

OUTCOMES
BEYOND
PERFORMANCE

QUARTERLY HIGHLIGHTS

Stichting Algemeen Pensioenfonds Unilever
Nederland Kring Progress

Q2 2019

Confidential

www.hermes-investment.com

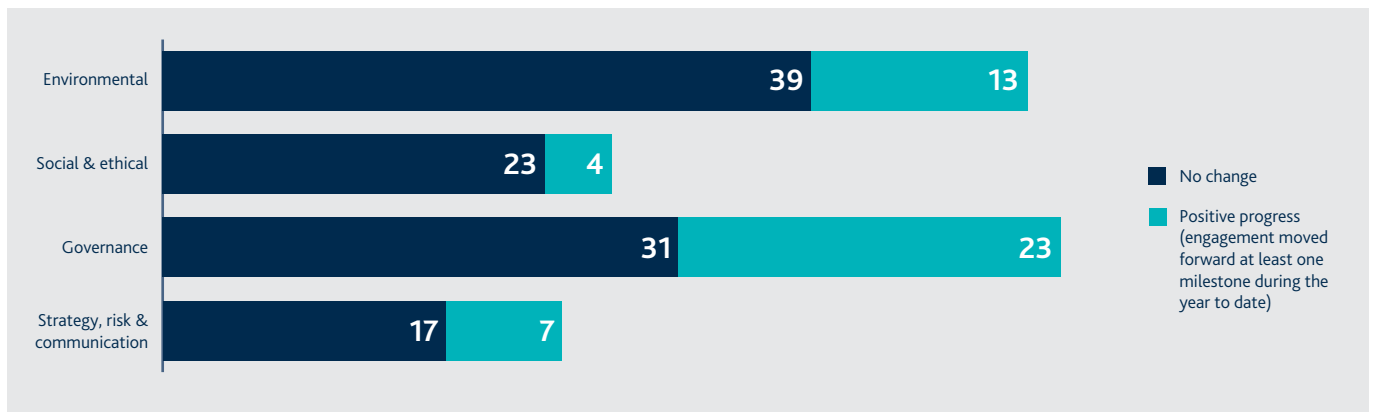

HERMES
EOS

INTRODUCTION

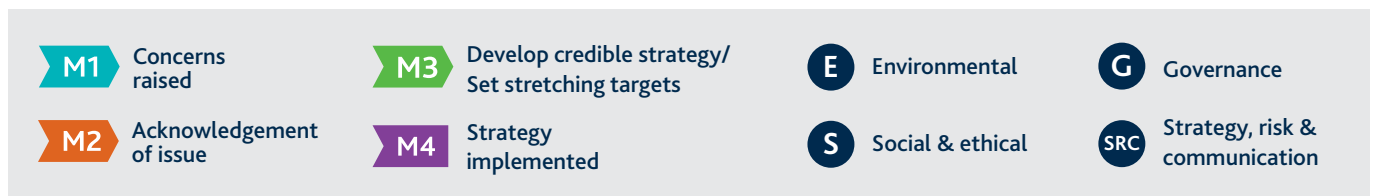
Our Quarterly Highlights outline some of the more significant engagements undertaken by Hermes EOS on your behalf over the last quarter. The monthly updated [EOSi](#) client portal provides user-friendly access to these and other engagement activities and gives greater insight into the progress made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

Engagement progress 1 January – 30 June 2019

We made significant progress in delivering engagement objectives across regions and themes during the quarter. At least one milestone was moved forward for 29.9% of our engagements in the year to date. 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

ArcelorMittal (Luxembourg)

[Learn more >](#)

PROGRESSING

SDG number

E Greenhouse gas emissions targets

7 12 13

We provided feedback on the company's recent climate report through the lead investor under Climate Action 100+ (CA100+). The report is a great explanation of the pathways for decarbonisation in the steel sector. It helps raise understanding of the options and the challenges that the company faces in achieving its ambition of carbon neutrality by 2050. It should help inform key stakeholders, particularly investors, customers and policymakers. We identified a number of follow-up questions to raise with the company in our next meeting including the status of the pilot projects, the potential to replicate and scale these, how the company is influencing emissions reduction in the mining and product use stages, and the contrasts in the decarbonisation outlook between European and non-European operations.

Daimler (Germany)

[Learn more >](#)

PROGRESSING

SDG number

E Alignment of lobbying to corporate position on climate change

13

G Chair succession M3

G CEO succession M4

SRC Sustainable vehicle models M3

At Daimler's 2019 AGM, which was attended by 5,000 shareholders, we were given the opportunity to speak, highlighting our support for Climate Action 100+. We were supportive of the recent changes to the management board and believe the newly-appointed CEO and chief financial officer have the relevant experience to lead the company at a time when the industry is undergoing significant challenges. The incoming CEO has outlined ways in which he will drive the business forward including intensifying alliances with competitors.

With regard to climate change, we welcomed the company's recent 'Ambition2039' strategy outlining its transition to a low-carbon business model. We are yet to see a forward-looking emission reduction target in line with regulation, but we believe the targets set out for CO₂-neutral production and a carbon-neutral new passenger car fleet are progressive steps. On corporate climate lobbying, we stated the need for increased transparency in how the company positively influences the industry associations of which it is a member.

Diageo (UK)

[Learn more >](#)

PROGRESSING

E Water stress

In its 2030 agenda, the company is seeking to be bold and to retain its focus on water, climate change and packaging. We asked about water management. The company conducts water risk assessments every three years and has visibility of potential stresses up to 2025 and 2030. In recent years, sites in Ethiopia, South Africa and Mexico have been added to the group of water-stressed locations. At such sites, there are programmes for water reduction and innovative technologies are piloted, such as that for steeping barley in Maharashtra, India, where water consumption has fallen by 35%.

The company has conducted an initial Task Force on Climate-related Financial Disclosures (TCFD) assessment but will not be publishing commercially sensitive data about the impact of climate change on profit margins. It supports mandatory TCFD reporting and sits on the beverage industry environmental roundtable to develop scenario planning. We will continue to monitor TCFD implementation and the forthcoming 2030 sustainability agenda.

Goodyear Tire & Rubber Co (US)

[Learn more >](#)

MIXED

E Science-based climate targets M1 M2

E Supply chain climate risk M1

Goodyear is actively looking to develop and sustain an ethical culture. Whilst we noted our concerns about the low levels of gender diversity across the company, it said there were a range of programmes in place to address this, including through employee resource groups and the recruitment process. We encouraged Goodyear to establish science-based climate targets for its Scope 1 and 2 emissions, as well as to develop plans for its Scope 3 emissions. The company said it is difficult to find the right balance between extending product life and reducing tyre rolling resistance to improve fuel efficiency. We encouraged Goodyear to consider the risk of climate change to its supply chain and rubber sourcing. Whilst the company is focused on sourcing sustainable natural rubber, it noted the challenge of traceability in the rubber supply chain and views this as an emerging risk. We plan to follow up with the company to understand what impact it can have on increasing the fuel efficiency of vehicles and how it will educate consumers on this.

UBS (Switzerland)

[Learn more >](#)

PROGRESSING

S Responsible tax practices

We spoke to the group head of tax, the group head of corporate responsibility and representatives from investor relations about tax. The bank said that we can take credit for its recently published document on its approach to tax matters. Our statement of engagement approach to tax and best practice examples prompted board-level discussions. Although encouraging transparent country-by-country reporting, UBS does not plan to report beyond what is required by local jurisdictions. The bank is involved in a tax controversy with the French authorities, which became a major part of the 2019 AGM. We asked for details about the current status of the litigation, expected timelines and lessons learned. The bank was forthcoming with its position on this controversy but was not able to disclose much information about lessons learned except for the role played by the proxy advisers. We sought clarification about other controversies, and UBS confirmed that it is not the subject of any cum/ex trades tax investigations.

VOTING

We made voting recommendations at **68** meetings (1,072 resolutions) over the last quarter.



- Total meetings in favour **32.4%**
- Meetings against (or against AND abstain) **60.3%**
- Meetings abstained **1.5%**
- Meetings with management by exception **5.9%**

We recommended voting against or abstaining on **119** resolutions over the last quarter.



- Board structure **26.9%**
- Remuneration **37.0%**
- Shareholder resolution **18.5%**
- Capital structure and dividends **8.4%**
- Audit and accounts **9.2%**

Facebook (US)

We recommended votes against the lead director and the chair of the audit and risk committee because of persistent governance failings and the lack of a coherent plan to restore trust in the company. We also supported by exception the election of a new director as she was a senior manager of the foundation set up by the company's founder and his wife. We recommended a vote against the say-on-pay resolution because of the lack of a comprehensive clawback policy and insufficient management shareholding requirements. We supported several shareholder proposals: for the elimination of dual class stock; for an independent chair; for a majority vote standard for director elections; for a report into the governance of the platforms' content; and for a report on the company's global gender pay gap.

ING Groep (Netherlands)

Following a collective engagement with the board, we recommended a vote against the proposals to discharge the members (and former members) of the executive and supervisory board in respect of their duties performed in the 2018 financial year. Two important issues adversely impacted ING's reputation in 2018, and generated negative public sentiment. The first was the supervisory board's proposal to increase the CEO's fixed salary by more than 50%. This proposal met with strong criticism from the public, politicians, clients, employees and others, prompting the supervisory board to withdraw the proposal five days after it was published.

The second was the settlement with the Dutch public prosecutor relating to serious shortcomings in the execution of policies to prevent financial economic crime. ING agreed to pay a fine of €775m, as it did not properly fulfil its role as gatekeeper of the Dutch financial system. One of the causes was the 'business over compliance' culture, with commercial objectives prevailing over compliance with relevant laws and regulations.

Although the bank has taken a number of measures to put its house in order, which will be overseen by the Dutch central bank, it is difficult to judge how well a stronger risk awareness culture is already embedded. The executive and supervisory boards are ultimately accountable for the culture and they did not take effective steps to restore compliance risk awareness despite multiple warnings by the Dutch central bank.

Lloyds Banking Group (UK)

We recommended voting against the approval of the directors' remuneration report. Although the CEO has agreed that his pension allowance should be reduced from 46% to 33% of base salary, there is a significant, partially offsetting, increase in his fixed share award. Further consultation with the remuneration committee will take place later in the year ahead of the 2020 AGM when a new remuneration policy will be proposed to shareholders.

Mitsubishi Corp (Japan)

We opposed the election of an outside director, due to concerns about his independence. The candidate is the chair of Mitsubishi Heavy Industries (MHI), with which Mitsubishi Corp has a cross-shareholding and a business relationship. Also, it appears as if the candidate is replacing the outgoing outside director, who is the former chair of MHI.

Reckitt Benckiser (UK)

We recommended voting against the remuneration policy and report. We have substantial concerns about the underlying approach to pay, as this is highly leveraged and focused on share price appreciation. We did not support the remuneration report as it continued to show the high variable pay that had caused us not to support the previous underlying policy, with in-year variable pay awards representing around 1,400% of salary for the CEO. We also questioned the appropriateness of a 3% salary increase for the outgoing CEO for 2019, when his departure was announced in mid-January 2019.

Tencent (China)

We recommended a vote against a member of the nomination committee due to poor gender diversity at the board level. We have engaged on this issue since H2 2018 and shared our expectations. The board has acknowledged gender diversity as an issue throughout the organisation and has taken initial steps to grow the talent pool. We believe more can be done and have recommended votes against directors where appropriate, to strengthen our voice and expectations of the positive changes that need to take place on board gender diversity.



PUBLIC POLICY

Sustainable Stock Exchanges Advisory Group meeting

At the Sustainable Stock Exchanges (SSE) Advisory Group meeting at the United Nations in Geneva, we contributed to the drafting of a working document on how to embed sustainability in stock exchange operations. The paper will go through two rounds of public consultation followed by a launch in September 2019 to celebrate the 10th anniversary of the SSE Initiative. We encouraged the exchanges to address conflicts of interests in governance, cyber and data security, and safeguarding shareholder interests to support good stewardship practices.

In addition to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, which are already included, we recommended referencing the United Nations Guiding Principles for Business and Human Rights, and the Sustainability Accounting Standards Board's reporting guidance for securities and commodities exchanges in the guidance document. This would form a good basis to report on strategy and ESG issues. To demonstrate board oversight and progress on sustainability, we encouraged the exchanges to disclose board-level sustainability priorities, metrics and progress in annual reporting, with disclosure to include peer learning activities that strengthen the interactions of SSE Initiative members.

International Energy Agency meeting on scenario analysis

We met senior executives at the International Energy Agency (IEA) to discuss the energy scenarios produced by the organisation, and how these could be improved to serve a greater societal role. We had a robust discussion on the importance of a 1.5-degree scenario. The IEA is going through a period of transition to develop a closer working relationship with emerging economies. We recognised that there may be differences in terms of prioritisation. However, we highlighted how critical it was for a 1.5-degree scenario to be produced from an investment perspective, so that investors understand how to align their investments, and the scale of the changes that are required.

With the special report by the Intergovernmental Panel on Climate Change (IPCC) published in October 2018, the IEA is well aware of the urgency. We encouraged a more conservative attitude towards carbon capture, utilisation and storage, which has failed to meet expectations over the past few decades. We set markers to continue to develop this relationship and are well placed in the production cycle for the IEA's annual World Energy Outlook to influence the 2019 publication.

Palm oil investor expectations statement

As part of the PRI investor working group on palm oil we contributed to and signed an investor expectations statement on sustainable palm oil. This was released on 3 April by the PRI and is signed by 55 investment organisations with approximately US\$7.9tn in assets under management. It expects companies across the palm oil value chain to: implement and publicly disclose a policy of 'no deforestation, no peat, no exploitation' as a minimum; commit to full traceability to plantation level; and map and disclose palm oil concession areas, for companies involved in the production of palm oil.

It also strongly encourages companies to: make efficient investments to improve palm oil yield and productivity without expanding production to new concession areas; become members of the Roundtable on Sustainable Palm Oil; and apply its new principles and criteria.

Brazilian Institute of Corporate Governance call

In a call with the Brazilian Institute of Corporate Governance (IBGC), we gave our feedback on the comply-or-explain disclosures made by Brazilian companies and discussed possible actions to improve these. In 2018, Brazilian companies listed on the main stock exchange index had to submit a report on their compliance with Brazil's corporate governance code. The IBGC is preparing a report on the quality of the disclosure and asked for our feedback. We expressed our disappointment with the defensive approach generally used, which shows a lack of understanding about the comply-or-explain framework.

Access to Medicine Foundation meeting

We met the Access to Medicine (ATM) Foundation to reiterate our concerns about the current ranking structure and methodology of the ATM Index, which favours some companies due to their existing product portfolio. The foundation acknowledged our concern and noted that other investors had expressed similar sentiments, but seemed reluctant to act, as multiple influential stakeholders are involved in the index. We agreed to continue to discuss these concerns by participating in the upcoming ATM methodology consultation process.

We noted our appreciation for the publication of the Antimicrobial Resistance Benchmark, which does not rank companies but provides useful information on company approaches to antimicrobial resistance. However, we explained that the benchmark should also consider the risk that antimicrobial resistance poses to different companies. The foundation acknowledged this point and said it could offer more investor briefings to share insights about the risk of antimicrobial resistance for pharmaceutical companies.

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:

Private markets

Infrastructure, private debt, private equity, commercial and residential real estate

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, global investment grade, unconstrained, real estate debt and direct lending

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | Denmark | Dublin | Frankfurt | New York | Singapore

Contact information

Hermes EOS

Dr Hans-Christoph Hirt Hans-Christoph.Hirt@hermes-investment.com

Why Hermes EOS?

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.

For more information, visit www.hermes-investment.com or connect with us on social media:   

For professional investors only. The activities referred to in this document are not regulated activities. This document is for information purposes only. It pays no regard to any specific investment objectives, financial situation or particular needs of any specific recipient. Hermes Equity Ownership Services Limited ("HEOS") and Hermes Stewardship North America Inc. ("HSNA") do not provide investment advice and no action should be taken or omitted to be taken in reliance upon information in this document. Any opinions expressed may change. This document may include a list of clients. Please note that inclusion on this list should not be construed as an endorsement of HEOS' or HSNA's services. HEOS has its registered office at Sixth Floor, 150 Cheapside, London EC2V 6ET. HSNA's principal office is at 1001 Liberty Avenue, Pittsburgh, PA 15222-3779. Telephone calls will be recorded for training and monitoring purposes.

CONFIDENTIALITY: By reading this report, you acknowledge that its contents are confidential, and you agree to protect the confidentiality of this report. You may only use this report for your own internal business purposes. You shall not transmit or publish this report in whole or in part to any third party or such that it becomes public, in any form or format. Any breach of this obligation may result in Hermes EOS restricting your access to future reports.

EOS00440 0006739 07/19