

# QUARTERLY HIGHLIGHTS

Stichting Algemeen Pensioenfonds Unilever  
Nederland Kring Progress

Q4 2019

Confidential

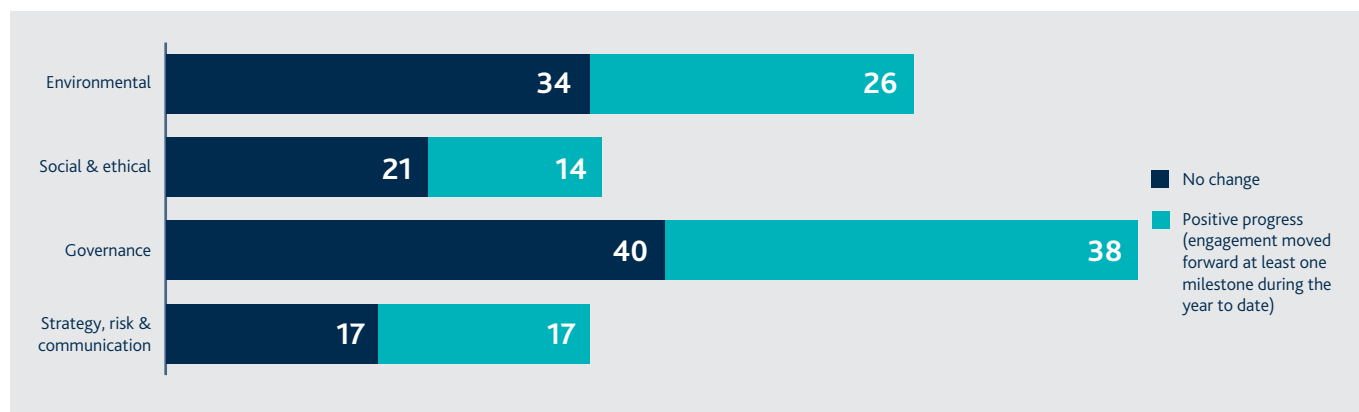
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## INTRODUCTION

Our Quarterly Highlights outline some of the more significant engagements undertaken by Hermes EOS on your behalf over the last quarter. The monthly 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 December 2019

We made significant progress in delivering engagement objectives across regions and themes during the quarter. At least one milestone was moved forward for 46% of our engagements in 2019. 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



### Sustainable Development Goals



## ENGAGEMENTS

### Royal Dutch Shell (UK)

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PROGRESSING	SDG number
<b>E</b> Climate change risk disclosure	7 12 13
<b>E</b> Audit assumption of long-term oil price	
<b>S</b> Management of Nigerian operations	

The chair acknowledged that the company is not doing as well as it could in maintaining its social licence to operate due to climate change. We challenged his belief that Shell's climate strategy is robust and that the challenges are around communications only. We explained that the net carbon footprint methodology has two problems: the company cannot guarantee carbon intensity reduction over the medium-term at the pace required without public policy support; and even if emissions intensity falls at the necessary rate, the aggregate energy demand and emissions could be too high. We recommended that the company seeks to ensure that all its capital is consistent with the Paris Agreement goals by focusing on the lower-cost projects. The chair acknowledged this challenge and agreed to consider it. We also raised our concern that the long-term oil price in the company's accounts is too high and not consistent with the Paris goals.

The chair added that the board was concerned about continuing health and safety issues and we agreed it should maintain constant vigilance. There remain severe challenges in Nigeria, particularly around the kidnapping of staff, but the board believes it is right to remain there, while shifting activities increasingly offshore. We will continue to engage on these topics.

### Citigroup (US)

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PROGRESSING	SDG number
<b>E</b> Clean energy financing <b>M2</b>	7 12 13

We pushed for greater action on climate change at a stakeholder panel convened by Citigroup, a leader on this issue among the largest US banks. It is clear that internal buy-in at a senior level to move more quickly remains a problem, so we sought to push the opportunities presented by being a leader. We emphasised the need to reflect the increasing importance of climate to its long-term investors and other stakeholders including its clients and employees, even if regulatory and political action is currently lagging in its home market. We will think about ways to help the head of sustainability to make the case internally, including writing to the board to stress the importance of climate.

### Roche Holding (Switzerland)

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MIXED	SDG number
<b>SRC</b> Purpose	

During a call, we encouraged the company to publish a statement of purpose. This will enable investors to more easily connect purpose to the company's long-term capital allocation and strategy. Such a statement would be a simple one-page declaration, issued by a company's board of directors, that clearly articulates the company's purpose and how to harmonise commercial success with social accountability and responsibility. It would specify the few stakeholders most critical to long-term value creation and sustainability, requiring the board to recognise and be transparent about its most significant stakeholders. Finally, the board would need to identify the time frames used by the company to evaluate its strategy and long-term capital allocation choices. We followed up by sending our guidance document.

### Microsoft (US)

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PROGRESSING	SDG number
<b>E</b> Conflict minerals management	16

We participated in a group investor call with Microsoft executives on responsible minerals sourcing practices. We questioned how the company is working with NGOs on the ground in conflict areas. Microsoft said it had been working with several NGOs to develop mining standards and that it is now working with mines on certification. However, it highlighted the need for more industry collaboration on responsible sourcing. The company has identified six priority minerals to focus on and discloses the smelters in its supply chain. Microsoft also said that it had helped to put together guidelines on the use of blockchain in the supply chain. However, it noted there was a need to provide on-the-ground infrastructure first to capture the information, and it needs to identify where to put this infrastructure to build capabilities.

### Seven & I Holdings (Japan)

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MIXED	SDG number
<b>E</b> Sustainability issues in supply chain	8 12 13 14
<b>SRC</b> Business strategy <b>M1</b> <b>M2</b>	15

We had a constructive discussion with the CEO, where he was extremely grateful for our suggestions. We welcomed the clear communication of the company's purpose and its acknowledgement of the need to consider various stakeholders including employees and suppliers.

The company recently received a letter from an activist fund demanding the sale of its underperforming supermarket business, among other things. We have expressed concerns about the underperforming businesses for a long time and suggested that the company needs to provide a clearer and more convincing plan for these. The company said it is considering restructuring options, and it is planning to announce further details in Q2 2020.

We welcomed a set of environmental targets, including those on plastic. Ahead of the government's plan to introduce a charge on plastic carrier bags from next year, the company is planning to introduce paper bags as an option and increase biodegradable ones. We were somewhat disappointed, however, that the directors failed to give us a timeframe for TCFD reporting, or commit to addressing deforestation risks in the cattle and soy supply chains. The company also said it was difficult to monitor labour standards at suppliers beyond the first tier, and we reiterated the importance of addressing these issues.

## VOTING

We made voting recommendations at **eight** meetings (73 resolutions) over the last quarter.



■ Total meetings in favour **25.0%**  
 ■ Meetings against (or against AND abstain) **50.0%**  
 ■ Meetings with management by exception **25.0%**

We recommended voting against or abstaining on **13** resolutions over the last quarter.



■ Board structure **7.7%**  
 ■ Remuneration **69.2%**  
 ■ Shareholder resolution **23.1%**

### Brambles (Australia)

We recommended voting against remuneration-related items. The shareholding guideline for the CEO is relatively low and the company does not provide retrospective disclosure of the targets used for the bonus. In addition, we do not support companies seeking to exceed the "15% in 12 months" dilution cap for equity-based plans. The chair of the remuneration committee has been on the board for 13 years and intends to retire within the next three years. The company gave us assurance that he will be standing down as chair of the remuneration committee.

### Vicinity Centres (Australia)

We recommended voting against the remuneration report due to the lack of disclosure around the short-term incentive metrics and low shareholding guidelines for the CEO.

### Cisco Systems (US)

We wrote to the company indicating we would recommend support for the say-on-pay, by exception to our policy. Although CEO remuneration was awarded at around 1.4 times peer median, the company's exceptional one and three-year total shareholder return performance, and a high degree of performance conditioning in long-term pay, made this a more reasonable award to support. The company also committed to not using one-time awards in 2019, increased the ownership requirements for executives, and extended clawbacks to include performance-based shares, based on shareholder feedback. On the matter of an independent chair, we supported this resolution. We suggested that the company should consider this as part of its succession planning.

### Microsoft (US)

We recommended a vote against the executive compensation due to concerns about excessive quantum, despite strong company performance. Also, there was a lack of disclosure in the company's proxy statement on whether or not executive compensation is adjusted for the stock price effect of the company's extensive share buyback programme. We supported management on all other items.

### Bank of Queensland (Australia)

We recommended voting against the remuneration report as there was no disclosure of the targets, threshold and maximum for the short-term incentive metrics and no shareholding guidelines for the CEO.

### Pernod Ricard (France)

We recommended voting against the remuneration report and policy as well as the authorisation for use in stock option plans. We had concerns about the lack of disclosure regarding the awards whose performance period ended during the year under review. We were also concerned about the use of stock options, the large potential payout for performance at median for the total shareholder return under the long-term incentive plan and the potential award of exceptional remuneration without a cap.

## HERMES INVESTMENT MANAGEMENT

We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

### Our investment solutions include:

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#### High active share equities

Asia, global emerging markets, Europe, US, global, small and mid-cap and impact

#### Credit

Absolute return, global high yield, multi strategy, unconstrained, real estate debt and direct lending

#### Stewardship

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### Offices

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Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes 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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