

OUTCOMES  
BEYOND  
PERFORMANCE }

# QUARTERLY HIGHLIGHTS

for clients of Hermes EOS

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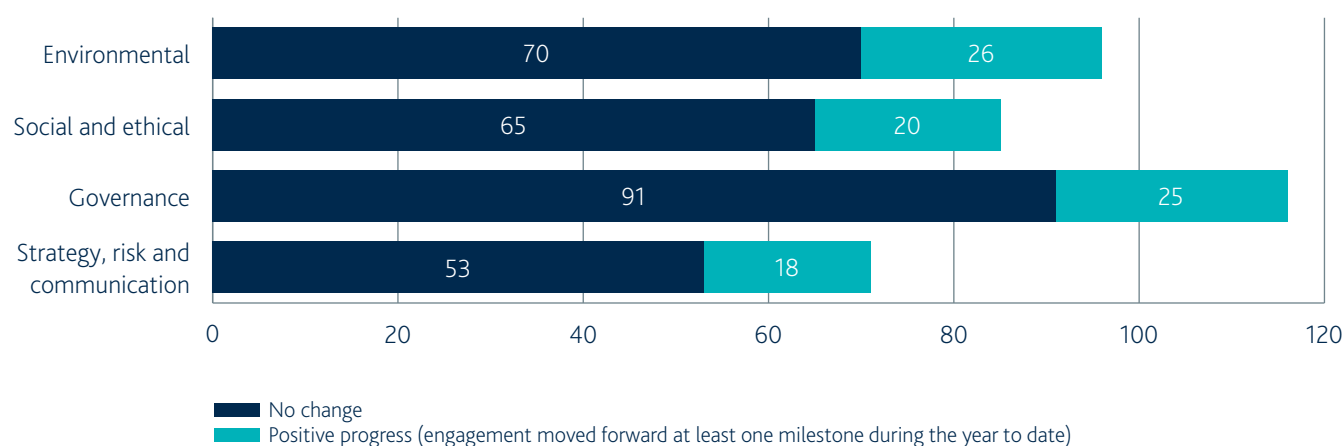
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Q1 2018

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 March 2018

We made significant progress in delivering engagement objectives across regions and themes during the quarter. At least one milestone was moved forward for 24.2% 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                                  | E = Environmental                      |
| M2 = Acknowledgement of issue                         | S = Social and ethical                 |
| M3 = Develop credible strategy/Set stretching targets | G = Governance                         |
| M4 = Strategy implemented                             | SRC = Strategy, risk and communication |

### Sustainable Development Goals

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

## Engagement

### Anglo American (UK)

PROGRESSING       

- E** Asset portfolio resilience to climate change: disclosure
- E** Demonstrate leadership in water catchment area
- E** Publication of energy efficiency targets
- E** Tailings management
- S** Stakeholder relations
- S** Workforce Disclosure Initiative
- SRC** Board awareness of sustainability issues
- SRC** Joint ventures

The company set long-range energy efficiency and greenhouse gas reduction targets for 2030. It committed to publishing the results of a portfolio analysis on its resilience to low-carbon scenarios in 2019 and expanded on its sustainability strategy, including on its goal of waterless mining. We also received assurances about the environmental impact of the Cerrejón coal mine in Colombia on local communities.

### Cemex (Mexico)

PROGRESSING 

- G** Board diversity > M3
- G** Board evaluation
- G** Shares without pre-emptive rights – *Engagement issue*

The company sought approval for a five-year mandate to the board to approve the issuance of shares without pre-emptive rights, amounting up to 25% of the outstanding share capital. We expressed concerns about the potential dilution to existing shareholders and made clear that we would oppose the broad mandate requested. We were therefore pleased about the subsequent withdrawal of the proposal due to the feedback from investors. We also welcomed the gradual increase in board diversity after our engagement on the issue.

### Hon Hai Precision Industry (Taiwan)

PROGRESSING  

- E** Improve environmental performance disclosure
- S** Overtime of student workers
- G** Board composition and effectiveness
- SRC** Transparency and communications

Following our engagement and letter to its founder, chair and CEO, the company promised to enhance its emissions disclosure to the CDP initiative. We also encouraged it to provide information to the CDP water survey. After an employee incident at a factory site, we obtained insights into the company's emergency response mechanism.

### JBS (Brazil)

PROGRESSING   

- E** Supply chain management > M1 > M2
- S** Compliance programme – *Engagement issue*
- S** Food safety – *Engagement issue*
- S** Labour safety indicators – *Engagement issue*
- G** Board composition – *Engagement issue*

Following the arrest of the CEO and the chair, both members of the founding family, the founder took over as CEO and vice chair, while the head of investor relations became the chair. The chair assured us that, as the company recovers from the corruption scandal, the board composition would move closer to our requirements. We also gained assurance about the company's compliance programme, the decline in its accident rate and its food safety framework. However, we raised concerns about deforestation caused by its suppliers and examined its due diligence and monitoring procedures.

### Lukoil (Russia)

PROGRESSING     

- E** Environmental strategy > M4

- S** Health and safety performance – *Engagement issue*
- G** Board assessment
- G** Board refreshment – *Engagement issue*
- G** Quasi-treasury shares – *Engagement issue*
- G** Sustainability board committee – *Engagement issue*
- SRC** Risk management and disaster preparedness > M4

We welcomed the company's decision to cancel the majority of the treasury shares it held in an overseas subsidiary. We also commended its improved disclosure of material ESG issues and provided feedback on its sustainability report. Encouragingly, the CEO expressed his commitment to good corporate governance practices and labour safety. However, we were disappointed that the company rejected the nomination of a candidate to the board by minority shareholders.

### Petroleo Brasileiro (Brazil)

PROGRESSING   

- E** Asset portfolio resilience to climate change: disclosure
- S** Health and safety > M4
- G** Minority shareholder representatives – *Engagement issue*
- SRC** Governance of subsidiaries and joint ventures

For the first time, the company focused on the transition to a low-carbon economy as a strategic priority in its 2018-22 business plan. The company said that our presentation to the board and the engagements that followed were important in raising awareness about climate change risks and opportunities. We were pleased with the steps the company has taken to improve the skills set and diversity on its board and that, for the first time, the process is taking place in a structured and transparent way. We also welcomed the renewed commitment to reduce its accident rate and the publication of its first integrated report.

### Samsung Electronics (South Korea)

MIXED   

- S** Allegations of worker abuse – *Engagement issue*
- G** Board accountability and remuneration – *Engagement issue*
- G** Board diversity – international > M3
- SRC** Improve capital efficiency
- SRC** Non-executive director dialogue with investors
- SRC** Product safety

The company has made significant improvements to its board. These include the appointment of three new independent directors with the relevant experience, in line with our requests. Although we welcomed the separation of the chair and CEO roles, we remained sceptical about the appointment of the CFO as new chair and opposed his election. The company committed to cooperating with the UN on allegations of worker mistreatment in its Vietnamese facilities. Encouragingly, it is considering introducing board evaluations and is committed to resolving its complex circular shareholdings.

### Vale (Brazil)

PROGRESSING   

- E** Asset portfolio resilience to climate change: disclosure
- E** Sustainability targets disclosure > M3
- S** Human rights and community relations – *Engagement issue*
- G** Board access > M1 > M2
- G** Remuneration disclosure > M1
- G** Remuneration structures

Following the collapse of the company's dual-class share structure and the revision of the controlling shareholder agreement, its board now has two minority shareholder-elected independent directors out of 12. Our request for disclosure of the highest pay in the company's senior management was rejected on grounds of protecting their personal safety but the board seeks to improve the disclosure of the remuneration structure. We also reviewed the planned changes to its human rights policy and pressed for progress in the Samarco and Moatize remediation projects. The company is developing various carbon scenarios and a new set of medium-term targets should be published by the end of 2018.

The following is a selection of companies and themes where we made milestone progress in the first quarter of 2018:

Theme	Sub-theme	Company	Country	Progress during Q1 2018
Environmental	Climate change	Bank of America	US	M1 M2
		China Construction Bank	China	M2
		ConocoPhillips	US	M4
		Glanbia	Ireland	M1 M2
		Industrial and Commercial Bank of China	China	M3
		LandMark Optoelectronics	Taiwan	M1 M2
		Occidental Petroleum	US	M1 M2
		Schlumberger	Curaçao	M3
		Volvo	Sweden	M1 M2
		Pfizer	US	M1 M2
	Pollution and waste management	Ahold Delhaize	Netherlands	M2
	Supply chain management	Kerry Group	Ireland	M2
	Water	Tyson Foods	US	M1 M2
Social and ethical	Conduct and culture	Apple	US	M4
		Sberbank of Russia	Russia	M3 M4
	Diversity	Ahold Delhaize	Netherlands	M1
		Toray Industries	Japan	M1 M2
	Human capital management	Alphabet	US	M1
		AMN Healthcare Services	US	M1 M2
		Tencent	Cayman Islands	M1
	Human rights	Alibaba	Cayman Islands	M4
		Antofagasta	UK	M4
		AP Moller-Maersk	Denmark	M3
	Labour rights	Petra Diamonds	Bermuda	M1 M2
		Norilsk Nickel	Russia	M1 M2
Governance	Board diversity, skills and experience	Antofagasta	UK	M3
		Hyundai Motor	South Korea	M2
		SSP Group	UK	M1 M2
	Board independence	Alphabet	US	M1
		Bank of America	US	M1 M2
		Siemens Gamesa Renewable Energy	Spain	M1
	Executive remuneration	Carnival	Panama	M4
		Schneider Electric	France	M4
	Shareholder protection and rights	Baidu	Cayman Islands	M2
		LG Chem	South Korea	M3 M4
		Seven & i	Japan	M2
	Succession planning	Antofagasta	UK	M4
		Baidu	Cayman Islands	M3
		Infosys	India	M3 M4
Strategy, risk and communication	Audit and accounting	China Construction Bank	China	M1
	Business strategy	Apple	US	M1
		Tong Yang Industry	Taiwan	M1
	Integrated reporting and other disclosure	AMN Healthcare Services	US	M1 M2
		DuluxGroup	Australia	M1 M2
		Genesee & Wyoming	US	M1 M2 M3
		ING Groep	Netherlands	M1 M2
		Simpson Manufacturing	US	M1 M2
		Waste Management	US	M1 M2

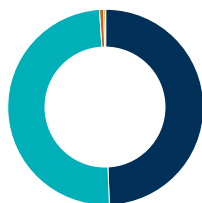
The following engagements became blocked:

Theme	Sub-theme	Company	Country
Governance	Board independence, Executive remuneration	Banco Bradesco	Brazil



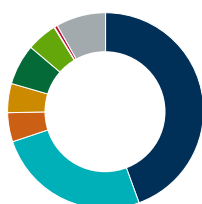
## Voting

We made voting recommendations at **1,424** meetings (**12,144** resolutions) over the last quarter.



■ Total meetings in favour **49.4%**  
 ■ Meetings against (or against AND abstain) **49.6%**  
 ■ Meetings abstained **0.7%**  
 ■ Meetings with management by exception **0.3%**

We recommended voting against or abstaining on **1,548** resolutions over the last quarter.



■ Board structure **44.4%**  
 ■ Remuneration **25.4%**  
 ■ Shareholder resolution **4.8%**  
 ■ Capital structure and dividends **4.8%**  
 ■ Amendment of articles **6.7%**  
 ■ Audit and accounts **5.0%**  
 ■ Investment/M&A **0.1%**  
 ■ Poison pill/Anti-takeover device **0.5%**  
 ■ Other **8.2%**

### Banco Bradesco (Brazil)

We opposed the election of the board nominees, except for the chair, due to the lack of independent directors. We also recommended voting against the remuneration proposal as the company failed to provide even the minimum disclosure required by the Brazilian regulator. Furthermore, we opposed the management proposal to increase the term of the board from one to two years. The company's board members are long-tenured and non-independent, which is why an annual election provides an opportunity to press for refreshment.

### Costco Wholesale (US)

We supported two shareholder proposals at the company's 2018 AGM. The first sought the elimination of supermajority voting requirements for the board classification, the different lengths of term directors serve. We, however, believe a simple majority of voting shares should be sufficient to effect change at a company. Costco applies this threshold except for the amendment of its articles of incorporation with respect to board classification. We believe that the classification of the board reduces accountability and limits the selection of shareholder representatives. The second shareholder proposal sought the adoption of a policy on prison labour. We generally support shareholder proposals aimed at enhancing oversight by companies of their supply chains, and positively, in response to the proposal, the company plans to make changes to its code of conduct. The proposal asked the company to survey its suppliers on topics such as labour exploitation. This can only be beneficial for Costco, which is why it was surprising to read that the policy is viewed by the company as costly, time-consuming and unnecessary, especially as these surveys are common for large retailers.

### KB Financial Group (South Korea)

We supported management by exception by opposing shareholder proposals from the company's labour union. Although some of the proposals appeared reasonable on paper, we were concerned about the underlying purpose of the union, which has reportedly been aggressive towards company management. In view of the significant progress the company has made over the last few years, we felt it was appropriate to support management on this occasion, while seeking an opportunity to speak with union representatives to further understand the relationship.

### Nordea Bank (Sweden)

We supported the election and re-election of the company's directors by exception. Three directors are overboarded, which raises doubt about whether they have the sufficient time to appropriately discharge their duties. However, in accordance with market practice, shareholders were asked to vote on a single slate for all 10 directors. Opposing all the directors up for election would have been too extreme a measure to take. Positively, one director has committed to reducing his external board memberships so he would no longer be overboarded. In addition, there has been no issue with meeting attendance. Nevertheless, we requested that the issue of overboarding be addressed.

### Novartis (Switzerland)

Due to the low level of gender diversity on the company's board, we recommended voting against the chair of the nomination committee.

### Novo Nordisk (Denmark)

Despite a lack of independence on the company's board committees, we supported by exception the board members and the chair. This was because the company explained its specific circumstances and due to the enhanced international experience on the board, as well as its solid approach to remuneration, which led to a partial grant for the CEO this year, as he only partly met his objectives.

### Tesla (US)

We opposed the proposed pay scheme for the company's CEO. We believe that the scheme incentivises the wrong behaviour within the company and that it needs to focus on exemplary quality and meeting the promised production targets. The company continues to concern us, and we will seek better dialogue with it to express this.

### Tyson Foods (US)

We recommended voting against the chair of the governance committee due to the company's dual-class share structure. We also supported two shareholder proposals, one seeking better disclosure of the lobbying and political activities of the company and the other requesting better disclosure of its utilisation of water resources.

## Public policy

Region	Consultations or proactive equivalent*	Meetings and discussions
Global	0	18
Developed Asia	1	13
Emerging and Frontier Markets	0	8
Europe	1	5
North America	1	5
UK	1	13
<b>Total</b>	<b>4</b>	<b>62</b>

\*for example a letter in absence of regulatory reform

We participated in several calls of the working group on stewardship of the Association of Capital Market Investors (AMEC) to discuss the implementation of the **Brazilian Stewardship Code**. All signatories were expected to publish their first reports on stewardship by the end of the first quarter of 2018 but some asked for an extension of the deadline because they have been struggling to gather the required information. AMEC intends to assess and provide feedback on each report but will take no enforcement action at this point. We shared our reporting framework with its members and provided examples of engagement and voting. We raised concerns that only a few pension funds have signed up to the code to date because in other markets the development of a stewardship culture has been driven by pension funds. AMEC described its efforts to attract pension funds, which it expects to result in additional affiliations in 2018.

We co-signed an investor letter to a number of key US senators protesting against the possible repeal of section 1502 of the Dodd-Frank Act. The section requires listed companies to report on how they prevent the inclusion of **conflict minerals** in their supply chains. While the wording of the section is narrowly drawn, it has helped US companies to reduce the human rights risks associated with some minerals in the conflict region in and close to the Democratic Republic of Congo. In turn, this has contributed to improving the human rights outcomes in the area and helped companies to enhance their human rights activities more widely. Repeal of the legislation would therefore be a setback for human rights activities by US companies.

We exchanged views with the UK Prime Minister's special representative on internet safety and the shadow minister for the digital economy on the roles and responsibilities of internet and social media companies in managing the risk of disinformation and potentially resulting conflicts in relation to legislation on **data privacy**. We discussed the risk of amplifying disinformation when replacing the majority of human editors with algorithms and what companies, such as Facebook, have learned from their experience with regard to the US presidential election. The representative encouraged investors to engage with internet and social media companies and to urge them to work with stakeholders to address the issues.

We contributed to the working group of the 30% Club and discussed future joint engagement initiatives. In addition to voting recommendations, we agreed to act on the recommendations of the Hampton-Alexander Review, with a focus on companies that have no or a low level of gender diversity on their boards or in their leadership teams. FTSE 100 companies should aim for a minimum of 33% **female representation** across their executive committees and

in the direct reports to the committees by 2020, as per the review. At present, almost three quarters of FTSE 100 companies have all-men executive committees.

We welcomed the public consultation on the revision of the **French Corporate Governance Code**, the AFEP-Medef Code. The Association of Large Companies AFEP, which drafted the consultation, gave us insights into the context of the consultation, especially in light of the law on the purpose of companies and their duties towards stakeholders. We discussed the rationale behind some specific proposals, including in relation to employee representation. We suggested that some provisions for the revised code could be more forceful, especially those relating to the independence of lead directors and board access. We also conveyed our concerns about the opacity of the governance of the authority in charge of the regulation of the code, which is sponsored by companies. In addition, we provided feedback to the French Association for Corporate Governance and the French Asset Management Association, ahead of submitting our response to the consultation.

We responded to the consultation on proposed revisions to the **UK Corporate Governance Code** and the initial consultation on the future of the UK Stewardship Code. We welcomed the proposed revisions to the former, as they address the elements of governance most important to board effectiveness and corporate purpose. The focus on stakeholders, integrity, culture and diversity is positive, as is the emphasis on how the overall governance of a company contributes to its long-term success. We are particularly sympathetic to strengthening the role of employees within governance arrangements and specifically giving the workforce a greater voice in boardrooms. Furthermore, we believe that many lessons can be learned from the success and continued evolution of the Corporate Governance Code with regard to the direction of the Stewardship Code. The recent recognition of the importance of a company defining and articulating its purpose has particular resonance for the actors in the investment chain. Institutional investors have a duty to deliver holistic returns to their clients, and ultimately to their underlying beneficiaries. However, they can only fulfil this duty by acting as stewards of the companies and assets in which they are invested.



Dr Hans-Christoph Hirt, Head of Hermes EOS

*Report written and produced by Nina Röhrbein*

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