

OUTCOMES  
BEYOND  
PERFORMANCE }

# QUARTERLY HIGHLIGHTS

Stichting Algemeen Pensioenfonds  
Unilever Nederland Kring Progress

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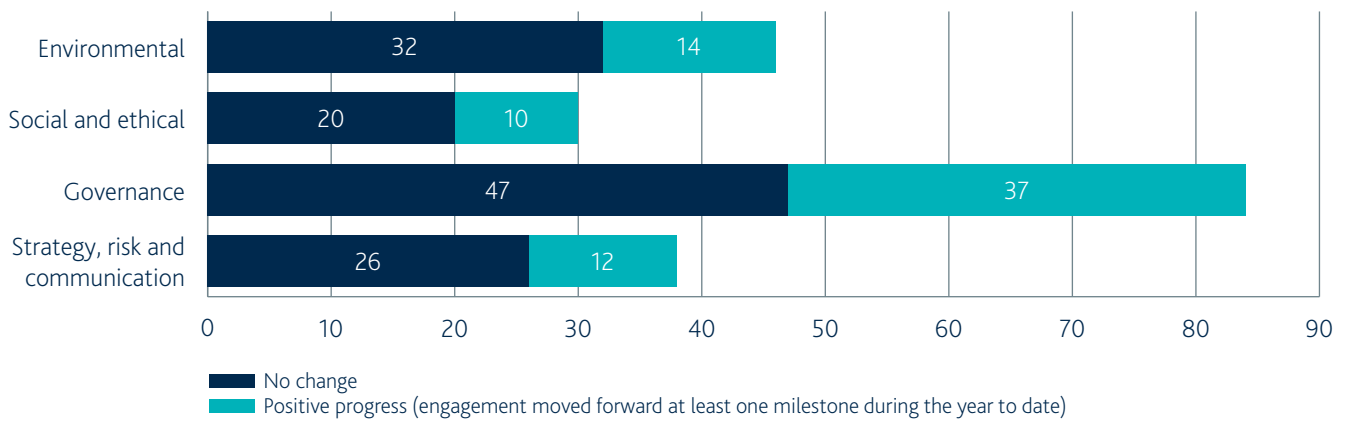
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Q4 2018

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 2018

We made significant progress in delivering engagement objectives across regions and themes during the quarter. At least one milestone was moved forward for 37% of our engagements during 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

- M1** = Concerns raised
- M2** = Acknowledgement of issue
- M3** = Develop credible strategy/Set stretching targets
- M4** = Strategy implemented
- E** = Environmental
- S** = Social and ethical
- G** = Governance
- SRC** = Strategy, risk and communication

### Sustainable Development Goals

- 1 = No poverty
- 2 = Zero hunger
- 3 = Good health and well-being
- 4 = Quality education
- 5 = Gender equality
- 6 = Clean water and sanitation
- 7 = Affordable and clean energy
- 8 = Decent work and economic growth
- 9 = Industry, innovation and infrastructure
- 10 = Reduced inequalities
- 11 = Sustainable cities and communities
- 12 = Responsible consumption and production
- 13 = Climate action
- 14 = Life below water
- 15 = Life on land
- 16 = Peace, justice and strong institutions
- 17 = Partnerships for the goals

## Engagement

### AstraZeneca (UK)

MIXED

#### S Access to Medicines

We met with the company's director of investor relations, chief compliance officer, director of the healthy heart Africa programme, and a director of sustainability communications at the launch of the 2018 Access to Medicines Index (ATMI). The company is ranked ninth out of 20 companies, however the report identified some clear areas for improvement, specifically around disclosing its access plans for its late stage projects, as well as monitoring and evaluation of its current access activities. Our overall impression was that whilst the company was mindful of our expectations around access to medicines, it sought to address this by establishing two or three signature initiatives, and managing them at a relatively junior level in the organisation. This is perhaps because its product portfolio consists mostly of luxury medicines, not those traditionally considered relevant in the developing world. Given this, we think its ATMI score was a bit generous. So whilst we would not consider it an industry leader in access strategy, it is doing enough to maintain a social license to operate and has been receptive to feedback about better monitoring and evaluating its current activities.

### Danske Bank (Denmark)

MIXED

#### S Anti-money laundering procedures

#### S Business conduct and ethics M1

In a meeting with the chair, we raised our concerns about the findings of the investigation into money laundering, and pressed for an independent assessment of the bank's culture and business ethics. The chair detailed the process followed by the Danish law firm retained by the board to examine the non-resident portfolio in the bank's Estonia branch and to assess the accountability. He informed us that the law firm investigated possible breaches of fiduciary duty and of the duty of diligence and found no evidence. We shared examples of engagements with companies that had to rebuild stakeholder trust following corruption scandals. We highlighted that correcting the failings that gave rise to the extensive money laundering activity was necessary but insufficient and the chair concurred. We pressed the bank to appoint an independent panel of experts to make recommendations to improve the bank's conduct and business ethics. Subsequently, the chair resigned and a new chair was elected at an extraordinary shareholders' meeting. We asked for a meeting with the new chair and the new chief compliance officer, which the bank agreed to organise.

### NIKE (US)

PROGRESSING

#### S Diversity and inclusion

We focused our discussions on the steps taken since the recently revealed problems of harassment near the top of the company. The company explained that it has since taken a long-term approach to improving its diversity and inclusion programme and overall corporate culture, along with promoting a chief diversity and inclusion officer and building her team. On its recent shareholder meeting and say-on-pay proposal, we highlighted that we would like to see improvements such as including options without short vesting periods. We followed up with suggestions for improving its engagement programme and thanked it for its statement expressing deep concern regarding the allegation of sexual misconduct surrounding a prominent soccer player whom the company sponsors.

## Voting

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



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

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



■ Board structure **28.6%**  
■ Remuneration **57.1%**  
■ Shareholder resolution **14.3%**

### Lam Research (US)

We recommended voting against the executive officer compensation, and therefore the chair of the compensation committee, due to several issues including long-term incentive targets and metrics that are not adequately challenging and incentivising, a lack of clarity on the annual bonus metrics, significant use of options and a short vesting period.

## Public policy

### Business, Energy and Industrial Strategy Committee, UK

Following a written submission in May 2018, we were invited to give oral evidence to this UK parliamentary committee to inform its inquiry into **fair pay**, specifically executive pay. We reiterated our support for simpler pay structures that incentivise long-term strategic value. We noted that many pay schemes remain excessively complex, resulting in pay awards that are difficult to justify. Topics raised by the committee included the effectiveness of engagement, and pay ratios between chief executive officers and the average worker.

### Financial Services Agency, Japan

We provided comments on a public consultation by Japan's FSA regarding proposed **changes to disclosure rules**. We firmly welcomed the proposal to enhance corporate disclosure on executive remuneration. We also supported the proposed increase in the number of strategic shareholdings that companies are required to disclose from the current 30 to 60, as well as the requirement for companies to explain how they verify the rationale for holding these. In order to tackle the problem of cross-shareholdings more systematically, we requested that the number of major shareholders that companies are required to disclose increases from 10 to 30, and that they should disclose the names of the ultimate owners and not just the custodians.

### Securities and Exchange Commission, US

We wrote to the US Securities and Exchange Commission (SEC) concerning the **proxy adviser industry**. We cautioned that the changes it was considering were likely to cause unintended consequences that

could harm the governance of issuers and ultimately the value of ordinary savers' investments. We also argued that the SEC was seeking to be more interventionist than other markets.

#### Government of Alberta, Canada

At a meeting with representatives of the government of Alberta at our offices in London, we discussed the effect of climate change on the economy of Alberta. We explained that as the world transitions to low carbon energy, Alberta will experience severe problems if it does not **diversify its economy from fossil fuels**. We argued that carbon capture use and storage, unless subsidised, was increasingly not an option for the oil and gas industry as it will make fossil fuels even less competitive than renewable alternatives. We also noted that the Albertan taxpayer is likely to have to pay the industry's decommissioning costs. We explained that it is in our clients' economic interests that the battle against climate change succeeds and urged the province and its oil and gas industry to make serious plans for the possibility of an energy transition in line with the Paris Agreement.

#### Securities and Futures Commission, Hong Kong

At a meeting with the regulator's team from compliance, international affairs under the CEO's office, and corporate finance, we commended the progressiveness of the **SFC's strategic framework paper for Green Finance** launched in September 2018. Key areas relate to companies' disclosure, as well as collaboration with asset managers

and owners. We explained the Task Force on Climate-related Financial Disclosures' framework, and shared company examples, highlighting that the existing disclosure on climate change is insufficient. We emphasised that green finance must take a globally consistent approach, and particular attention must be paid to brown financing, such as lending to coal power plants.

#### Die Frauenquote seminar, Germany

During a panel discussion on **gender diversity** in Frankfurt, we explained our global voting and engagement approach and shared our concerns about the lack of progress at management board level in Germany. While the legal 30% gender quota for supervisory boards now ensures there is an appropriate gender balance, the regulatory regime for the management board and senior executive roles has failed to deliver any real progress. Many listed companies do not have any female management board members and disappointingly, have set themselves a 0% quota target. As we believe that gender diversity at all levels of companies will add value to investments, we explained we are considering how to focus the attention of German boards on the important issue of management board diversity.



Dr Hans-Christoph Hirt, Head of Hermes EOS

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