

# Quarterly Highlights

Stichting Algemeen Pensioenfonds  
Unilever Nederland Kring Progress

Q1 2020  
Confidential

**Federated  
Hermes**   
EOS

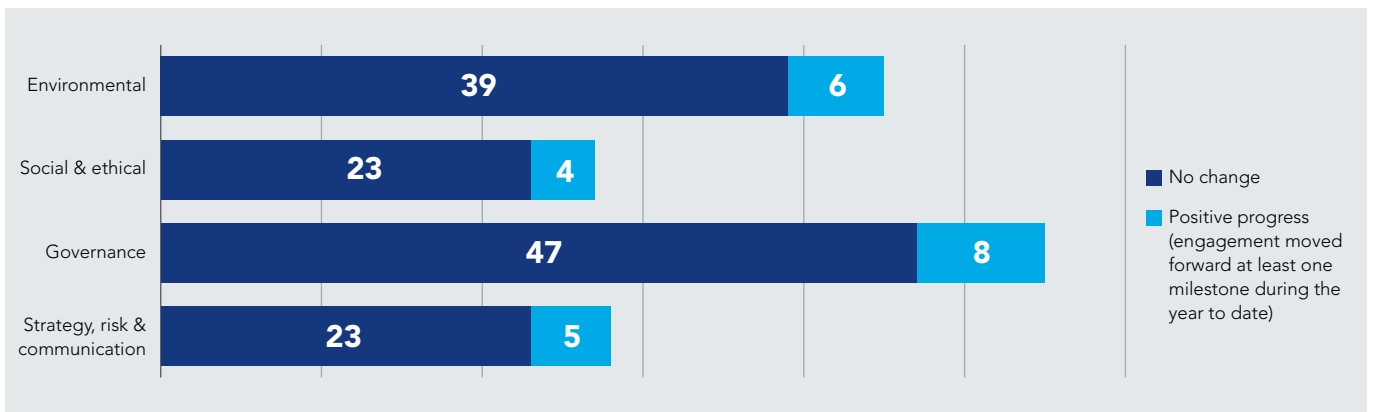
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## Introduction

Our Quarterly Highlights outline some of the more significant engagements undertaken by EOS at Federated Hermes on your behalf over the last quarter. The weekly updated [EOSi](#) client portal provides user-friendly access to these and other engagement activities and gives greater insight into the progress made at the companies on which we focus.

### Engagement progress 1 January – 31 March 2020

We made significant progress in delivering engagement objectives across regions and themes during the quarter. At least one milestone was moved forward for 15% of our engagements in 2020. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



### Milestone progress over the quarter as per completion

<b>M1</b> Concerns raised	<b>M3</b> Develop credible strategy/ Set stretching targets	<b>E</b> Environmental	<b>G</b> Governance
<b>M2</b> Acknowledgement of issue	<b>M4</b> Strategy implemented	<b>S</b> Social & ethical	<b>SRC</b> Strategy, risk & communication

### Sustainable Development Goals



# Engagements

## Citigroup (US)

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PROGRESSING

SDG number

**E** Clean energy financing

7 12 13

We encouraged a large, activist investor in Citi, that understands the importance of ESG factors, to urge the bank to develop a more coherent climate change strategy. The bank’s head of sustainability has confided in us that she is frustrated by the bank’s lack of action on climate, because it is mainly viewed as a long-term risk that does not greatly affect the company’s risk profile according to the US regulatory stress tests. While we think regulation will ultimately change, we urged the investor when we met, and in a follow-up email, to encourage the company to look at the opportunities that climate change lending and financing might represent, not least in its non-US markets where regulation is increasingly attempting to factor in climate risk. We plan to continue our dialogue on climate with the bank in the run up to its shareholder meeting.

## Sony (Japan)

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MIXED

**E** Supply chain labour standards

**S** Child labour in cobalt supply chain

**S** Diversity in senior management

The CEO told us about the potential impact of coronavirus on the music and film businesses as people avoid large gatherings, while the supply chain of its electronics business has been impacted. We asked for updates on its cobalt supply chain work and understand that four out of 18 smelters have been audited and the company continues to work with industry initiatives. We were assured that Sony was aware of the recent report by an Australian NGO about the alleged mistreatment of Uighur workers in China and that it had already established it does not directly source from the factories in question. However, an investigation into the next layers of the supply chain is ongoing.

We commended the company on the high level of board diversity, with four women and three foreign directors, but reiterated the importance of improving diversity among senior executives. The company said it is promoting female executives particularly in the music business, while supporting women after having children. We asked whether the board and senior management had discussed specific risks related to the use of artificial intelligence (AI). The company said it has an AI ethics committee comprising members with different backgrounds.

## Nestlé (Switzerland)

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MIXED

SDG number

**E** Set plastic reduction target M2

12 13

Nestlé recently announced an investment of £1.6bn to reduce its use of virgin plastic in food packaging by a third by 2025. The target of using recycled food grade plastic complements a target for 100% recyclable and reusable packaging. However, the strategy is lacking a target for a reduction in packaging. When challenged, we were pleased to hear that the company is removing plastic packaging, putting less plastic on the market, shortening the shelf life of products, and reducing packaging by weight. We pointed out that measuring plastic reduction by weight isn’t the best solution and pushed for a percentage for plastic reduction.

## Roche (Switzerland)

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MIXED

**SRC** Artificial intelligence M1

**SRC** Sustainability strategy M1

During our meeting with the head of sustainability and chief compliance officer at Roche, we raised our concerns about the sustainability strategy. While the annual report identifies some material topics, it is difficult to understand the direction of travel and it is not obvious that these efforts are well integrated into the business strategy. Roche acknowledged our concerns. There is a strong mandate internally, with people and the environment at the centre, but the approach is decentralised and a more structured and focused approach would be useful.

We also discussed the management of ethical risks associated with the use of artificial intelligence (AI). We shared a copy of our paper setting out investors’ expectations on responsible AI and data governance, and asked that Roche develop and publish principles on how it uses AI. Roche’s risk management and data management expertise means it is well placed to adopt a leadership position.

## Voting

We made voting recommendations at **11** meetings (**184** resolutions) over the last quarter.



■ Total meetings in favour **45.5%**  
 ■ Meetings against (or against AND abstain) **54.5%**

We recommended voting against or abstaining on **12** resolutions over the last quarter.



■ Board structure **16.7%**  
 ■ Remuneration **33.3%**  
 ■ Shareholder resolution **33.3%**  
 ■ Capital structure and dividends **8.3%**  
 ■ Amend articles **8.3%**

### Analog Devices (US)

We recommended voting against the say-on-pay proposal and chair of the remuneration committee due to misaligned pay and performance.

### Apple (US)

We recommended voting in favour of all agenda items, including against management on three shareholder proposals regarding increased proxy access, increased disclosure on freedom of expression and production of a board report considering potential use of ESG metrics in executive compensation decisions.

### Applied Materials (US)

We recommended a vote against the shareholder proposal to act by written consent, we believe it is less transparent and equitable for shareholders than holding a shareholder meeting.

### Swedbank (Sweden)

We recommended voting against the discharge of the former managing director/CEO due to ongoing investigations about historical money laundering. We recommended voting for, by exception on pay for executives, on the expectation that shareholding requirements will be addressed by the next AGM. We did not recommend support for shareholder proposals that we judged to be overly prescriptive, relate to matters outside the board's purview, and/or to be duplicative with independent investigation underway.

### Johnson Controls International (Ireland)

We recommended voting against the say-on-pay proposal and chair of the remuneration committee based on low shareholding requirements coupled with short holding periods and the use of options.

### Roche (Switzerland)

We recommended voting against remuneration-related items. It is positive that the performance share plan, which was based on total shareholder return, has now been discontinued. However, because long-term incentives are no longer based on performance measures there is more certainty of payment and we would therefore expect to see a discount in the value of awards. We also noted that the bonus is based on a set of measures but there is little disclosure around the assessment of performance. However, remuneration arrangements provide strong alignment with shareholders through the use of equity-based instruments with long holding periods and strong shareholding guidelines.

We also recommended a vote against the reappointment of the chair of the compensation committee. Gender diversity on the board is below our minimum expectation of 30%, and the company has not communicated a credible plan for meeting this target. Another area of concern is that the chair, who sits on the compensation committee, is considered a non-executive by the company but receives pension benefits and a bonus.

### Berkeley Group (UK)

After engagement, we recommended voting against the proposed changes to the remuneration policy. We remain fundamentally opposed to the highly performance-based structure, which in our view leads to an overly complex scheme that generates consistently high awards. We continue to believe that the aims of the remuneration strategy could be better served through a far simpler scheme, based on salary and long-term restricted shares.

## Federated Hermes

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

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

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

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

## Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **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 public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

## Contact information

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