

Public Policy Report



Q1 2021
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Public Policy Highlights

This quarter, on behalf of our clients, we held 17 discussions with relevant regulators and other bodies and participated in 16 consultations or their proactive equivalent, such as a letter.

The breakdown of these was:

| Region | Consultations or proactive equivalent | Meetings and discussions | Total |
|--|---------------------------------------|--------------------------|-----------|
|  Global | 5 | 5 | 10 |
|  Developed Asia | 5 | 5 | 10 |
|  Europe | 1 | 3 | 4 |
|  North America | 1 | 1 | 2 |
|  United Kingdom | 4 | 3 | 7 |
| Grand Total | 16 | 17 | 33 |

Highlights

Our key activities and achievements in this quarter include:

CA100+ Midstream Oil & Gas Working Group Lead engager: Diana Glassman

We contributed to the Climate Action 100+ (CA100+) Midstream Oil & Gas Working Group's Investor Recommendations for a Net-Zero Aligned Strategy, which provides additional nuance to the CA100+ benchmark for North American midstream companies. The guidance for midstream companies lays out investor expectations regarding Scopes 1, 2 and 3 net-zero commitments by 2050 or sooner, targets, decarbonisation strategy, capital alignment, climate policy engagement, climate governance, just transition and TCFD disclosure. In developing these investor expectations, the Ceres midstream Oil and Gas Working Group built on the "top 10" asks we marshalled in a letter co-signed by 17 signatories that we sent to Kinder Morgan as co-leads of the Kinder Morgan CA100+ collaborative working group.

The guidance also incorporates EOS's perspective that midstream businesses should consider emissions from product transported and upstream sourced product, for example methane intensity. They should also adopt responsible customer/supplier practices related to water use, labour standards, and community impacts, and describe policies for dealing with indigenous peoples and relevant standards applied, such as Free, Prior, and Informed Consent and the UN Universal Declaration of Human Rights. CA100+ will now send the expectations to companies with North American midstream operations and EOS will leverage them across its engagement companies.

Finance for Biodiversity Pledge call Lead engager: Sonya Likhtman

We had a call with the coordinators of the Finance for Biodiversity Pledge to share initial ideas about the focus and objectives for the engagement group. We discussed the importance of mapping existing initiatives and organisations to align efforts and avoid duplication. We shared views on how companies with material impacts on biodiversity could be identified, whether by sector or sub-theme. This task is challenging in the absence of a single metric, such as greenhouse gas emissions, that would enable comparison between different companies' biodiversity impacts.

We emphasised the importance of setting clear engagement goals so that companies understand the aims and requests of the collaborative engagement group. These are yet to be defined, although we suggested that there should be an emphasis on positive impacts as well as mitigating negative impacts.

Subsequently, we joined another call for signatories to discuss priorities for the different working groups and how the Finance for Biodiversity Pledge collaboration may be governed. It was a lively discussion and most signatories were highly engaged. The measurement and data group highlighted its initial thinking.

On behalf of the public policy group, we shared ideas about how signatories could create impact ahead of the COP 15 on biodiversity. The current thinking is to produce an open letter that urges parties to the Convention on Biological Diversity to agree on an ambitious post-2020 biodiversity framework. We can also use the letter to articulate areas where we think the draft framework can be improved. We discussed how this group should interact with existing organisations, especially whether the link to the Task Force for Nature-related Financial Disclosures (TNFD) working group should be stronger.

Supporting ATM Foundation's global Covid-19 response statement

Lead engager: Katie Frame

We signed up to a global statement coordinated by the Access to Medicine Foundation in support of an effective, fair, and equitable global response to Covid-19. The statement encourages world leaders in the G7, G20 and ACT-Accelerator Facilitation Council to finance the ACT-Accelerator in full, and to deploy adequate funding to ensure fair and equitable access to Covid-19 vaccines, medicines, and diagnostic tools globally.

The statement also recommends that governments and international organisations explore the feasibility of innovative finance mechanisms for national and global Covid-19 responses. These could be similar to the vaccine bonds issued by the International Finance Facility for Immunisation, or social bonds for Covid-19 programmes issued by individual or multiple governments.

In addition, through the statement we committed to working with the Access to Medicine Foundation on this issue and to engage with the healthcare companies in our programme to promote industry actions supporting the mission and operations of the ACT-Accelerator. These actions might include cross-industry R&D partnerships, equitable pricing strategies and voluntary licensing agreements.

Presenting at Japanese METI-backed net-zero study group

Lead engager: Sachi Suzuki

We were invited to present at a study group on net-zero emissions supported by Japan's Ministry of Economy, Trade and Industry (METI) and attended by a large number of companies from different sectors. We shared our expectations for companies and what we want to see in the long term as well as the medium-to-short term. We also gave some examples of European companies considered to be leading in their respective sectors.

While we welcomed the commitments made by some Japanese companies to achieve carbon neutrality in 2050, following the government's announcement in late 2020, we encouraged companies to set a stretching and specific medium-term target and disclose a detailed roadmap including capex plans. We also emphasised our view that offsetting should be used as a last resort, given the apparent focus on carbon offsets as one of few viable options in achieving net zero. Lastly, we highlighted our expectations for more transparency around lobbying activities.

Biopharma sustainability roundtable discussion

Lead engager: Katie Frame

We participated in the third biopharma sustainability roundtable discussion with biopharma companies and investors to provide feedback on the results of the reporting methodology consultation. We expressed the need to consider ways to shift the thinking on disclosures in the sector, away from a culture of compliance, to a culture that strives for the highest ethical standards. Leading indicators should be used to assess culture, and qualitative disclosures made around the processes and learnings applied when cultural failures are identified.

We also said that the industry should shift towards setting more specific targets around diversity, based on a robust assessment of where issues may be occurring within an organisation. These targets should address issues related to inclusive culture, looking at retention, turnover and promotion rates by gender and ethnicity within different levels or business functions, for example.



Consultation for global benchmark on corporate mental health

Lead engager: Katie Frame

We responded to a consultation from CCLA and Chronos Sustainability, which are developing a global benchmark on corporate mental health. The assessment framework will define the key expectations of companies on mental health, provide investors with an accessible way to understand and evaluate corporate practices, and deliver systemic change to the way in which mental health is regarded and protected in the workplace. We noted that corporate mental health programmes should prioritise a commitment to understanding and addressing the root causes of mental health issues, as well as normalising conversations about mental health and tackling any associated stigma.

Additionally we advocated for a hybrid approach to the assessment framework, using both public disclosures and discussions or additional information provided by the company. We noted that public disclosures are indicative of companies that are taking this issue seriously and attempting to normalise the communication of mental health issues. However, given that disclosure on this topic is currently poor or limited, there is a risk that investors will be unable to carry out a meaningful assessment.

Business for Nature webinar on the CBD

Lead engager: Sonya Likhtman

We joined a call hosted by Business for Nature and the Convention on Biological Diversity (CBD). We sought to learn how businesses and financial institutions can contribute to the CBD process ahead of the biodiversity COP 15, which has been pushed back again to October 2021. Although plans are still being finalised, it seems that some side events and forums will be held for the private sector. The coordinators outlined key steps that businesses can take to strengthen their voice ahead of COP 15 and promised to share further information as it becomes available.

FAIRR letter on protein diversification

Lead engager: Emma Berntman

In collaboration with investors and the FAIRR (Farm Animal Investment Risk and Return) initiative, we co-signed a letter to 25 companies in the retail and food sector. This called on them to demonstrate a comprehensive approach to protein diversification covering commercial strategy, resilience of protein sourcing strategies, improvements of nutritional profile, and tracking their exposure to animal and plant-based proteins.

Meeting with Ceres on US carbon pricing schemes

Lead engager: Nick Spooner

We had a meeting with the policy team of Ceres to discuss the Transport Climate Initiative (TCI) and the Regional Greenhouse Gas Initiative (RGGI). We sought to understand Ceres's public policy engagement work in the US and offered our support where possible. An update is due to take place to strengthen the RGGI this year, and so we discussed possible actions, including translating some of the learnings from the EU Emissions Trading System to the US. We raised concerns about the actions of the Climate Leadership Council, including how this may undermine current industrial policies.

Biopharma metrics identification consultation

Lead engager: Katie Frame

We provided creative input to the metrics identification process for the next generation of Biopharma Investor ESG Communications Guidance identifying the highest priority and most relevant metrics for the sector. The Biopharma Investor ESG Communications Initiative was set up to address the common interests of leading biopharma companies and investors in achieving more effective communications about the sector's most important ESG topics. The initiative is a sector-focused direct dialogue between companies and investors that started in mid-2018 and continues to facilitate a series of structured, frank, and open discussions.

PRI working group on plastics

Lead engager: Lisa Lange

The PRI reached out to us to discuss the focus of the PRI working group on plastics, the engagement guides developed by the Ellen MacArthur Foundation and the potential for starting a collaborative engagement. We shared the focus of the EOS Engagement Plan and the key issues on which we engage focused on the circular economy more broadly.

Subsequently, we provided written feedback on the draft investor guides produced by the PRI in collaboration with the Ellen MacArthur Foundation. These included drafts for engagement with the fast-moving consumer goods, containers and packaging, waste management and petrochemicals sectors.



Developed Asia

Meeting with OECD and IEA on Japan's energy policy

Lead engager: Sayuri Shirai

We had a meeting with experts from the Organisation for Economic Co-operation and Development (OECD) and the International Energy Agency (IEA) about Japan's energy policy. The discussion focused on the fact that Japan has been slow to increase its renewable energy supply because of the limited investment in the electricity grid.

As outlined in the IEA's recent report on Japan's energy policy review, we discussed how the government must use pricing signals to shift behaviour, through such means as higher carbon taxes, while rolling out an emissions trading system nationwide. Taxes on fossil fuels are low in Japan compared with those in other countries and must be raised.

Discussion with Japan's Ministry of Economy, Trade, and Industry

Lead engager: Sayuri Shirai

We discussed the direction of carbon pricing with Japan's Ministry of Economy, Trade, and Industry (METI). METI takes the view that raising the carbon tax from the current level of around US\$2 will not promote a shift from fossil fuels to renewables – which is contrary to the case in Europe and other countries. METI argued that this was because Japan's geographical position made it difficult to increase renewable energy quickly. METI suggested one option would be to encourage companies to adopt an internal carbon price rather than raising energy taxes further. We said that the current energy tax structure favours coal, and this bias must be corrected by taxing coal more heavily. We added that the carbon tax could be raised gradually so that Japan has time to boost the renewable energy supply.

We also discussed the International Capital Market Association's green/transition bond principles and the guidelines prepared by the Ministry of Environment. The government views the EU taxonomy as too stringent and prefers more flexible screening criteria. METI said that while it is important to prevent greenwashing, imposing stringent criteria may reduce eligibility to only a few issuers. We said that the current guidelines may be too loose as various energy efficiency projects are permitted, even when they don't make much of a contribution to the net-zero emissions commitment. To promote green initiatives, we suggested that the government could begin to look at a Japanese version of the taxonomy, in line with the Paris Agreement, or encourage companies to make a commitment to the country's net-zero target.

Tokyo Stock Exchange dialogue on corporate governance code revision

Lead engager: Sayuri Shirai

We met the Tokyo Stock Exchange (TSE) and highlighted the key areas we believe should be considered in the next corporate governance code revision. First, the definition of the independent board director should be more stringent as many companies set their own loose independence criteria. Our recommendations included: clarifying the threshold on sales volumes and advisory fees; excluding directors from the leading banks and companies with cross-shareholding relationships; and setting the maximum years of tenure. The TSE said that changing the code may be challenging but it would be possible to revise the guidelines.

Second, we stressed that the code should include the wording "having at least one female board member is desirable" given that women account for only 10% of board members at Japanese companies while South Korea and some European countries adopt a quota system. If setting the number is difficult, we recommended that the code should urge companies to set quantitative targets voluntarily, with regard to board members and women managers.

We also suggested that the TSE considers introducing a sustainability report, similar to the existing corporate governance report, to promote standardisation. The TSE said this was appropriate, but it would take time to incorporate this due to diverse views. Finally, we strongly suggested that the TSE should prepare free online training for non-executive board members to enhance their understanding of the spirit of the corporate governance code, and their roles to monitor the board and deepen their knowledge of sustainability issues. The TSE welcomed such suggestions as it is beginning to think about what information it provides to independent directors.

CA100+ collaborative engagement with Keidanren

Lead engager: Sayuri Shirai

In a Climate Action 100+ (CA100+) collaborative engagement with Japan's business association Keidanren, it expressed doubt about the effectiveness of carbon pricing in cutting emissions. This is because of the technical innovation required in the chemicals, steel, and cement sectors to achieve net-zero carbon emissions by 2050 in Japan, Keidanren said. We said that carbon prices would be much higher if negative externalities were considered. Meanwhile, taxes on coal are much lower than those on oil and liquefied natural gas.

Some investors asked Keidanren to be more specific about which areas required funding to promote research into new technologies. It replied that Nippon Steel recently said it needed ¥500bn just for research, plus an additional several trillion yen to develop hydrogen technology and the infrastructure to manufacture steel products. We urged Keidanren to prioritise growing the supply of renewable energy by investing in the grid as soon as possible, using the government budget. Renewable energy produced in local areas cannot be distributed to Tokyo and other cities where

energy demand is high due to a lack of transmission cables. Keidanren said the issue is whether the cost of funding the grid should be financed through users' fees or taxes.

Finally, the government is updating the basic energy law this year, which will determine the electricity generation mix for 2030. It is conducting a survey of companies' energy demands and assessing how much renewable energy Japan can produce. The gap will be filled by fossil fuel energy. Keidanren said it does not set the net emissions target; rather, it asks member companies' industry associations to decide the targets based on the best available technology.

Meeting with Japan's Financial Services Agency on disclosure

Lead engager: Sayuri Shirai

We stressed the need to improve company disclosure of environmental data given the urgent need to set net-zero emissions targets in line with the government's commitment. We explained that many companies officially support the Task Force on Climate-related Financial Disclosures (TCFD), but their disclosure is insufficient in many cases due to a lack of 2030 and 2050 targets, or detailed scenario analysis. We also explained the difficulty in understanding company behaviour on climate issues and making comparisons with peers because of the lack of standardised indicators. The Financial Services Agency appreciated our suggestions and said its committee on the revision of the corporate governance code is currently discussing including environmental disclosures.

We asked for their views on the reluctance of the government and businesses to accept carbon pricing. In response, they all stressed the need to introduce carbon pricing to make fossil fuel prices higher than renewable energy prices. Existing energy or fuel taxes are not appropriate as they are not applied to emissions. They also pointed out that only a few companies oppose carbon pricing, with the majority supporting it.



EU consultation on Sustainable Corporate Governance

Lead engager: Andy Jones

In relation to the European Commission's consultation on Sustainable Corporate Governance we met a member of the Directorate-General for Justice and Consumers' corporate governance team. We gave examples of our experiences of good and bad practices with regard to sustainable corporate governance including annual meetings, shareholder resolutions, business purpose and employees on the board.

We then provided a written submission to the Commission's consultation on this topic. The consultation covered directors' duties (in particular with regard to broad stakeholders), environmental and social due diligence requirements, and other mechanisms including executive remuneration, buybacks and sustainability expertise on the board.

Later, we responded to a direct request for further information and insights. We provided our insights on challenges with filing resolutions, the success of climate change resolutions, and other good practice examples on stakeholder representation and management of interests by major companies in the region.

German executive remuneration working group

Lead engager: Lisa Lange

We participated in an expert discussion on remuneration schemes at German companies, which was attended by supervisory board chairs, remuneration advisers and academics. We received an update on market developments over the last five years and how this might evolve in future. In particular, we discussed the use of ESG indicators in remuneration schemes and transparency in remuneration reporting. This work will continue and possibly feed into the guidelines for sustainable remuneration schemes for German companies.



North America

Response to SASB human capital management consultation

Lead engagers: Katie Frame and Emily DeMasi

We provided a response to the Sustainability Accounting Standards Board (SASB) human capital management project consultation. This aims to assess the scope and prevalence of various human capital management themes across SASB's sectors and within its 77 industries to develop a solid evidenced-based view. We noted that the human capital management sub-themes were financially material across all sectors, although the degree of materiality varies by industry, often depending on whether an industry is more skewed towards tangible or intangible assets. The sub-themes are mental health, wellbeing and health-related benefits; workplace culture (focusing on various aspects of diversity, inclusion, and engagement); workforce investment; alternative workforce; and labour conditions in the supply chain.

Canadian consultation on sustainable finance for petrochemicals and resin producers

Lead engager: Aaron Hay

The Conference Board of Canada has been appointed by the Canadian Ministry of Environment and Climate Change to gather expert opinion regarding the conditions and criteria that should inform transition finance, to enable a circular and low-carbon transition by petrochemical plastic resin producers. This is an important issue for Canada's transition to a circular plastics economy. We contributed the investor expectations in this sector to the stakeholder consultation.



United Kingdom

FRC consultation response on the future of corporate reporting

Lead engager: Joanne Beatty

We responded to the Financial Reporting Council's (FRC) consultation on its white paper "A matter of principles: the future of corporate reporting". The white paper outlines a principles-based network of corporate reporting disclosures. We previously provided input to, and advice on, this proposal as a member of the FRC's Future of Corporate Reporting advisory group and through participation in round tables facilitated by the FRC in Q4 2020.

Our consultation response to the survey questions posed by the FRC indicates broad support for many of the elements of the white paper, including materiality, a principles-based approach, and a nod to the increasing role that technology will have in corporate disclosures. We asked the FRC to collaborate more with key standard setters such as the recently-merged Sustainability Accounting Standards Board and the International Integrated Reporting Council, among

others. We also emphasised the importance of companies stating their business purpose and using this to inform objective-led corporate reporting as intended by the white paper.

Discussion on race ratio initiative with the CBI

Lead engager: Amy Wilson

We discussed the Confederation of British Industry (CBI)-led "Change the race ratio" initiative, which seeks to encourage the development and adoption of best practice in increasing the representation of ethnic minority leadership in UK business. Federated Hermes is a signatory of the initiative and we discussed how the resources gathered could be of use to the companies with which we engage, as well as how to promote awareness amongst investors.

FRC pre-emption rights survey

Lead engager: Tim Goodman

We provided feedback to the Financial Reporting Council on pre-emption rights. We suggested that any further relaxation of the pre-emption rights guidelines, as was in place during most of 2020 due to the pandemic, should be very carefully considered. While some companies are under significant pressure, the dramatic change in the situation experienced in the first few weeks of the pandemic, which required a relaxation of the guidelines, is no longer pertinent and companies have greater time to plan pre-emptive fund raisings if required. We do not want to see any further relaxation and if there is any, it should be temporary in nature.

FRC Lab project on corporate disclosures on risks, uncertainties and scenarios

Lead engager: Roland Bosch

As part of our theme work on risk management, we gave input into a new Financial Reporting Council project looking at corporate disclosures on risks, uncertainties and scenarios. Investors and other stakeholders are increasingly looking for information from companies about how they will evolve, adapt and respond to changes in the external business environment. The risks and uncertainties that could impact a company's business model, strategy and viability will vary over the short, medium and longer term. Given the significant reassessment many companies are making to their longer-term business model and strategy, risk, uncertainty and scenario reporting is likely to become even more important.

Areas of particular interest for this project are the reporting of principal risks and any changes to them, identification and reporting of emerging risks, the time horizons considered in risk reporting, and whether and how the pandemic has changed internal and external reporting, and the consideration of risk reporting. Other aspects of the project include revisiting viability reporting and the viability statement, business resilience and how scenarios are formulated and considered throughout the annual report.

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