and strategies.

We will continue to focus our public policy work on effective implementation of the GBF. In 2023, we presented to the World Bank Coalition of Finance Ministers for Climate Action in our capacity as co-chair of the Finance for Biodiversity Foundation Public Policy Advocacy working group. We highlighted some of the ways in which finance ministers can play a role in supporting the private finance sector to address biodiversity loss. This includes setting nature-related disclosure requirements, requiring transition pathways, integrating biodiversity risks alongside climate risks, and creating economic incentives for businesses to incorporate nature into decision-making. The success of the GBF comes down to its implementation, so this should remain a priority for all stakeholders in 2024 and beyond.



**We are also part of FAIRR's collaborative engagement on antimicrobial resistance, and Nature Action 100.**



## CASE STUDY

## AP Møller-Mærsk



**AP Møller-Mærsk is one of the world's largest shipping companies, operating in 130 countries with over 100,000 employees. Its global container shipping activities form part of an end-to-end logistics and services offering, including inland haulage. It is one of the world's top 100 carbon emitters and was therefore included in the Climate Action 100+ (CA100+) collaborative engagement. We act as the co-lead investor, alongside Akademiker Pension.**

We began engaging with the company on its response to climate change in 2016, focusing on the resilience of its asset portfolio. From 2019, we focused on encouraging Maersk to set and disclose science-based greenhouse gas emission reduction targets, initially for Scope 1 and 2 emissions.

Given the company's significant role as an industry leader, we also sought greater transparency on its membership of industry organisations with a climate change stance misaligned with the company's strong support of the Paris Agreement. Although the company believed there was general alignment, we asked it to conduct a formal review and publish the findings, including a discussion of what actions it was taking where there were conflicts. We also asked the company to include its inland logistics business in its decarbonisation strategy and targets, a complex task.

At the 2021 annual shareholder meeting, together with our CA100+ co-leads, we praised the company's progress in integrating sustainability into its core business strategy, including its commitment to launch its first climate neutral vessel by 2023. We asked Maersk to set science-based short- and medium-term carbon reduction targets and to implement improvements in line with the expectations set out in the recently published CA100+ Net Zero Benchmark.

In our engagement, we shared best practices on lobbying disclosures to help inform the company's approach; encouraged the disclosure of how capital allocation aligns with Maersk's short-term targets and a demonstration of

how it was managing potential externalities linked to the use of alternative shipping fuels; and asked that the International Energy Agency's 1.5°C scenario be referenced in its TCFD reporting.

### Changes at the company

In December 2021, Maersk committed to conducting a review of its industry organisation memberships and a dedicated website area went live in early 2022. This states the company's position and/or policies on various climate-related topics and provides a high-level overview of the alignment of its key industry associations and actions taken where misalignment has been found.

In early 2022, Maersk announced an accelerated net zero target, incorporating all direct and indirect emissions across the entire business, including the inland logistics business. The decarbonisation strategy included medium-term 2030 targets, which it pledged would be aligned with the Science Based Targets initiative (SBTi) 1.5°C pathway. The SBTi methodology for the shipping sector was released in December 2022 and the company is working to align its targets.

### Next steps

We will continue to engage with Maersk on the development of lobbying disclosures to align with best practice. We will also query the company's response to physical climate risks and its role in the just transition, as well as its alignment of capital allocation with climate targets and strategy.



**Bruce Duguid**  
Head of Stewardship, EOS



Social

# Workers strike a blow for better pay and conditions

2023 was characterised by major strikes, including those by US autoworkers, Hollywood creatives, UK rail workers, and warehouse employees across Europe. Emily DeMasi and Velika Talyarkhan explain why good workforce relations make good business sense.

**In the dark days of the pandemic lockdowns, there was hope that when the world returned to normal, we would build back better. We noted how the companies and sectors that looked after their employees during covid were better placed to ramp up quickly when the world reopened for business again. Conversely, those that had laid off workers struggled to rehire in a much tighter labour pool.**

The rising cost of living squeezed household budgets throughout 2022 and 2023, but for many workers, take-home pay failed to keep pace with inflation. Unsurprisingly, employees in many sectors have been fighting for better wages and working conditions over the past two years, leveraging their increased bargaining power in a tighter labour market.

In the first nine months of 2023, the US labour movement engaged in 56 major strikes – defined as a dispute with 100 or more strikers, lasting a week or more. That is more than one a week, up 65% from the same period of 2022.<sup>1</sup> In the UK, the industrial action of the past two years is on a scale not seen since the 1980s. Nearly four million working days were lost to strikes in the 12 months to May 2023, notwithstanding the decline in union membership over the past 40 years.<sup>2</sup>

Big US companies have also been hit by strikes in Europe. Amazon workers walked out at fulfilment centres in multiple European locations during the Black Friday promotion in protest over working practices.<sup>3</sup> And Tesla ran into trouble in Sweden when a dispute that started at the IF Metall trade union over collective bargaining rights spread to other



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**Velika Talyarkhan**  
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Human Capital

sectors. Postal workers refused to deliver Tesla registration plates, and some dockers wouldn't unload Teslas at the ports according to media reports.<sup>4,5</sup>

It is not just wage and benefit improvements that unions are seeking. They are also demanding quality of life improvements, with better staffing, more time off, and protections against forced overtime. Few sectors have been left unscathed, with public sector workers in the UK's National Health Service involved in unprecedented stoppages, while in the US, strikes against the 'Detroit Three' by autoworkers, and disputes by Hollywood actors and scriptwriters, paralysed production for weeks.

In the US there has been a strong push to establish unions in the private sector, leaving companies like Starbucks, Amazon and others grappling with how to respond to workers seeking

<sup>1</sup> America is on strike. Here's the progress unions have made | CNN Business

<sup>2</sup> <https://www.resolutionfoundation.org/publications/labour-market-outlook-q2-2023/#:~:text=The%20past%20two%20years%20have,at%20any%20point%20since%201989.>

<sup>3</sup> <https://www.reuters.com/technology/amazon-protests-europe-target-warehouses-lockers-busy-black-friday-2023-11-24/>

<sup>4</sup> <https://www.theguardian.com/world/2023/dec/05/danish-union-joins-strike-action-against-tesla-by-swedish-workers>

<sup>5</sup> <https://www.theguardian.com/technology/2023/nov/27/tesla-suing-swedens-transport-agency-in-escalation-of-strike-row-licence-plates>



freedom of association and collective bargaining. Even Japan experienced its first major strike in decades when some 900 workers at Seibu, a major Tokyo department store, walked out in August. The workers were seeking job and business continuity guarantees following a sale of Sogo & Seibu to a US fund manager.<sup>6</sup>

## What is the business case for treating workers fairly?

Ignoring worker requests can have a detrimental impact on company productivity and revenue. The United Auto Workers' unprecedented six-week co-ordinated strike action<sup>7</sup> against Ford, GM and Stellantis in Michigan may have inflicted US\$10bn in financial damages according to some estimates.<sup>8</sup> And strike action in critical parts of an economy can have serious knock-on effects on productivity in other areas. For example, the prolonged industrial dispute across the UK's rail network has cost the economy over £1bn,<sup>9</sup> with the hospitality sector thought to have been particularly hard hit.<sup>10</sup>

But the obvious advantage of avoiding prolonged strikes by keeping workers engaged is only one side of the coin. Studies indicate that better company-staff discussions through organised labour representation can help improve productivity. Evidence from the US has also shown that a 1% decline in unionisation rates correlates with a 5% increase in occupational mortalities.<sup>11</sup> Unions can be pivotal in transforming worker attitudes to new technology – from resistance to co-operation – which will be increasingly important through the coming climate and automation transitions.

Companies that listen to, and treat their employees well, tend to outperform their peers, and not just because disputes mean lost productivity. This was certainly the case throughout the pandemic,<sup>12</sup> but remains so, according to Just Capital's quarterly rankings of US companies.<sup>13</sup>

## Our engagement approach

We consider a variety of workforce factors in our human capital engagements, ranging from fair pay, living wages and decent work, to racial equity, gender equality, and health, safety and wellbeing. When companies treat their employees with dignity and respect, there is a better understanding of staff potential and improved outcomes. Research for the Living Wage Foundation found that worker absenteeism fell by 25% after employees were paid the real living wage.<sup>14</sup>

Other studies have concluded that for people with satisfactory salaries, some non-financial motivators can be more effective than extra cash. We expect companies to demonstrate that they have the right approach to the total reward package, to help build long-term employee engagement across all sectors, job functions, and business contexts. We also expect

human capital strategies to identify workforce transition risks and opportunities arising from job automation and a greater reliance on artificial intelligence, setting out any reskilling needs that may need to be met.

As we transition to a low-carbon economy, it will be equally important for companies to demonstrate that they are upskilling and training workers to deliver against their climate commitments. Certain industries, such as oil and gas extraction and refining, or fossil fuel-based utilities, will no longer require as many workers. These employees will need to be retrained for green economy jobs, if they have not opted for early retirement. But while many new jobs will be created in EV battery factories or wind turbine manufacturing, these may be in different locations – possibly other countries – or require entirely different skills.

In our engagements with North American utilities, we have encouraged companies to publish just transition plans to redeploy and retrain their workers, while addressing the economic impact of fossil-fuel plant closures on local communities. We also seek evidence that companies are addressing emerging safety risks, such as excessive heat due to the impact of climate change, to ensure safe working conditions. This was a challenge for the hospitality sector in Southern Europe in 2023, when traditional tourist destinations boiled in the ferocious Cerberus heatwave.<sup>15</sup> Such summers are likely to become the norm if the world continues to warm at its current rate.

As well as engaging with companies directly, we are involved in several collaborative initiatives to define decision-useful standards on human capital, including through our support for the Workforce Disclosure Initiative (WDI), the UK Living Wage Foundation and the US Human Capital Management Coalition.



<sup>6</sup> <https://www.reuters.com/business/retail-consumer/japan-sees-rare-strike-workers-landmark-department-store-protest-sale-2023-08-31/>

<sup>7</sup> [https://www.reuters.com/business/autos-transportation/gm-reaches-tentative-deal-with-uaw-source-says-2023-10-30/#:~:text=Oct%2030%20\(Reuters\)%20%2D%20General,at%20the%20Detroit%20Three%20automakers.](https://www.reuters.com/business/autos-transportation/gm-reaches-tentative-deal-with-uaw-source-says-2023-10-30/#:~:text=Oct%2030%20(Reuters)%20%2D%20General,at%20the%20Detroit%20Three%20automakers.)

<sup>8</sup> <https://www.michiganradio.org/transportation-infrastructure/2023-10-31/cost-of-uaw-strike-against-detroit-3-will-exceed-10-billion-says-economist>

<sup>9</sup> <https://www.theguardian.com/uk-news/2023/jan/18/rail-strikes-cost-uk-1bn-and-settling-would-have-been-cheaper-minister-admits>

<sup>10</sup> <https://www.restaurantonline.co.uk/Article/2023/05/30/half-term-rail-strikes-to-cost-hospitality-132-million-in-sales>

<sup>11</sup> Does 'right to work' imperil the right to health? The effect of labour unions on workplace fatalities | Occupational & Environmental Medicine (bmj.com)

<sup>12</sup> Treating Employees Well Led to Higher Stock Prices During the Pandemic | Great Place To Work®

<sup>13</sup> JUST Capital's Quarterly Review of Stakeholder Performance – Q3 2023 — JUST Capital

<sup>14</sup> Investing in the Living Wage: a toolkit for responsible investors

<sup>15</sup> <https://www.theguardian.com/world/2023/jul/14/health-alerts-blistering-heat-scorches-southern-europe>



## CASE STUDY – WORKER RIGHTS AND LIVING WAGE

## Starbucks



**In 2022, coffee chain Starbucks raised the minimum wage floor to US\$15 per hour, and the wages of its long-tenured employees. We asked it to consider publishing a living wage strategy and to commit to paying a living wage or its equivalent.**

We also wanted Starbucks to demonstrate the effectiveness of its grievance mechanisms by publishing the number and type of grievances reported by employees, suppliers and third parties, and whether access to appropriate remedy was

provided for each case. Both the living wage strategy and transparent reporting on grievances would help the company to demonstrate that it was acknowledging and appropriately addressing employee rights concerns.

Ahead of the 2023 annual shareholder meeting, we wrote to the company to indicate our concern that Starbucks may have interfered with the rights of its US employees to unionise. We recommended support for a shareholder proposal asking for an independent review of its stated commitment to worker rights, rather than making a recommendation to vote against the governance committee chair. We also indicated that to retain our continued support for the incumbent governance chair, the company should provide evidence that it was complying with its global human rights statement and that it was taking action to improve its score on the Corporate Human Rights Benchmark.

The proposal received majority support and the company has since appointed an independent third-party to assess its commitment to the principles of freedom of association and collective bargaining. The company planned to publish key takeaways by the end of 2023. Starbucks has also established a new board committee for environment, partner and community impact.



## CASE STUDY – WORKER RIGHTS AND LIVING WAGE

## Boohoo



**As part of ShareAction's Good Work Coalition, we participated in a collaborative engagement with fast fashion retailer Boohoo. The company said that since the Levitt Review into Boohoo's Leicester supply chain,<sup>16</sup> it had worked hard to implement changes, but that worker exploitation and modern slavery remained a challenge for the wider industry.**

We asked about its pay review process and the company said that it considered a variety of factors including its competitors' pay practices and the UK's National Living Wage, which it aims to keep paying above. It underlined the importance of being a profitable business and said it was looking at other ways of rewarding employees, for example by granting additional holidays.

We encouraged the company to become an accredited Living Wage employer and to increase minimum pay in line with the new UK living wage of £12 per hour. The company acknowledged our recommendation. It said that it had seen a positive movement in supply chain retention rates since its pay review last year, which we welcomed.

<sup>16</sup> <https://www.boohooplc.com/sites/boohoo-corp/files/final-report-open-version-24.9.2020.pdf>





**At US pharmacy retailer CVS we recommended support for a shareholder proposal calling for paid sick leave benefits for all employees, for a second consecutive proxy season.**

### Worker rights and the 2023 voting season

Worker rights issues were front and centre in the 2023 voting season, with a record number of shareholder proposals filed on a range of topics such as worker health and safety, paid sick leave, wages and equity, freedom of association, and workplace sexual harassment. In general, EOS considers proposals on a pragmatic basis, reviewing each in its company-specific context. In line with fiduciary duty, we seek to determine the extent to which the proposal promotes long-term shareholders' interests, and our recommendations are made following dialogue with the company, where practicable.

When considering whether or not to recommend support for shareholder resolutions, we consider various factors including the extent to which it aligns with the aims of our Engagement Plan; the additionality it would provide, given what the company is already doing or has committed to doing; the nature and motivations of the filers, if known; the efforts the board has made to engage with the proponents; and what potential impacts – positive and negative – the proposal could have on the company if implemented.

At Wells Fargo we recommended support for a resolution asking the company to adopt a policy on freedom of association and collective bargaining. The company seemed to be lagging behind the industry in its disclosures related to freedom of association and collective bargaining, as it did not have a policy on these topics, unlike its peers. It had also received negative press attention regarding worker efforts to unionise, including two charges from the Communications Workers of America alleging that managers had threatened and disciplined workers for supporting these efforts.<sup>17,18</sup> Despite these controversies, the bank's recently completed human rights impact assessment did not mention freedom of association or collective bargaining.

We supported the proposal as we believed a policy commitment would be the first step towards clarifying the bank's position on these key labour rights issues. Wells Fargo carries out its own audits and states that it respects workers' rights to unionise. We believe it is in the long-term and reputational interest of the company to perform this audit via a third party to gain feedback and apply the lessons learned to its human capital management.

**At Wells Fargo we recommended support for a resolution asking the company to adopt a policy on freedom of association and collective bargaining.**

At US pharmacy retailer CVS we recommended support for a shareholder proposal seeking a third-party assessment of CVS's adherence, above and beyond legal compliance, to its stated commitment to workers' freedom of association and collective bargaining rights. We also supported a shareholder proposal calling for paid sick leave benefits for all employees, for a second consecutive proxy season. We believe it is good business practice to offer paid sick leave to all employees, and this would be in line with the company's purpose, "to help people on their path to better health".

Paid sick leave policies were also raised in a shareholder proposal at FedEx. The courier company does have a paid sick leave policy in place and plans to review it as part of the 'one FedEx' reorganisation. However, we believe that employees, shareholders and stakeholders would benefit from more detailed public disclosure on FedEx's paid sick leave policy beyond the minimum legal requirements, to improve their understanding of how human capital risks are managed at FedEx.

<sup>17</sup> <https://uniglobalunion.org/news/wells-fargo-workers-make-history-with-first-union-election/>

<sup>18</sup> <https://news.bloomberglaw.com/banking-law/wells-fargo-settles-second-complaint-over-union-intimidation>

## Q&A: Indigenous Peoples' Rights



**Nick Pelosi**  
Theme co-lead: Human and Labour Rights



**Ellie Higgins**  
Theme co-lead: Human and Labour Rights

Indigenous Peoples are disproportionately impacted by the economic, environmental, and social impacts of companies, especially those involved in resource extraction or industrial development. For this reason, the rights of Indigenous Peoples are protected by a range of national and international legal frameworks that can materially impact the operations of companies operating in specific areas. By respecting the rights of Indigenous Peoples, companies can also secure long-term shareholder value and achieve sustainable wealth creation.

Additionally, there is a strong overlap between the rights of Indigenous Peoples and environmental topics of importance to investors. While Indigenous Peoples own, occupy or use 25% of the world's surface area, they safeguard 80% of its remaining biodiversity.<sup>1</sup> Indigenous Peoples are the holders of invaluable knowledge for climate adaptation and mitigation.<sup>2</sup> However, these groups are threatened by the same business activities that drive the climate crisis.

### Q. Why are the rights of Indigenous Peoples important from a business perspective?

**A.** When companies face community opposition from Indigenous Peoples impacted by their business operations, they increase their likelihood of causing adverse human rights impacts. These impacts can lead to operational, reputational, financial, and regulatory risks for companies and their shareholders. It is estimated that for a typical, large mining project with US\$3bn-\$5bn capital expenditure, delays caused by community opposition can cost roughly \$20m-\$30m per week. Local community impact was the top identified ESG risk for mining and materials companies for 2024 in an EY survey, identified by 64% of executives in the industry.<sup>3</sup>



**While Indigenous Peoples own, occupy or use 25% of the world's surface area, they safeguard 80% of its remaining biodiversity.**

In Australia, Rio Tinto's destruction of Aboriginal heritage sites at Juukan Gorge damaged the company's social licence to operate and led to the replacement of the CEO and other senior executives.<sup>4</sup> In Brazil, Anglo American was forced to withdraw 27 mining research permits, despite approval from the government, following months of campaigning and pressure from impacted Indigenous Peoples.<sup>5</sup> When oil and gas projects, especially pipelines, face community opposition, the result is costly construction delays. These cases demonstrate the risks that companies face when they do not fully consider Indigenous Peoples' rights in planning and decision-making processes.

**Local community impact was the top identified ESG risk for mining and materials companies in an EY survey.**



<sup>1</sup> Indigenous Communities Protect 80% Of All Biodiversity (cbd.int)

<sup>2</sup> The Use of Indigenous Traditional Knowledge in Climate Change Strategies | Wilson Center

<sup>3</sup> ey-top-10-business-risks-and-opportunities-for-mining-and-metals-in-2024-final.pdf

<sup>4</sup> Juukan Gorge inquiry: Rio Tinto's decision to blow up Indigenous rock shelters 'inexcusable' | Indigenous Australians | The Guardian

<sup>5</sup> For protecting the rainforest, this Brazilian activist wins Goldman prize : Goats and Soda : NPR

<sup>6</sup> UNDRIP\_E\_web.pdf





**We have set objectives on Indigenous Peoples' rights with more than 30 companies, mostly in the oil and gas, mining, and financial services sectors.**

**Q. How do we engage with companies on the rights of Indigenous Peoples?**

**A.** We believe that how a company manages its human rights strategy is of critical importance for its licence to operate, its impact on people's lives and ultimately its ability to create and preserve long-term value. We focus on Indigenous Peoples' rights within our human rights engagement theme. We have set objectives on Indigenous Peoples' rights with more than 30 companies, mostly in the oil and gas, mining, and financial services sectors. We also expect companies to respect the rights of all communities impacted by their operations, while recognising the unique considerations specific to Indigenous Peoples, such as the concept of Free, Prior and Informed Consent (FPIC).

In our engagements, we encourage companies to adopt a policy commitment to Indigenous Peoples' rights, separate from or included in their human rights policy, which includes support for the UN Declaration on the Rights of Indigenous Peoples (UNDRIP).<sup>6</sup> For example, we engaged with BHP Billiton to share feedback on its policy for protecting Aboriginal heritage sites in Australia. In 2023, the company published a new reconciliation plan that covered FPIC and laid out a five-year plan for community engagement.

We encourage companies to report on the implementation of their policy commitment to Indigenous Peoples' rights and have suggested the metrics used within the International Sustainability Standards Board standard for mining. The standard requires companies to disclose the percentage and grade of proved and probable reserves located in or near areas considered to be Indigenous Peoples' land, and their due diligence practices and procedures with respect to Indigenous Peoples' rights, including the FPIC processes.

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

**A.** We expect companies to implement human rights due diligence across their operations and undertake human rights impact assessments (HRIAs) at high-risk sites. For example, we asked Freeport-McMoRan to complete an HRIA for its Grasberg mine in Indonesia, which the company was scheduled to complete in 2023. More recently, we encouraged Barrick Gold to complete an HRIA for its Donlin gold mine in Alaska, which is facing a legal challenge from three tribes in the Kuskokwim River region of Southwest Alaska.<sup>7</sup> We also urged TotalEnergies to enhance its human rights governance and expressed our concern over the company's involvement with the East African Crude Oil Pipeline, due to its significant impact on Ugandan communities, alongside other implications.

**Best practice is for companies to demonstrate the presence of agreements with Indigenous Peoples that indicate FPIC in relation to proposed developments.**

Access to remedy is a critical component of FPIC, as well as the UNGPs. For this reason, we ask companies to demonstrate evidence of grievance mechanisms that are available to Indigenous Peoples and other impacted communities. We made this request to Posco following allegations that one of its subsidiaries violated FPIC at palm oil plantations in Indonesia.

The company has since improved the grievance mechanisms to make them more accessible and effective, committing to disclosure of key performance indicators showing their effectiveness. Other companies have taken an upfront approach to addressing controversies relating to Indigenous Peoples' rights. For example, Vale published a report of the discussions, disagreements, and management of solutions in previous community disputes.<sup>8</sup>




**We engaged with Posco following allegations that one of its subsidiaries violated free, prior and informed consent at palm oil plantations in Indonesia.**

<sup>7</sup> <https://alaskapublic.org/2023/10/05/donlin-mine-project-in-southwest-alaska-facing-legal-challenges-over-water-impacts/>

<sup>8</sup> Controversies – ESG – Vale (liferay.com)





**We encouraged Barrick Gold to complete a human rights impact assessment for its Donlin gold mine in Alaska, which is facing a legal challenge from three tribes in the Kuskokwim River region.**

Best practice is for companies to demonstrate the presence of agreements with Indigenous Peoples that indicate FPIC in relation to proposed developments. These agreements are more likely to be found in certain countries, such as Australia and Canada. One company with an advanced approach, Agnico Eagle Mines, has declared a firm commitment to FPIC in its sustainability report, reports on engagement with various First Nations within the vicinity of its business, and has declared no significant community disputes.

The presence of agreements does not automatically guarantee FPIC, but it is an indicator of positive relationships. We continue to engage with Rio Tinto on the importance of community agreements as vehicles for obtaining FPIC. Today, the company has six formal agreements with Indigenous Peoples.<sup>9</sup>

**We have advocated for Indigenous Peoples' rights to be seen as part of the human rights agenda.**

We have also increased our engagement with financial services companies on Indigenous Peoples' rights. In 2022, we signed the Investor Statement on Line 3, Oil Sands, and FPIC, calling on six US and five Canadian banks to increase protections for Indigenous Peoples' rights within their oil and gas financing.

While most banks have some consideration of Indigenous Peoples' rights within their environmental and social risk management policies, this is limited to instances of direct project finance rather than general corporate finance. We have encouraged banks, including Bank of America and Wells Fargo, to adopt a financing requirement for FPIC to be applied to all energy and mining industry clients. We

have also urged banks to increase Indigenous Peoples' representation at all levels of their business, including when considering directors.

#### **Q. What is our focus for 2024?**

**A.** Over the coming year, we will encourage further implementation of FPIC through formal agreements with Indigenous Peoples, stronger safeguards within financing policies, and representation of Indigenous Peoples in business. We will explore new ways to compare company performance in this area and benchmark companies relative to their peers. Finally, we will continue to support Indigenous Peoples' rights in relevant public policy forums and encourage company alignment with existing third-party guidelines such as UNDRIP.

We are represented on the steering committee of the Investors and Indigenous Peoples Working Group (IIPWG). This group holds monthly calls that serve as a clearinghouse for education, news, and joint action to bring together Indigenous and non-Indigenous communities on key issues related to sustainable and responsible investing.

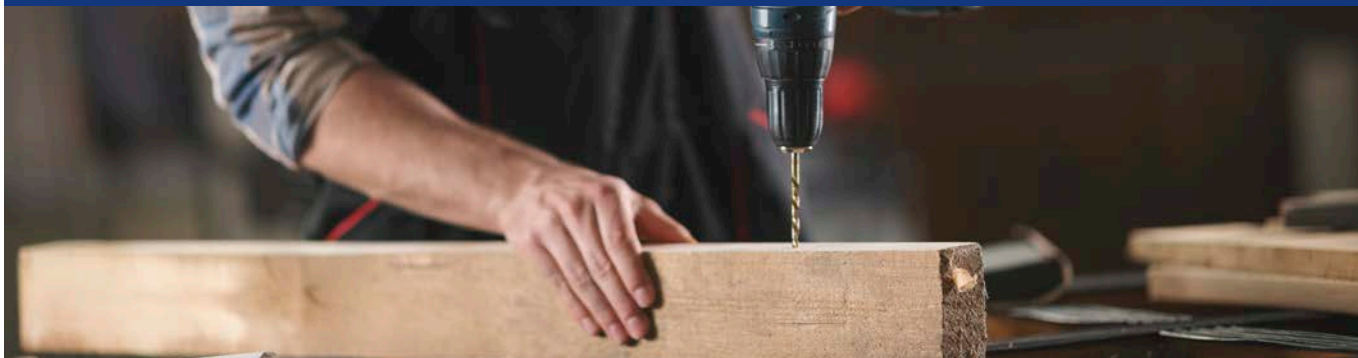
Additionally, we will continue to lead or support collaborative engagements on human rights with several mining companies through the PRI Advance initiative. This was launched in 2023 to achieve positive human rights outcomes through investor stewardship. Within these dialogues, we have advocated for Indigenous Peoples' rights to be seen as part of the human rights agenda. These dialogues have offered more opportunities for engagement with Indigenous Peoples – for example, we met with community leaders impacted by one of Rio Tinto's mines to improve our understanding of these impacts.

<sup>9</sup> Community Agreements (riotinto.com)



## CASE STUDY

## Techtronic Industries



**Techtronic Industries designs and manufactures power tools for home and industrial use. The company has a strong focus on innovation and has driven a trend of cordless power tools adoption, reducing its indirect carbon footprint. It employs over 50,000 people globally and is headquartered in Hong Kong.**

### Our engagement

On the back of technological advancement from corded to cordless products, the company is exposed to human rights risks through the cobalt mining process, a key mineral in the batteries that power wireless appliances. Initially, Techtronic did not have a dedicated cobalt procurement policy, a concern we first raised in 2019.

In our view, there was also insufficient disclosure of its supply chain management methods and performance indicators to show investors how it complies with the Modern Slavery Act statement, as published in its 2017 annual report. The company then faced the challenge of disclosing the effective implementation of its newly established cobalt procurement policy.

### Cobalt mining

We first engaged with Techtronic on cobalt sourcing in 2018 sharing our feedback on the company's human rights disclosure in its supply chain. The company sought our advice on cobalt sourcing and expressed its intention to work with us to exert pressure on its key suppliers to improve supply chain transparency.

We visited the headquarters and research and innovation centre of its US power tool subsidiary. While impressed with Techtronic's investment in product innovation, we were concerned about the oversight of its cobalt supply chain and provided recommendations on how to improve its existing due diligence process.

In 2019, we raised the need for meaningful disclosure around the then new cobalt procurement policy, particularly around country of origin and the outcomes of its monitoring and audits. In subsequent years, we requested

that the company disclose more about its progress in cobalt supply chain mapping in its annual report, including its position on artisanal and small-scale mines.

### Changes at the company

Towards the end of 2019, we were pleased to learn that Techtronic had implemented a procurement policy for cobalt. Its suppliers were now required to disclose the source of cobalt used in manufacturing its products and to comply with the policy. Based on further discussions with the company, we were satisfied with the level of supply chain disclosure provided.

With the policy in place, we moved on to engaging around implementing the policy effectively. Techtronic confirmed in 2020 that it had worked in partnership with the Responsible Minerals Initiative to trace the source of most of its cobalt and to assess mining conditions. In addition, it disclosed the assessment work conducted at source and an overview of its mines. This has also led to engagement in community impact programmes such as the Better Mining initiative, of which it is a founding member.

We have also engaged with the company on emissions reduction and reporting, including setting ambitious targets to address its operational emissions intensity. Other engagements have focused on board diversity and committee independence. We continue engaging on target-setting for Scope 3 emissions reduction, and improving board composition and effectiveness.



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



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



## Governance

# Investors call for change in stormy vote season

Investor frustration with companies over their slow response to the climate crisis boiled over in what was a stormy vote season in Europe, while in North America the focus remained on labour rights as workers demanded better pay and benefits.

**The 2023 shareholder meeting season was characterised by a continued focus on the need to accelerate the energy transition, particularly in Europe where growing physical climate risk was demonstrated by boiling summer temperatures and the wildfires ravaging tourist destinations. In North America social issues remained in focus, with collective bargaining rights, racial equity and better worker benefits in stakeholder sights. Some US companies attracted large numbers of shareholder proposals, with 18 at Amazon and 13 at Alphabet, covering issues from climate and tax transparency to gender/racial equity pay gaps and digital rights. Across developed Asia and global emerging markets, meanwhile, gender diversity, board independence and other fundamental governance issues exercised institutional investors.**

In 2023, we made voting recommendations at 12,963 meetings, covering 128,181 proposed resolutions. This was down from 13,814 meetings in 2022 and 134,188 proposed resolutions. Overall, we made at least one voting recommendation against management at 65% of meetings, versus 66% in 2022. For North America we recommended voting against management on 4,950 proposals, or 18%, versus 22% in 2022.

## Climate change

Companies continued to give investors the opportunity to vote on their climate transition plans – either for the first time, or by providing an annual update to already-approved plans. At TotalEnergies, BP and Shell, shareholders were concerned that the European oil majors were retreating from their climate commitments amid bumper profits. Almost 10% of shareholders

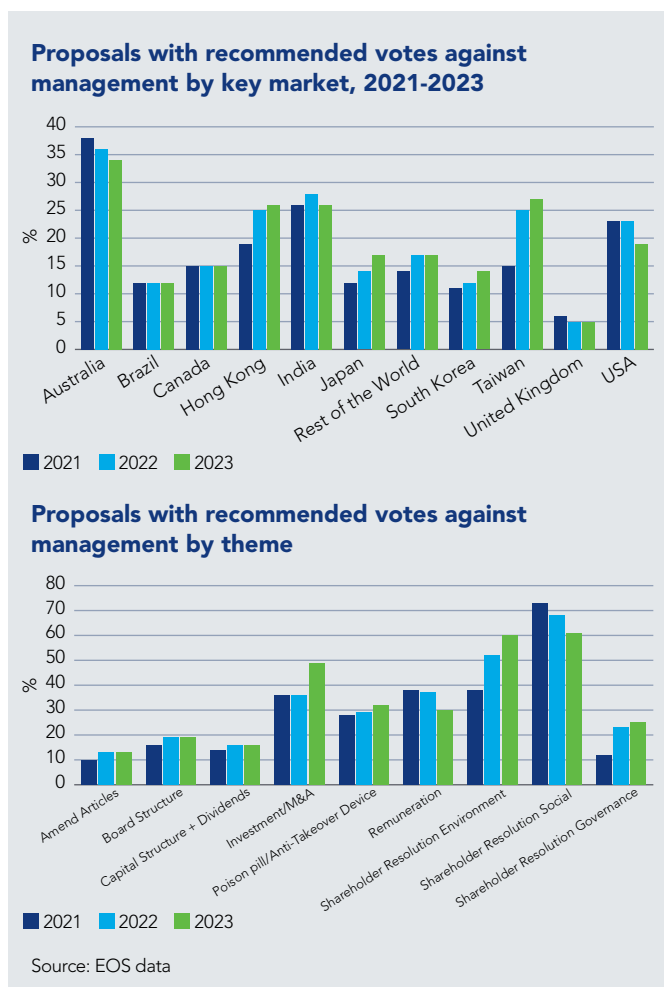
voted against BP chair Helge Lund while large investors publicly voiced their concerns ahead of Shell's meeting.<sup>1</sup> Climate protesters attempted to disrupt all three meetings.

We take a robust approach to assessing companies' climate transition plans. We consider the extent to which plans are substantially aligned with a global temperature rise of 1.5°C, and the action that companies are taking to deliver against these plans. This meant we recommended votes against the climate transition progress reports proposed by Shell and TotalEnergies again in 2023 due to their failure to make sufficient progress in aligning with 1.5°C. Ultimately, some 20% of Shell's shareholders voted against the company's energy transition plan, while at TotalEnergies, more than 30% of investors supported an advisory resolution filed by Dutch activist shareholder Follow This. It called on the company to update its climate targets in line with the Paris Agreement goals by 2030.



<sup>1</sup> <https://www.theguardian.com/business/2023/may/09/shell-shareholders-chair-pirc-andrew-mackenzie-agm>





We continued to follow our climate change vote policy to guide our recommendations. We consider recommending votes against directors at companies identified as laggards in managing climate-related risks. In 2023, we recommended voting against the re-election of directors or relevant proposals at 299 companies, up from 292 in 2022, due to concerns about insufficient management of climate-related risks.

### Climate-related and other environmental shareholder proposals

We also saw a range of other climate-related shareholder proposals, with the banking and energy sectors again in focus, although hard-to-abate sectors such as mining also came under scrutiny. We tended to support proposals requesting additional disclosure or a shareholder vote on climate strategies, and encouraged companies to support proposals that were in line with their strategy.

Increasingly, we also saw calls for companies to set and disclose new forms of targets or more detailed plans to support these. For Bank of America, we recommended support for a shareholder proposal seeking 2030 absolute greenhouse gas reduction targets for the company's energy

sector lending and underwriting, aligned with the Paris Agreement. We also supported a proposal asking for a transition plan that describes how the bank will align its financing activities with its 2030 sectoral greenhouse gas reduction targets.

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

In Japan, three of the largest banks attracted climate proposals – Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group and Mizuho Financial Group faced calls for them to publish a transition plan to align their lending and investments with the Paris Agreement. The megabanks argued that their existing transition plans were sufficient. While we recognised their progress, we recommended support for the proposals, as we expect the banks to improve their transition plans so that they are credible and science-based. The proposal at MUFG attracted 17% support, the Mizuho proposal 19%, and the SMBC proposal 21%.

At Toyota, the first shareholder proposal in almost 20 years asked for improved reporting of the company's climate-related lobbying activities. We met the company several times to discuss the proposal, which we ultimately supported. Although Toyota already reported on its climate lobbying activities, we reiterated that the company should clarify the actions it had taken to identify and respond to misalignments between the lobbying activities of Toyota's industry associations, and the goals of the Paris Agreement. The proposal received 15% support, which was significant given that Toyota's shareholder base includes many strategic shareholders and group companies, which were unlikely to vote for a resolution that was not management-approved.

**At Toyota, the first shareholder proposal in almost 20 years asked for improved reporting of the company's climate-related lobbying activities.**



J-Power received two shareholder proposals from institutional investors this year. One asked the company to disclose a business plan for the achievement of science-based emissions reduction targets aligned with the goals of the Paris Agreement. The other asked the company to disclose how its remuneration policies facilitated the achievement of these targets. We recommended support for both proposals, given that such disclosures would help to increase investors' understanding and the credibility of the company's long-term climate strategy. The proposals received 21% and 15% support respectively, which is relatively high for a non-management approved resolution.

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

## Paris-aligned accounts

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

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

## Climate questions for German giants

**We attended two virtual annual meetings in Germany in 2023 – Siemens Energy in February and BMW in May. As Climate Action 100+ lead for both companies, our speech and questions to the board focused on climate.**

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

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

At BMW, we delivered a speech posing questions to the supervisory board chair and CEO, covering the company's climate approach, remuneration, diversity, board

independence and virtual meetings. We welcomed the CEO's commitment to achieving climate-neutrality by 2050 at the latest and then challenged him to demonstrate that BMW's climate targets, capital expenditure plans, accounting assumptions and lobbying activities were aligned with a 1.5°C trajectory.

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

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



**Lisa Lange**  
Sector lead: Transportation

## Social issues proposals continue to grow

In the US, proposals on diversity, equity and inclusion (DEI) and human rights, including digital rights and reproductive rights, grew in prevalence. These represented around 35% of total proposals, showing consistent year-on-year growth since 2020.<sup>2</sup>

In 2022 we wrote to tech and social media companies with our Digital Rights Principles and some of the financially material areas we had highlighted featured in shareholder proposals at the 2023 AGMs. For example, in our letter to Alphabet we had asked the company to enhance its child safety practices, conduct a civil rights audit covering its workforce and racial bias in AI algorithms, and to demonstrate compliance with its own content moderation policies. At the 2023 meeting, Alphabet received a shareholder proposal asking for a human rights assessment of targeted advertising policies and practices, and another on the alignment of YouTube policies with legislation.

In the US, proposals on diversity, equity and inclusion (DEI) and human rights grew in prevalence. These represented around

# 35%

of total proposals, showing consistent year-on-year growth since 2020.

Similarly, Meta received shareholder proposals seeking reports on its targeted advertising as well as child safety and harm prevention. The US Surgeon General's Advisory on Social Media and Youth Mental Health, which was issued just days before the companies' meetings, sharpened the spotlight on child and teen safety. These were well supported proposals at both companies, outstripped only by the support for the one vote per share proposals. Both companies retain problematic dual class share structures.

**Meta received shareholder proposals seeking reports on its targeted advertising as well as child safety and harm prevention.**

## Racial equity and civil rights

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

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

## Human rights and Indigenous rights

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

Three Canadian banks received shareholder proposals related to free, prior and informed consent (FPIC), an issue we had been planning to raise. Two of these – Bank of Montreal (BMO) and Toronto-Dominion Bank – reached successful agreements with the proponent via engagement, a positive step. At Royal Bank of Canada, having escalated this issue via a public statement at the meeting in prior years, we decided to recommend support for the shareholder proposal. The proponents, BC General Employees' Union and the Union of BC Indian Chiefs, presented the proposal in person.

<sup>2</sup> <https://www.iss-corporate.com/library/us-shareholder-proposals-jump-to-a-new-record-in-2023/>



## Wider societal impacts

In 2023 we saw an increased focus on tax transparency. Amazon and Microsoft again faced shareholder proposals seeking a tax transparency report prepared in consideration of the guidelines of the Global Reporting Initiative (GRI) tax standard. Oxfam America, with supporting investors, filed similar tax transparency proposals at ExxonMobil, Chevron and ConocoPhillips asking for a GRI tax standard report. These sought, among other disclosures, detailed country-by-country reporting to prevent tax avoidance. In Canada, the BC General Employees' Union submitted a tax transparency proposal at Brookfield Corporation. We recommended support for all six tax-related shareholder proposals.

## Diversity and inclusion

Our diversity and inclusion voting policies encourage greater representation of women and ethnic minorities on boards and in leadership teams. Globally, we opposed 3,118 responsible director proposals due to concerns about insufficient diversity.

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

In the US, ideally, we want to see companies strive for 50% overall board diversity including LGBTQ+ and disability. We are seeing this level of diverse representation in companies such as 3M, Apple, Chevron and Mastercard. In line with our expectations of a minimum of 40% board diversity including gender, race and ethnicity, we recommended opposing 1,180 responsible directors for low board diversity. Notable examples included Berkshire Hathaway, Caesars Entertainment, Kinder Morgan, Netflix, Phillip Morris International, TransDigm, Tesla and Walmart.

In Europe, we support a goal of

# 50%

overall board diversity,  
including gender.



Expectations on gender diversity continued to tighten across Asia and global emerging markets. Hong Kong and Taiwan are phasing out single gender boards by 2024. We also observed some progress in China, with Meituan appointing its first female independent non-executive and Estun Automation its first female director, although both still fell below 20% board gender diversity. We continued to recommend voting against directors for low board gender diversity at Beijing Enterprises, PetroChina, China Oilfield Services and Sungrow. In South Korea we welcomed the appointments of additional female directors at Lotte Fine Chemical and Hyundai Motor.

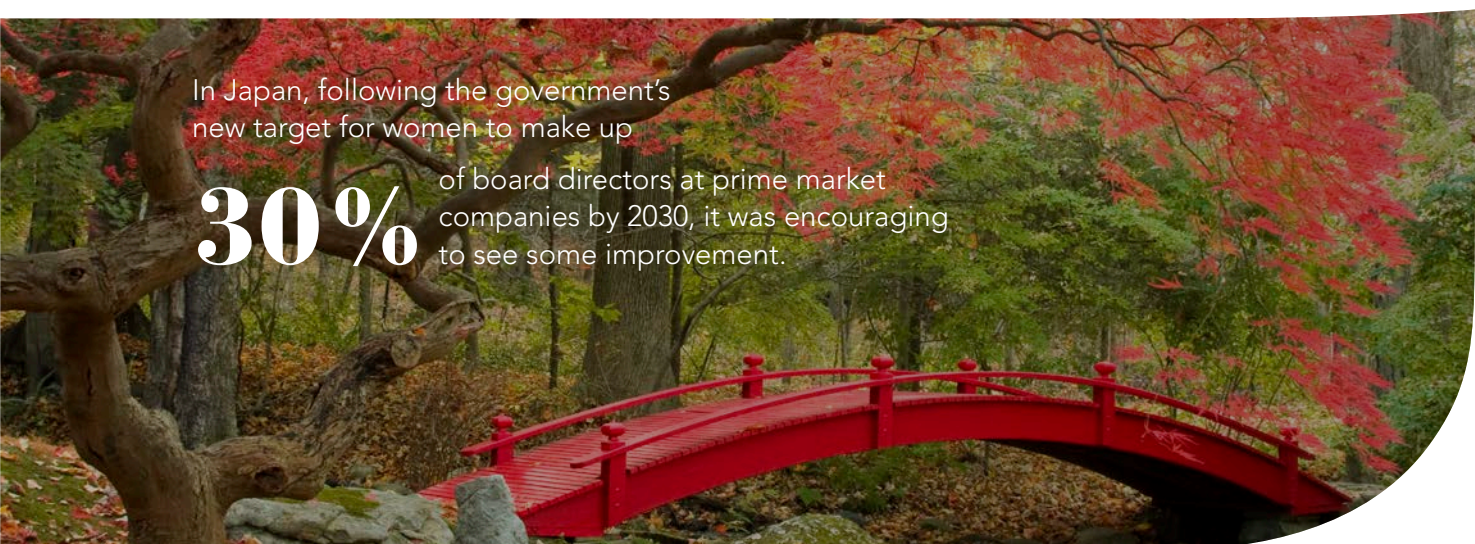
In Japan, following the government's new target for women to make up 30% of board directors at prime market companies by 2030, it was encouraging to see some improvement. For example, Toray Industries appointed its first female director, and Shin Estu Chemical appointed an additional female director. So although we increased our expectation this year for female directors to comprise at least 15% of boards at TOPIX 100 companies, we recommended fewer votes against directors for board gender diversity versus 2022.

Many companies still fell below our threshold, including Suzuki Motor, SoftBank, Nippon Steel and Mitsubishi Chemical. At Sumitomo Mitsui Trust Holdings and East Japan Railway we recommended support for a female director serving on both boards who was affiliated to the respective companies through cross-shareholdings. This was by exception to our policy, as she was playing an important role in female career progression. In our engagement with companies we have been increasing our emphasis on building an internal pipeline for female board candidates.

In Japan, following the government's  
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# 30%

of board directors at prime market  
companies by 2030, it was encouraging  
to see some improvement.



## Executive pay

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

In North America, we opposed 50% of say-on-pay proposals. This was on the basis that practices across the region remained materially misaligned with our principles, particularly on quantum, variable pay ratio, and severance. We recommended voting against executive pay and the compensation committee chair at several technology and media companies, notably Alphabet, Netflix and Meta. In 2022 some 73% of shareholders rejected the pay proposal at Netflix and we were disappointed that the company had not done more to address shareholder concerns in 2023. Against the backdrop of a Hollywood writers' strike, Netflix shareholders again withheld support for the sizable packages awarded to the content streamer's executives.<sup>3</sup>

In 2022 some

**73%**



of shareholders rejected the pay proposal at Netflix and we were disappointed that the company had not done more to address shareholder concerns in 2023.

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

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

**We also observed more governance-related shareholder resolutions in South Korea.**



## Other governance issues

An uptick in shareholder activism in Japan and South Korea was evident in the growth of governance-related shareholder resolutions. In Japan, around half the governance-related proposals for which we recommended votes in 2023 were article amendments on different issues. These included requiring majority outsider boards, disposing of strategic shareholdings, setting up committees, and improving disclosures. Around a quarter were related to removing incumbent board directors and appointing shareholder nominees. The remainder were related to capital management actions such as share repurchasing and dividend payments. We recommended support for around 38% of these proposals.

We supported proposals to remove directors and elect shareholder nominees where board refreshment was necessary, such as the board overhaul at Fujitec following allegations around the company's president. We also recommended support for shareholder nominees at Seven & I Holdings to improve governance, and supported shareholder nominees at Tsuruha Holdings, as greater independence was needed to challenge the heavy influence of founding family board members. Other proposals that we backed included improved compensation disclosure at Chubu Electric and Kansai Electric, abolishing advisory posts, and improving capital efficiency where appropriate.

We also observed more governance-related shareholder resolutions in South Korea. For example, at KT&G we supported proposals to appoint shareholder nominees to the board to address governance issues. In an encouraging sign, the market embraced new ways of engaging shareholders around AGMs. Individual shareholders conducted social media campaigns on a massive scale on issues such as improving board composition and dividends. Also, new methods of voting emerged, such as voting through apps, which have the potential to change the South Korean market.

<sup>3</sup> <https://www.reuters.com/technology/netflix-shareholders-withhold-support-executive-pay-package-2023-06-02/>



## Q&A: Key updates to voting policies and disclosure



**Richard Adeniyi-Jones**  
Theme co-lead: Board Effectiveness

Each year we update our global voting policy guidelines, which inform the recommendations we issue to our clients. Diversity and board independence, climate transition plans, and remuneration, remain key areas of focus for us in 2024.

### Q. Diversity and independence on boards continue to be prominent issues for companies. What updates have we made to our voting policies in this area?

**A.** While we have seen some progress on diversity and independence across the globe, we believe companies could and should do more to improve. We review our policies on board diversity and independence on an annual basis to ensure that our approach continues to support and drive best practices around the world. As a result of this review process, we have updated our policy in some markets. We will continue to engage with companies on this topic, and may update our policies in the future to ensure that there is consistent progression.

In Japan, we have raised our expectations to a minimum of 15% female directors on company boards. We have also increased our independence threshold, wanting a third of all company boards to be comprised of independent directors. We will consider recommending a vote against the relevant directors for inadequate disclosure of director gender identity across the region. In South Korea also, we expect all large companies to have a minimum of 15% female directors on the board.



We have harmonised our committee independence expectations for all countries across Asia and Global Emerging Markets (GEMs). We now expect all companies to have a fully independent audit committee (where one is present), and we expect the nomination and remuneration committees to be majority independent with an independent chair and no executives on the committee.

In the UK, we have aligned our voting approach with the diversity requirements in the Financial Conduct Authority's Listing Rules. At FTSE 100 companies, we expect at least 40% of the board to be women, and at least one of the senior board positions (chair, CEO, CFO or senior independent director) to be held by a woman.

In addition, at least one member of the board should be from an ethnic minority background excluding white ethnic groups, as set out in categories used by the Office for National Statistics. Where a company does not comply and does not provide a sufficient explanation for this, we will recommend a vote against the nomination committee chair.

We also welcome the inclusion of directors identifying as LGBTQ+ and those with disabilities in the composition of this

**40%** beyond the gender, racial and ethnic thresholds specified.

In North America, we continue to expect companies of all sizes, not just those listed on the S&P 500, to have a minimum of 40% overall diversity. Within this, we expect a minimum of 30% gender diversity and at least one director from a diverse racial or ethnic background. We also welcome the inclusion of directors identifying as LGBTQ+ and those with disabilities in the composition of this 40%, beyond the gender, racial and ethnic thresholds specified. Ideally, we would like to see this level raised to 50% over time.

**Q. We have recently seen a rise in ‘anti-ESG’ shareholder proposals, where the proponents submit proposals that appear benign on the surface but have deeper, more controversial intentions. How have we assessed these?**

**A.** The rise of so-called anti-ESG proposals in some markets has had an impact on how stakeholders assess meeting proposals, and has added an additional layer of required analysis. Many of these proposals have positive aims on the surface, but the devil is in the detail. Upon closer inspection, some of these proposals would in fact restrict the ability of a company to operate, or roll back previous progress made on topics such as racial equity audits or increased diversity and inclusion.

As a result of this, we apply increased scrutiny when examining shareholder proposals, and will not support those that are not filed in good faith, or do not uphold the integrity of the shareholder proposal filing process, even if at first glance the proposal aligns with our expectations. For 2024, we will continue to assess shareholder proposals with the same level of analysis, to ensure we are representing the interests of clients in the best way.

**Companies should ensure that the ambitions they have outlined in the front of their annual reports are explicitly linked to the disclosures in the back.**

**Q. In some markets, we use capital allocation rules as part of our director voting recommendations. Can you explain how we have been doing this?**

**A.** For certain markets, we formally integrate capital allocation as part of our assessment when recommending votes on director elections. This has always formed part of our ongoing assessment of directors, but in some markets we have specific ratios or triggers.



For example, in Japan, we continue to implement our vote policy to oppose directors of companies with cross-shareholdings exceeding 10% of net assets. Following the Tokyo Stock Exchange's 2023 announcement setting an expectation for companies listed on the prime market to achieve a price-to-book ratio above one, we will continue to encourage companies to wind down and eliminate cross-shareholdings to improve their capital allocations.

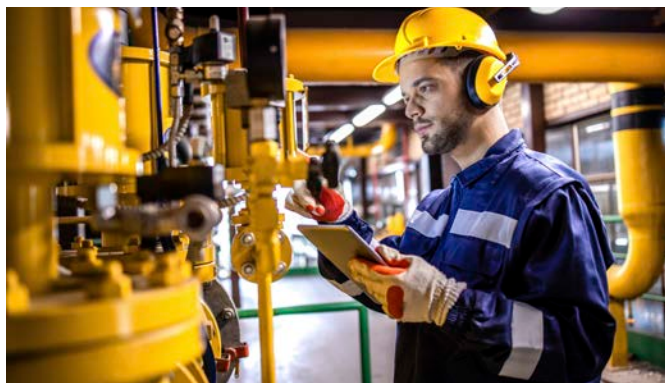
**Q. The alignment of company climate transition plans and their accounts has come under increasing scrutiny in recent years. How have we responded to this through voting?**

**A.** The link between climate change and a company's financial accounts is particularly important for high-emitting companies. Companies should ensure that the ambitions they have outlined in the front of their annual reports are explicitly linked to the disclosures in the back. Where we see disconnects between these elements, it can show a lack of consideration for the importance of matching climate transition ambitions with their financial implications.

From a vote recommendation perspective, if a company does not adequately consider material climate risks as part of its financial accounts, and no corresponding explanation as to why has been included, we may recommend a vote against the audit committee chair, the auditor and the financial statements themselves. We piloted this approach in 2023 with a selection of high-emitting companies and we will continue this in 2024.

**The link between climate change and a company's financial accounts is particularly important for high-emitting companies.**





**Q. Have we made any changes to our broader climate change voting policy in response to recent developments? For example, how are we accounting for new company assessments under the Transition Pathway Initiative (TPI)?**

**A.** The Transition Pathway Initiative's (TPI's) Management Quality Score indicator forms part of our voting approach to climate-related issues, alongside Urgewald's Global Coal Exit List and Climate Action 100+ (CA100+). For 2024, the TPI has increased its coverage by 469 companies to 1,010, with a new sector covering food producers. It has also added a new Level 5 assessment level for its Management Quality Score.

We will maintain our current implementation of TPI scoring in our vote policy and apply these high standards to the longer list of companies covered. In practice, this means that we may recommend voting against the election of responsible directors at companies in Europe and Australia and those in the oil, gas, coal, power generation and auto sectors scoring below Level 4 on the TPI Management Quality Score.

In the US, our current climate policy recommends votes against the nomination and governance committee director. Increasingly, companies have established sustainability committees with oversight provided by a specific board member or group of board members. In instances where our climate policy is flagged, we will examine the committee charter to identify which committee member is accountable.

**Q. Remuneration continues to be an important topic across all markets. Are we making any major changes to our policy or engagement approach?**

**A.** We are aware of the broader discussion taking place across geographies regarding levels of executive pay, and are cognisant that executives at truly global organisations will be receiving high levels of remuneration. 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 much lower level of pay. We believe that executive pay must be accompanied by robust justification, and disclosure on how the broader stakeholder experience has been considered.

In 2024, we will maintain our 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. In addition, we will potentially recommend voting against pay in instances where disclosure of how pay outcomes were reached is inadequate.

We will also continue to review the outcomes from pay schemes that granted awards during the pandemic, with particular scrutiny given to instances where executives may have received outsized windfall gains as a consequence of markets rebounding.

**Q. Have we made any changes to how we communicate our expectations and voting policies?**

**A.** We have continued to make progress on how we communicate our expectations and voting positions externally. Our collection of external voting communications is comprised of three categories of documents: our Global Corporate Governance Principles, our regional Public Vote Guidelines, and our market-level Engagement and Voting Priorities.

Our Global Corporate Governance Principles provide information on what we consider best practice, which is not limited to issues with direct vote policy implications. The Global Corporate Governance Principles can therefore be read as a high-level guide to our thinking and approach.

For 2024, we will publish regional Public Vote Guidelines for North America, Europe and Asia/GEMs. These Guidelines emphasise our position on key voting topics, such as director elections, executive remuneration and climate.

The Public Vote Guidelines are supplemented by market-level Engagement and Voting Principles for key markets, which highlight the areas of focus we have identified for each market and our related voting approach. All of these external documents are communicated to companies in advance of the voting season, and we will engage with companies following their publication to ensure that they are aware of our positions.



# Are companies accounting for climate risk?

There is still a disconnect between companies' net-zero targets and pledges and how they account for climate risk within their financial reporting, despite clear guidance from regulators and standard setters on how to do this. By Justin Bazalgette and Jo Beatty.

**With many companies saying they will align their carbon emissions reduction strategies with the Paris Agreement, investors are increasingly turning to company accounts to understand the financial impact of these plans.**

Standards bodies,<sup>1</sup> the European Securities and Markets Authority (ESMA),<sup>2</sup> the Financial Accounting Standards Board,<sup>3</sup> and the International Accounting Standards Board (IASB),<sup>4</sup> have all given clear guidance to companies on how best to reflect climate commitments and risks in financial reporting. However, investors continue to struggle to obtain sufficient information from companies and their auditors in order to assess the judgements, estimates and assumptions being used when considering the impact of climate on the accounts.<sup>5</sup>

The pressure on companies is set to grow with the EU's Corporate Sustainability Reporting Directive (CSRD) soon to replace the Non-Financial Reporting Directive. The new directive will expand the horizon of sustainability reporting in terms of the number of companies in scope and the quality of the disclosures required. Although it will primarily affect companies based in the EU, non-EU companies operating in the EU may be in scope if they meet certain criteria. One of the key requirements is the introduction of the need for third-party assurance of material sustainability-related information. This demonstrates the importance of the quality, reliability



**Justin Bazalgette**  
Theme co-lead:  
Corporate Reporting



**Joanne Beatty**  
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and robustness of non-financial information, mirroring the requirements for financial information. The first companies in scope will have to apply the new rules in the 2024 financial year, for reports published in 2025.<sup>6</sup>

Regulation may also be set to tighten in the US. In March 2022, the US Securities and Exchange Commission (SEC) proposed rule changes that would require publicly traded companies to include certain climate-related disclosures in their registration statements and periodic reporting. This includes information about climate-related risks that are reasonably likely to have a material impact on their business or financial condition.<sup>7</sup>

<sup>1</sup> effects-of-climate-related-matters-on-financial-statements.pdf (ifrs.org)

<sup>2</sup> ESMA32-1283113657-1041 Report – Disclosures of Climate Related Matters in the Financial Statements (europa.eu)

<sup>3</sup> FASB guidance is similar but less explicit than the IASB. It states that "When applying financial accounting standards, an entity may consider certain material ESG matters similar to how an entity considers other changes in its business environment... that have material direct or indirect effects on the financial statements and the notes"

<sup>4</sup> Climate-related Risks in the Financial Statements

<sup>5</sup> Still Flying Blind: The Absence of Climate Risk in Financial Reporting – Carbon Tracker Initiative

<sup>6</sup> [https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting\\_en](https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en)

<sup>7</sup> SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors



The proposed Enhancement and Standardization of Climate-Related Disclosures rule would also require disclosure of certain climate-related financial metrics in a note to the filer's audited financial statements, as well as disclosure of a registrant's greenhouse gas emissions. These have become a commonly used metric to assess a filer's exposure to climate risks.<sup>8</sup> Under the changes, certain filers would also be required to include an attestation report covering some emission scopes to promote the reliability of greenhouse gas emissions disclosures for investors.

Since the release of the proposed rule the SEC has consulted extensively, receiving over 11,000 comment letters from individuals and entities.<sup>9</sup> Perhaps unsurprisingly, the release of the final rule has been delayed several times. However, two climate disclosure acts applicable to large entities doing business in California were signed into law in October 2023. These apply to most large US companies doing business in California, public and private, if they exceed certain thresholds.

The Climate Corporate Data Accountability Act requires companies with more than US\$1bn in total annual revenues to report annually on their direct (Scope 1), indirect (Scope 2) and value chain (Scope 3) greenhouse gas emissions and to obtain assurance on the reported emissions.<sup>10</sup> The Climate-Related Financial Risk Act requires businesses with more than \$500m in total annual revenues to disclose their climate-related financial risks in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) biennially, beginning on or before 1 January 2026.<sup>11</sup>

### Assessing adherence to the standards

Some of the key companies under the spotlight are those included in the Climate Action 100+ (CA100+) list of the world's largest carbon emitters,<sup>12</sup> where investors consider climate to be a material matter. In the most recent assessment for CA100+ by Carbon Tracker,<sup>13</sup> no company met all the criteria for the climate accounting and audit assessment, notwithstanding some improvement. Some 93% of companies and their auditors still failed to provide and assess Paris-aligned sensitivities, highlighting the gap between investor expectations and what is provided.

Since our climate-accounting article in our Q1 2023 Public Engagement Report,<sup>14</sup> we have continued to engage with companies to highlight gaps in their disclosures and to ask for more information around how they have assessed the impact of their climate strategy on their accounts. In most cases, companies have asserted that the impact is not financially material, but investors need to understand how the company



**Danone**

**Danone is a French food and beverage company built around four businesses: essential dairy and plant-based products, early life nutrition, medical nutrition and waters. At the end of 2022 the company announced new climate targets, aligned with, and validated against a 1.5°C pathway, as part of the Danone impact journey.**

During engagements with the lead independent director and the sustainable finance director, we urged the company to ensure that it was clear how these new targets and associated strategies were being reflected in the financial statements and the audit. However, in Danone's next annual report there was a lack of information as to how the company and its auditor had considered climate in the preparation of the accounts. This prompted us to recommend a vote against the financial report and accounts at the company's AGM in April 2023.

has come to this conclusion and what the auditor has done to validate the company's approach. We will continue to put pressure on companies to improve their disclosures to ensure that there is sufficient rigour in the assumptions they have made, along with some assessment of the robustness of the company's business model under different climate scenarios.

<sup>8</sup> 33-11042-fact-sheet.pdf (sec.gov), SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors

<sup>9</sup> SEC.gov | Comments on Proposed rule S7-10-22

<sup>10</sup> Bill Text – SB-253 Climate Corporate Data Accountability Act. (ca.gov)

<sup>11</sup> Bill Text – SB-261 Greenhouse gases: climate-related financial risk. (ca.gov)

<sup>12</sup> Companies | Climate Action 100+

<sup>13</sup> 2023-Key-Findings.pdf (climateaction100.org)

<sup>14</sup> P10-14 EOS Public Engagement Report (hermes-investment.com)

<sup>15</sup> Applying IFRS Accounting for Climate Change August 2023 | EY – Global

<sup>16</sup> Climate Risks in Audited Financial Statements: PwC

<sup>17</sup> How Sustainable Accounting Fights Climate Change | Deloitte UK

As it was clear that many companies felt they were doing enough, we also spoke to the big four auditors to understand how they were approaching this issue. Auditors have done a lot to improve training and awareness, and they were able to provide examples of what was expected in relation to ESG in general and climate specifically.<sup>15,16,17</sup> However, some highlighted a lag between obtaining the information, the clarity of the regulations and standards, and companies disclosing what was needed.

### No immediate impact?

To understand the regulator position more thoroughly, we also engaged with the UK's Financial Reporting Council, ESMA and the SEC, directly and through our participation in CA100+. Although they recognised our concerns, the pace of change is slow. They argued that it had taken decades for financial accounting standards and reporting to evolve, while ESG-related reporting was still in its infancy. They also pointed out that company targets for carbon emission reductions are often over five years away, reducing their immediate impact on the accounts.

However, companies have a limited timeframe in which to transition their operations to lower-carbon models and mitigate climate risk. The longer they delay in accurately reflecting climate risk in their accounts, the more likely it is that the balance sheet will undergo a sudden and significant revaluation if assets are written down. At the same time, it is less likely that the company's net-zero targets and commitments will be met.

We also met with the IASB in August 2023, and again in October, to represent stakeholder concerns about the lack of visibility over accounting assumptions, judgements and estimates relating to climate commitments in company accounts. Following an extensive review, the IASB decided that the standards themselves were sufficiently robust but more clarity around their application was required for companies and auditors to meet stakeholder needs where climate was considered a material issue. It confirmed a number of actions to improve the situation.<sup>18</sup>

It is possible that companies and auditors have truly and accurately assessed the impact of climate commitments in the accounts. However, investors will remain concerned if companies do not adequately explain how this is the case, especially if the estimates and assumptions are unclear. Investors and their representatives are nervous that there are still big gaps between management assertions and the audited accounts. This is likely to persist as long as there is insufficient disclosure as to how the company has reached its conclusions, and what the auditor has done to validate them.

During the 2023 voting season, we continued to assess whether companies had sufficiently considered climate change in preparing and auditing their financial statements, and recommended votes accordingly. As part of our engagement activity with Climate Action 100+, this involved looking at companies where climate change presents material and foreseeable risks, and assessing the extent to which these are reflected in financial accounts. Insufficient disclosure of



### CASE STUDY

#### LyondellBasell

**In July we held an engagement with LyondellBasell, a Dutch chemical company that engages in the refinery and production of plastic resins and other chemicals. We spoke to the audit committee chair, the chief accounting officer and the chief sustainability officer, giving an overview of CA100+ and our expectations regarding climate-aligned accounts and audit.**

The company said that it had initiated an ESG dashboard to track progress at the board level, with the external auditor providing limited assurance. We reiterated the expectations for climate-aligned accounts and audit that we had set out in an earlier letter. We provided examples drawn from the company's 2022 financial statement and emphasised the need for clear disclosure of assumptions, consistency across reporting, and evidence that the auditor had assessed climate in the context of critical audit matters.

The chair said that he would raise these matters with management, adding that our engagement on this topic was well timed. He agreed to a further dialogue on the topic in 2024.

climate-related assumptions or detail in the financial notes, or insufficient evidence of progress on this topic, could result in escalated voting action. Conversely, where companies had made efforts to materially improve the alignment of their disclosures with investor expectations, we were able to recommend support.

We believe it is becoming more important for companies and auditors to meet the stated expectations of regulators and standard setters, and for regulators to act where more disclosure is required. In the meantime, EOS will continue to put pressure on all the main actors, resulting in real scrutiny of companies, their auditors and the accounts. Our aim is to help investors gain a clearer view of whether the accounts truly represent a company's commitments on climate.

<sup>18</sup> ap14c-potential-actions.pdf (ifrs.org)



# Why auditor rotation matters

With the Big Four accounting firms dominating audit in markets like the US, companies may stick with the same auditor for decades, undermining independence. Joanne Beatty explains how we are challenging this.

**In June 2020, following an extensive evaluation process, General Electric's audit committee chose Deloitte as the company's independent accounting firm, ending an engagement with KPMG that stretched back to 1909. GE's 111-year relationship with KPMG was among the sub-2% of S&P 500 companies with auditor tenures lasting more than 100 years.<sup>1</sup> The average tenure for auditors at S&P 500 companies is 32.7 years.<sup>2</sup>**

We believe that independence, and potentially audit quality, are at risk when the same external audit provider has been maintained for too long. In 2023, the US audit regulator levied record fines of over US\$11.85m against accounting firms for various audit failures.<sup>3</sup> In the same year, PwC was embroiled in tax controversies regarding the use of confidential government information in Australia and the US.<sup>4</sup>

In 2023 we toughened our stance on US companies with external auditor relationships that extend beyond a century. In each case we recommended votes against the audit committee chair (or other responsible director) and auditor ratification. This was for 37 companies, including United States Steel, Sherwin-Williams and Johnson & Johnson.

**In 2023 we toughened our stance on US companies with external auditor relationships that extend beyond a century.**



**Joanne Beatty**  
Theme co-lead:  
Corporate Reporting

Mandatory rotation for auditor firms is not a requirement in the US, unlike other markets, such as the EU, where companies are required to invite bids from other audit firms after 10 years.<sup>5</sup> Proponents of mandatory rotation policies argue that a long-tenure auditor-client relationship may erode auditor independence over time. Most of the companies we have engaged with on the topic agree that there is a risk of long-tenured auditors becoming too close to their clients. Certainly, GE's extensive tenure with one audit firm raised proxy adviser and shareholder independence concerns regarding KPMG's effectiveness and relationship with the company.<sup>6</sup>

The small percentage of companies with long-tenured auditors may put forward a range of arguments for retaining the status quo, including the benefits of deep expertise, or unique and complex accounting methods. But these arguments do not consider the benefits of rotation, and may expose the company to risk if the audit firm should fail. The Big Five became the Big Four with the demise of Arthur Andersen after the Enron and WorldCom frauds were uncovered, an accounting firm that had been in business since 1913.<sup>7</sup>

<sup>1</sup> After 111 Years, General Electric Switches Auditor | After 111 Years, General Electric Switches Auditor – Audit Analytics

<sup>2</sup> More Investors Are Voting Against Big Companies' Auditors – WSJ

<sup>3</sup> Accounting firms hit with record US fines over audit failures (ft.com)

<sup>4</sup> 'Disgraceful breach of trust': how PwC, one of the world's biggest accountancy firms, became mired in a tax scandal | PwC | The Guardian | PwC tax scandal: How firm was forced out of the shadows (afr.com)

<sup>5</sup> 09-23-20 Should the U.S. broaden its mandate on auditor rotation | American Accounting Association (aaahq.org)

<sup>6</sup> GE pressured to fire KPMG after 109 years as its auditor (cnn.com)

<sup>7</sup> [https://en.wikipedia.org/wiki/Arthur\\_Andersen](https://en.wikipedia.org/wiki/Arthur_Andersen)

The high-profile bankruptcies of these two big US companies were a factor in the introduction of the Sarbanes-Oxley Act of 2002, which mandated certain financial practices. Now auditor firms had to rotate their lead audit partner every five years. While this has been positive in terms of external independence controls, we do not consider this sufficient to maintain independence, particularly when the auditor firm tenure stretches beyond 20 years. We want to see auditor firm rotation at regular intervals and expect US companies to establish policies of mandatory rotation after 20 years' tenure, with a competitive re-tender process at the interim point of 10 years.

There are several commonalities to the small percentage of companies who have century-old relationships with their auditor. The companies are typically large with market caps

over US\$1bn and mostly in the industrial sector. They often have complex operations and procedures, across multiple segments, in a variety of locations.

We encourage all US companies, when seeking shareholder ratification of their independent auditor, to disclose the lead independent auditor partner, with a statement that the external audit firm has complied with Sarbanes-Oxley rotation requirements. We expect companies to disclose that they undertake an annual review of the auditor firm, and have an auditor rotation plan in place. In accordance with Sarbanes-Oxley and other regulations, the audit committee must demonstrate that it independently selects and engages the auditor and that it directly oversees the auditor.



## CASE STUDIES



### Deere & Co

**We raised our concerns regarding auditor tenure with Deere & Co in early 2022. Deloitte has been the company's external auditor for 113 years and we believe this puts independence at risk, despite the rotation of the lead audit partner after five years. In our 2022 proxy engagement with the company, we asked for an auditor rotation plan.**

The company said that it understood our concerns but argued that the benefits of a long-term engagement outweighed those of rotation, including audit quality. Deere cited the auditor's understanding of the company's global business and accounting practices, audit efficiency and effectiveness related to familiarity, and the avoidance of time and expense related to new auditor onboarding. Deloitte's audit fees in 2022 were US\$19.15m, up from \$18.8m in 2021.<sup>8</sup>

We asked the company to disclose its processes and controls to protect independence, given the long-term contractual relationship it has with its auditor. Due to our ongoing concerns regarding auditor independence, we recommended a vote against the audit committee chair and the ratification of the external auditor, in line with our 2023 US vote policy.<sup>9</sup> We wrote to the company advising it of our recommendations.

In 2023, in cases where an external audit firm had been in place consecutively for a period of 20 years or greater, we considered recommending a vote against the audit committee chair (or other responsible director), and the auditor ratification if there had been no review or consideration of auditor rotation by the company.

### Caterpillar

**Like Deere & Co, Caterpillar has enjoyed a long-term relationship with its external auditor. PricewaterhouseCoopers (PwC) has been Caterpillar's auditor since 1925, a period of 98 years. In 2023 we continued to press for rotation of the auditor, having first raised our concerns in 2021.**

The company maintained that, through its extensive experience with PwC, the auditor had gained institutional knowledge and a deep understanding of Caterpillar's operations, business, accounting policies and practices.<sup>10</sup> As with Deere & Co, Caterpillar had yet to disclose an auditor rotation plan and enhance its disclosures relating to the lead partner rotations.

Therefore, for both companies, and in line with our North America vote policies, we recommended opposing the reappointment of the auditors and the audit committee chair. We will continue to seek engagement with the board and the audit committee chair to discuss our concerns further.

Other companies where we recommended votes against the audit committee chair and auditors in line with our policy included Procter & Gamble, Pfizer, Kimberly-Clark, Kroger, PVH, Target, Coca-Cola, Dow, and Goodyear.

**As with Deere & Co, Caterpillar had yet to disclose an auditor rotation plan and enhance its disclosures relating to the lead partner rotations.**

<sup>8</sup> 0001558370-23-000200 (d18rn0p25nwr6d.cloudfront.net)

<sup>9</sup> eos-north-america-public-vote-guidelines-2023.pdf (hermes-investment.com)

<sup>10</sup> CM20230502-f9997-9c892 (scene7.com)





## CASE STUDY

## Meta Platforms



**Following the Cambridge Analytica scandal, we engaged with technology company Meta Platforms on how it could resolve its data privacy challenges and provide safeguarding policies that protect its users.**

Our engagement began in 2018, in direct response to the Cambridge Analytica scandal. During a call with the company, it explained how it viewed data privacy and content management as an ongoing challenge, but one that it took seriously. We encouraged it to clearly outline the steps it would take to solve these issues, and asked for its quarterly reporting to include information on how it was improving data privacy. We also expressed our concerns about the dual-class share structure and executive compensation, and encouraged the company to accelerate board refreshment.

Subsequently, we participated in a joint call organised by the Swedish National Pension Fund's Ethical Council, during which we commented on the company's draft human rights policy. We suggested that Meta could be more proactive in explaining how it chooses its human rights due diligence targets and be more explicit in how it identifies salient issues. In 2022, we published our Digital Rights Principles<sup>1</sup> and shared them with Meta. These outline our expectations on privacy rights, freedom of expression, and other human rights specific to digital products and services.

### Changes at the company

In the aftermath of the Cambridge Analytica scandal, the company committed to investigating apps that had access to large amounts of data before its data policies changed in 2014. It also said it would enhance restrictions on developers' access to large amounts of data, and make sure that users understood which apps they had allowed to access their data.

In 2022, Meta published its first standalone human rights report. This provided some helpful information on policies and procedures, such as around governing content on its platforms. It enhanced its bullying and harassment policy, and expanded its policies that prohibited veiled and implicit threats. However, we remained concerned that the business

model – which correlates higher revenue with higher quantities of clicks, likes, posts, and shares – contributed to the spread of problematic content on its platforms. The report fell short of the highest standard for user privacy rights in our view, which is a commitment to obtaining user consent for collection, inference, sharing, and retention of their data.

Meta appointed three new independent directors in 2020 and a fourth in 2022. However, we questioned the board's effectiveness, given the continued presence of the dual-class share structure. Plus, executive compensation did not improve: quantum remained excessive and there are no disclosed clawback policies, stock ownership guidelines, or holding period requirements for executives.

**We remained concerned that the business model – which correlates higher revenue with higher quantities of clicks, likes, posts, and shares – contributed to the spread of problematic content on its platforms.**

### Next steps

Following the publication of Meta's first human rights report, we would like the company to create videos and images describing its privacy policies and terms and conditions. We hope that future iterations of the report include a human rights impact assessment of the metaverse.

We continue to advocate for the company to strengthen its policies and protections for children and young people, to prevent abuse and exploitation and uphold the best interests of underaged users.



**Nick Pelosi**  
Sector co-lead: Technology  
Software

<sup>1</sup> <https://www.hermes-investment.com/uploads/2022/04/5a8aadeb037fb131b1889c3f6b1a85aa/eos-corporate-digital-rights-principles-04-2022.pdf>

Strategy,  
risk and  
communication

# Regional public policy highlights

Throughout 2023 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 provided feedback on a paper from the Institutional Investors Group on Climate Change (IIGCC) on *Assessing climate target alignment with cumulative benchmark divergence metrics*. We supported the goals of the paper and the improvements the methodology may be able to make to current methods for assessing the alignment of companies' targets with the goals of the Paris Agreement, especially the ability to assess the full decarbonisation trajectory of a company. However, we noted that the methodology did not address the ongoing challenge of accounting for the different carbon intensities of companies.

We met in Amsterdam with the core sub-group of the public policy advocacy working group of the Finance for Biodiversity Foundation. The goal was to define a strategy and agree actions to support the implementation of the Kunming-Montreal Global Biodiversity Framework, following COP15 in December 2022. We discussed developing a report or guide about the different measures that governments and regulators could implement, ranging from disclosure requirements to economic incentives.

**We asked Japan's Financial Services Agency to set a requirement for companies to disclose their voting results for their cross-shareholdings.**

We co-signed an investor statement co-ordinated by the Farm Animal Investment Risk and Return (FAIRR) initiative calling on the G20 Finance Ministers to repurpose their agricultural subsidies in line with climate and nature goals. This statement followed the Kunming-Montreal Global Biodiversity Framework (GBF), under which countries agreed to identify incentives, including subsidies harmful for biodiversity by 2025, and eliminate, phase out or reform them in an effective way.

As part of the Dutch investor group Eumedion, we sent letters with our expectations on sustainability reporting for 2024 to all Dutch-listed companies. We outlined our expectations around implementing the European Sustainability Reporting Standards (ESRS) and reporting against the Taskforce on Nature-related Financial Disclosures (TNFD).

We co-signed a letter to EU policymakers on plastics pollution. In the letter, investors and their representatives emphasised their strong support for an ambitious position from the European Parliament and the Council of the European Union on the Packaging and Packaging Waste Regulation (PPWR).



## Greater China

Increasing its drive for gender diversity, the Hong Kong Stock Exchange adopted a listing rules amendment stating that single gender boards are unacceptable. All existing single gender board companies – accounting for over 30% of the total – must appoint at least one director of a different gender by 31 December 2024. In our role as a steering committee member of the 30% Club in Hong Kong, we have continued to push for board-level gender diversity.



## Japan

In 2023, the Tokyo Stock Exchange addressed capital efficiency concerns related to significant cross-shareholdings by urging companies to disclose specific initiatives and policies for improvement if their price-to-book ratio was consistently below a multiple of one. We continue to seek a substantial reduction of cross-shareholdings and are pushing companies to set time-bound targets for doing so.

We attended a virtual delegation meeting alongside the Asian Corporate Governance Association (ACGA) to give our views on the latest action plan from Japan's Financial Services Agency (FSA). We asked the FSA to set a requirement for companies to disclose their voting results for their cross-shareholdings. We said that this practice negatively impacts capital efficiency and corporate governance, as companies mutually vote in support of each other, and support the appointment of 'independent' directors affiliated to these companies.



## Mexico

We expect disclosure of board candidates before the AGM so that shareholders have enough information to assess their capacity to fulfil their responsibilities, and their level of independence. When we started engaging in Mexico, we recommended voting against bundled slates, given the lack of disclosure on director nominees. We have since seen some



improvement, with companies disclosing board candidates before their AGMs, although bundling has persisted. Unfortunately market regulation is behind international best practice, as it is not a legal requirement for Mexican companies to present and disclose board candidates individually.



### South Korea

The Capital Markets Act, which came into effect in August 2022, means that listed companies with more than KRW2tn in assets must have boards comprised of more than one gender. In 2024, we expect large companies that have already added a female director to make further progress on board gender diversity.

The 2023 AGMs showed an increase in independent directors with a background in business, but we still see many directors with no business experience, usually recruited from academia. Although we acknowledge the contribution they may bring to boards, we consider business experience a critical component of the board skills matrix, particularly for boards with a high proportion of executive directors, which is usual in South Korea.



### UK

We were disappointed by the lack of progress on UK audit reform, and continued to advocate through multiple channels for substantive efforts in this space. We also continued to promote best practices and standards through consultation responses such as the Financial Conduct Authority's Consultation on Listing Rules and the Financial Reporting Council's Consultation on the UK Corporate Governance Code.

We signed an open letter to the UK Secretary of State for Energy Security and Net Zero from investors, their representatives, and companies. The letter welcomed an amendment to the Energy Bill, which included a specific net zero and carbon budget objective as part of Ofgem's mandate. Ofgem is the UK's electricity and downstream natural gas regulator. It demonstrated our support for the government to move quickly to equip Ofgem to deliver on its new mandate, following approval of the bill. We emphasised the need to scale up renewable energy infrastructure in the UK and to address the delays in grid connection. The letter also urged the government to finalise Ofgem's strategy and policy statement and ensure that Ofgem has sufficient capacity and resources to deliver against its revised mandate.



We supported a statement from industry about amending the Financial Services and Markets Bill to include a focus on nature. Introducing the notion of nature into the existing regulatory principle on climate change is a necessary and sensible step towards a sustainable future. The statement outlined how focusing solely on climate could risk overlooking the broader environmental challenges that we face.

We provided input into the development of the UK's National Action Plan (NAP) on antimicrobial resistance (AMR) for 2024-2029, by responding to a consultation led by the UK government. We underlined the importance of tackling AMR from a holistic perspective, including human health, animal health and planet health. We suggested that the NAP include a system of incentives to help companies with the development of vaccines or other alternatives to the use of antimicrobials, as well as incentivising the development of new antimicrobials.



### US

In the near term we expect regulators to require mandatory disclosure for US companies on climate and other ESG matters, increasing the pressure on goal setting and data. We have been encouraging companies to report in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework for some time now, as we believe companies that have already been reporting in this manner will be well prepared for future Securities and Exchange Commission (SEC) guidance and requirements on climate change.

We submitted a comment letter on the US Pipeline and Hazardous Materials Safety Administration's (PHMSA's) proposed rule for pipeline safety, focused on gas pipeline leak detection and repair. PHMSA is a leading federal pipeline regulator. We encouraged PHMSA to enhance reporting, transparency, and comparability, promote best operating practices, and improve public health and safety, and value chain regulatory oversight and transparency, while working closely with the US Environmental Protection Agency to close gaps in pipeline regulation.

We were an active inaugural participant at a Permian Basin workstream led by Ceres in collaboration with the University of Texas at Austin (UTA) and the Cynthia & George Mitchell Foundation (CGMF). EOS was the primary investor representative in this cross-sector workstream. We urged a focus on methane emissions reductions and financially material outcomes. UTA is developing emissions reduction technology with the goal of creating transparent models for accurate greenhouse gas accounting across oil and gas operations. This tool is beneficial for investors and their representatives as it would allow us to compare companies with different equivalent models. The workstream will look at how to disseminate information across all the Permian Basin operators. The outcome of these workstreams will be financially material as the reduction of methane benefits companies, investors, and stakeholders, as well as having an impact on climate change.

We hosted a panel on *Digital Rights and Big Tech in the US Fiduciary Context* at the Spring 2023 Council of Institutional Investors (CII) Conference. We invited speakers from IBM, Trinity Church Wall Street, and EqualAI to join us on the panel, which discussed how fiduciaries can exert greater oversight of technology risks. We also heard company and investor perspectives on navigating complex digital rights issues.

# EOS team

## Engagement



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

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## Our investment and stewardship capabilities:

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

## Why EOS?

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

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