

OUTCOMES
BEYOND
PERFORMANCE }

QUARTERLY HIGHLIGHTS

Stichting Algemeen Pensioenfonds
Unilever Nederland Kring Progress

Q1 2019

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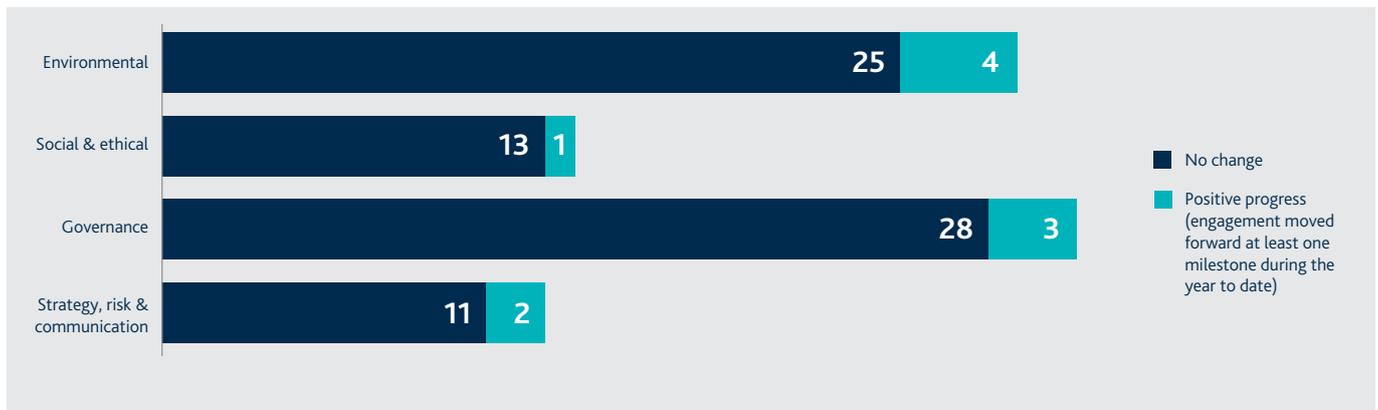

HERMES
EOS

INTRODUCTION

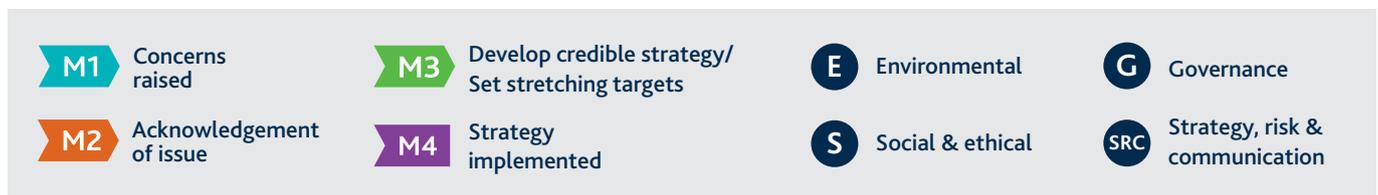
Our Quarterly Highlights outline some of the more significant engagements undertaken by Hermes EOS on your behalf over the last quarter. The monthly updated [EOSi](#) client portal provides user-friendly access to these and other engagement activities and gives greater insight into the progress made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

Engagement progress 1 January – 31 March 2019

We made significant progress in delivering engagement objectives across regions and themes during the quarter. At least one milestone was moved forward for 11% 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

Apple (US)

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We voiced our concerns about the executive compensation packages of senior management. The stock awards of the chief financial officer, chief operating officer and the general counsel are over 21 times their base salary, a long way from the Hermes recommendation of a 50:50 split between base and performance-linked remuneration. There is no inclusion of clawback provisions except in restricted stock units and the long-term incentive plan only includes financial objectives, using total shareholder return as a metric, without any strategic objectives. All are against our remuneration principles. We have asked for a meeting with the compensation committee chair.

We also encouraged more explicit support for the Task Force for Climate-related Financial Disclosures (TCFD) and further disclosure on scope 3 emissions management. We suggested the introduction of long-term value and sustainability metrics for executive remuneration, expansion of diversity disclosure to include targets and a timeline, and the responsible use of AI and data governance.

Bank of America (US)

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We raised our concern that executive pay at larger US institutions, including at the bank, is frequently too high and is likely to mean that we recommend a vote against the executive compensation. The bank has received a shareholder proposal requiring it to publish the mean pay of each gender. It believes this could have unintended consequences as it is aggressively hiring more women at lower levels, which initially could lead to the ratio getting worse. We said that this concern, while valid, could be easily explained by the company and should not prevent it from making the disclosure.

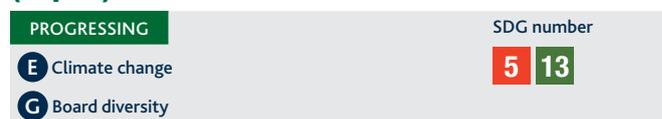
The company added that it has a new policy to no longer invest in new coal-fired power, except in emerging markets where there is no viable alternative. However, we challenged the company about the latter on the grounds that it leads to little business, but still incurs the full reputational risk of being associated with financing coal. We also pressed the company to improve its reporting on climate change risks, in line with the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD). The company said that it is advancing its reporting framework and is still trying to improve its understanding of long-range climate scenarios. We were comforted to hear that this year's proxy statement will contain references to the TCFD framework.

Nestlé (Switzerland)

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In a meeting with the chair we probed the company's governance in light of recent news reports about tensions in the boardroom, and with an activist shareholder. We welcomed the chair's strong commitment to Nestlé's shared value strategy, long-term resilient growth and critical issues such as plastics and water. On climate, the chair explained Nestlé's work on its supply chain to improve resilience, adding that some sourcing had already been shifted to different geographies because of global warming. We were pleased that our call for a return-on-investment measure to be added to the long-term remuneration policy has finally been heard.

Nippon Telegraph & Telephone (Japan)

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In a meeting with the company it admitted that some of its climate-related targets were not ambitious. It explained the difficulty of setting ambitious goals in Japan where people tend to be cautious about committing to something unless they are very certain about feasibility. It told us that it is considering reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, so we encouraged it to publicly commit to this. The company has started collecting used mobile handsets to recycle gold, silver and copper into medals for the 2020 Tokyo Olympic games, which it is sponsoring. The company has admitted that it needs to do more on recycling and is considering further promoting the use of second-hand handsets, which is very limited in Japan.

While acknowledging the need to appoint female directors, the company is finding it difficult to identify suitable candidates as it is looking internally rather than externally. We suggested that it consider lowering the unofficial minimum age requirement for director candidates, which would help expand the pool of female candidates and add age diversity.

Royal Dutch Shell (UK)

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We had a positive meeting with the board chair to discuss governance and the energy transition. We pressed the company on how it will maintain capital discipline in scenarios where demand is declining. The company responded by saying that it was, for the most part, taking a more gradual approach to investment in projects, targeting the rate of return. This helps it to make investment decisions with a clearer view of external demand conditions and ensures it does not lock-in capital over the long term. It is worth keeping in mind that the reserve life of Royal Dutch Shell is shorter than that of its European peers. On the other hand, the company is keen to continue with deepwater projects, where it feels it has a competitive advantage. Average breakeven costs for deepwater projects are usually higher than those for other fossil fuel sources, and therefore more exposed to the energy transition. We were impressed with the company's processes for educating board members on emerging risks. The chair remarked on the positive difference the increased board diversity had made.

VOTING

We made voting recommendations at **9** meetings (153 resolutions) over the last quarter.



■ Total meetings in favour **44.4%**
 ■ Meetings against (or against AND abstain) **55.6%**

We recommended voting against or abstaining on **10** resolutions over the last quarter.



■ Board structure **20%**
 ■ Remuneration **50%**
 ■ Shareholder resolution **30%**

Apple (US)

We recommended a vote against the compensation chair and say-on-pay proposal due to excessive stock awards of key executives at over 21 times of their base salary. We also recommended a vote for the shareholder proposal of proxy access amendments as it supports the enhancement of shareholder rights.

Iberdrola (Spain)

We recommended voting against the remuneration report as it grants the chief executive officer (CEO) termination benefits of three times his total pay (salary and latest paid bonus), which is not in line with the Spanish code of corporate governance. The CEO is also entitled to a two-year compensation as a post-contract non-competition agreement, which brings his total termination benefits to the equivalent of five years of pay.

Johnson Controls International (Ireland)

We recommended a vote against the say-on-pay proposal and, as a result, a vote against the chair of the compensation committee also. We are concerned that base salary and other components of pay have risen sharply. The chief executive's target pay can be considerably above median, which can lead to further ratcheting up of pay. We are also concerned that options as part of the long-term scheme can vest within three years. We think three years for a long-term incentive plan is medium term at best and so are very concerned about options that vest within a shorter time frame.

Novo Nordisk (Denmark)

Upon gaining assurance that the purpose of the pool of capital for employee benefits was not to fund the controversial long-term incentive plan, we recommended voting in line with management for all proposals. Instead, it has been earmarked to compensate potential loss of deferred pay for new hires.



PUBLIC POLICY

Transition Pathway Initiative

The Transition Pathway Initiative (TPI) scores companies based on the quality of their management of climate change risks and the extent to which they are transitioning their business model. At the TPI's **Technical Advisory Committee meeting** we received an update on the academic analysis of the results of the TPI's scoring methodologies. Notable insights included that companies generally divide into those that are 'well managed' and those that are 'less well managed' with not much in between. Most companies that have set targets have made these Paris Agreement-aligned, but many more have unfortunately not set any targets at all.

We discussed a number of proposed changes to the measurement methodology for the management score under TPI. We expressed our enthusiasm for adding a score for having a link between executive remuneration and action on climate change and also including alignment of lobbying activity. We also discussed some of the methodological challenges in measuring carbon intensity targets. For the coal industry, it could be better to look at intensity per unit revenue rather than per unit energy, otherwise little reduction in emissions is possible. We agreed to meet again in around six months to review progress against the new scores.

Asset Management Association of China

We delivered the **first full-day ESG education seminar** to over 200 members of the Asset Management Association of China in Beijing. This focused on the importance of ESG investment analysis pre-investment and stewardship post-investment across a number of asset classes, including equities, bonds, real estate and private equity, with case study examples. We discussed the practical challenges in responsible investment, ranging from integration and data availability to transparency issues. We encouraged the audience to think 'outside the box', focusing not only on disclosure-based research analysis to embrace innovative, forward-looking approaches to ESG but also on proactive actions when identifying material ESG issues, and supporting the policy framework development as it emerges.

30% Club – Brazil Chapter

At the launch event for the 30% Club – Brazil Chapter, we chaired a panel exploring the role of various stakeholders in promoting greater **board gender diversity** in Brazil. The event was attended by chairs, board members, investors, consultants and regulators. In our panel, we presented our corporate governance principles for Brazil and our voting policy, highlighting our expectations on board gender diversity. Panellists included the biggest local pension fund, a major international asset manager, the head of the Brazilian Institute of Corporate Governance, a female non-executive director and a board recruitment consultant. We also set next steps for the investor group. These included giving feedback to companies on the 2019 AGM board elections, and engagement on the development of nomination policies by Brazilian companies, taking diversity into account.

Asian Corporate Governance Association

In a group meeting with the Asian Corporate Governance Association (ACGA) and other investors, we discussed governance issues in **Japan, China, South Korea and India**. We shared our concerns over the lack of clarification from Japan's Financial Services Agency about collective engagement, which is deemed to be deterring investors from working collaboratively. In discussing the role of the board at Japanese companies, we pointed out that most companies do not even explicitly name the chair, who plays a key role in improving board effectiveness. As the ACGA asked whether UK boards explicitly support initiatives to tackle climate change, we mentioned how some companies in the extractive sector have supported shareholder proposals for a roadmap to address climate change in line with the Paris Agreement, sending a clear message from the top.

All-Party Parliamentary Corporate Governance Group, UK

We attended the annual lunch of the All-Party Parliamentary Corporate Governance Group, held in the House of Lords. The event featured a debate on whether corporate governance generates value for shareholders, with speakers representing a range of views. One area of general agreement was that the push for **greater disclosure** has produced unintended consequences, with reporting becoming unwieldy and difficult to understand and companies facing high reporting and compliance burdens.

US Securities and Exchange Commission meeting

We participated in a meeting with a commissioner of the US Securities and Exchange Commission (SEC) organised by the PRI. The commissioner was very positive on the agenda that concerns long-term shareholders but is currently in a minority on that body. In response to our question about how to defend the **proxy voting process** in the US from attack, he encouraged those present to actively use their rights. This could include filing shareholder proposals, as this will make it harder for the SEC to argue that they are not important. In response to our question about how to successfully achieve SEC rule changes, specifically the one that we have supported to improve human capital management reporting by US companies, the commissioner suggested that those present write in to support such initiatives. In particular, large institutions, including those from outside the US, should show they believe that ESG issues are important. Following the meeting we sent the human capital management petition for rule-making to the PRI, suggesting that it circulate the petition for those present to write in to support it if they had not done so already.

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

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