2025 Annual Engagement Review

Brown Shipley Engagement Highlights

Federated Hermes
EOS

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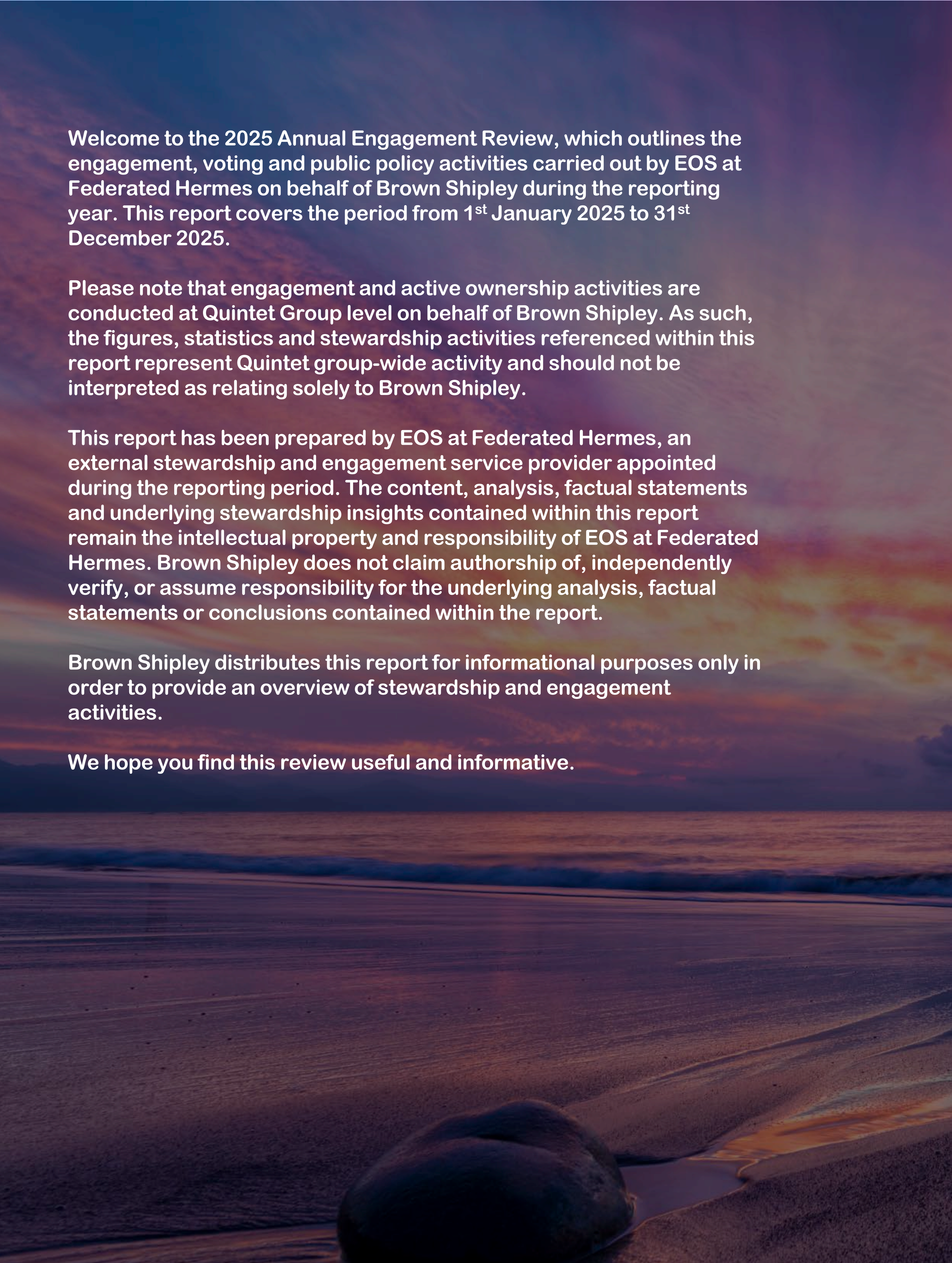


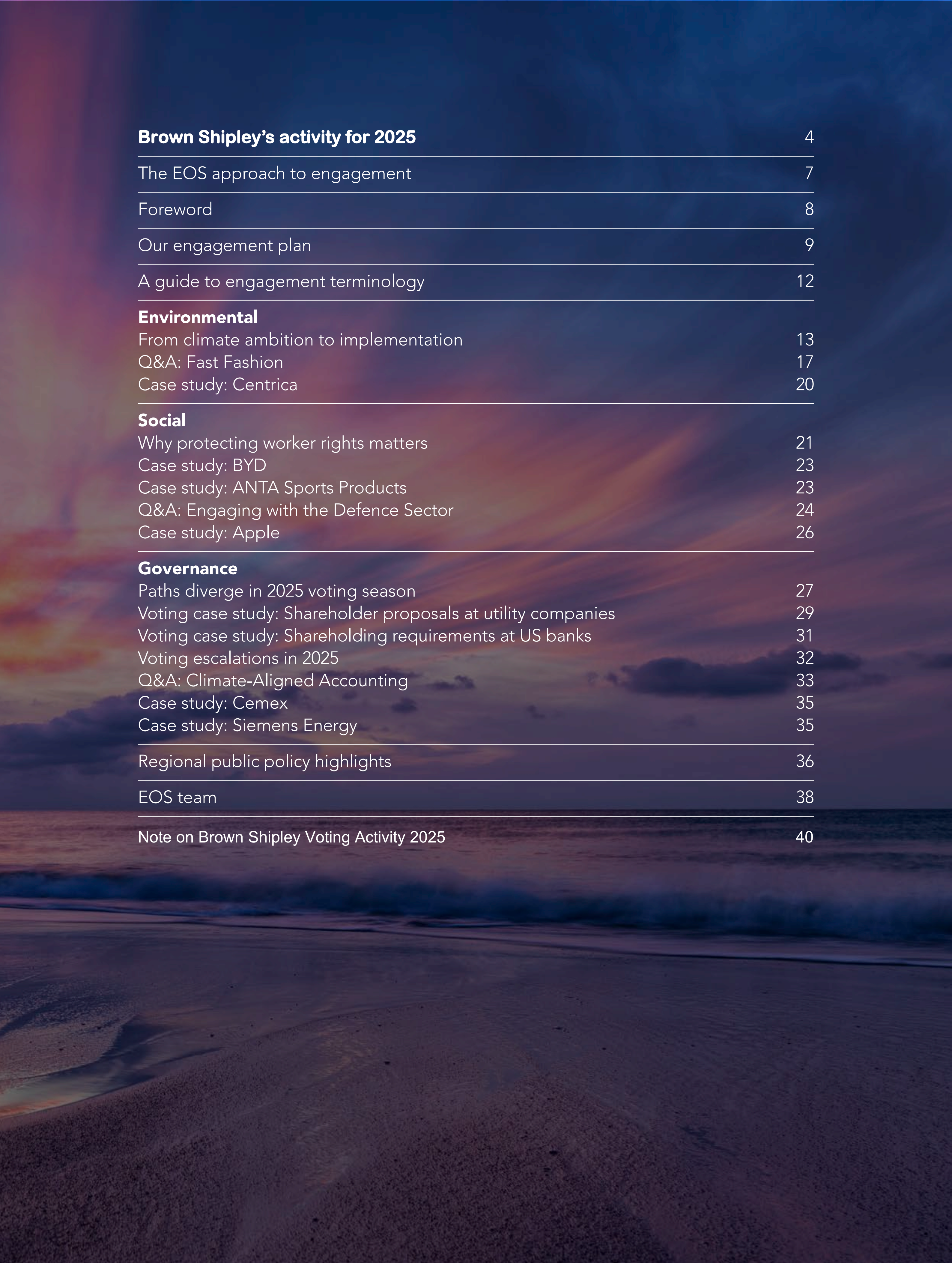
Welcome to the 2025 Annual Engagement Review, which outlines the engagement, voting and public policy activities carried out by EOS at Federated Hermes on behalf of Brown Shipley during the reporting year. This report covers the period from 1st January 2025 to 31st December 2025.

Please note that engagement and active ownership activities are conducted at Quintet Group level on behalf of Brown Shipley. As such, the figures, statistics and stewardship activities referenced within this report represent Quintet group-wide activity and should not be interpreted as relating solely to Brown Shipley.

This report has been prepared by EOS at Federated Hermes, an external stewardship and engagement service provider appointed during the reporting period. The content, analysis, factual statements and underlying stewardship insights contained within this report remain the intellectual property and responsibility of EOS at Federated Hermes. Brown Shipley does not claim authorship of, independently verify, or assume responsibility for the underlying analysis, factual statements or conclusions contained within the report.

Brown Shipley distributes this report for informational purposes only in order to provide an overview of stewardship and engagement activities.

We hope you find this review useful and informative.



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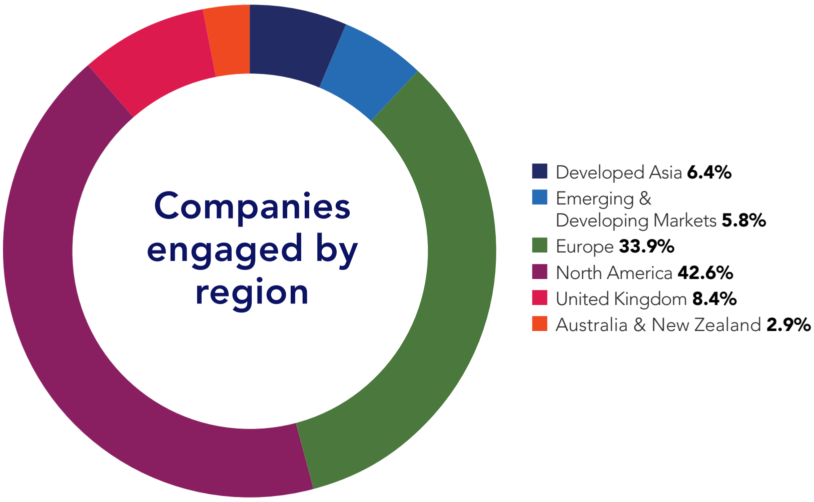
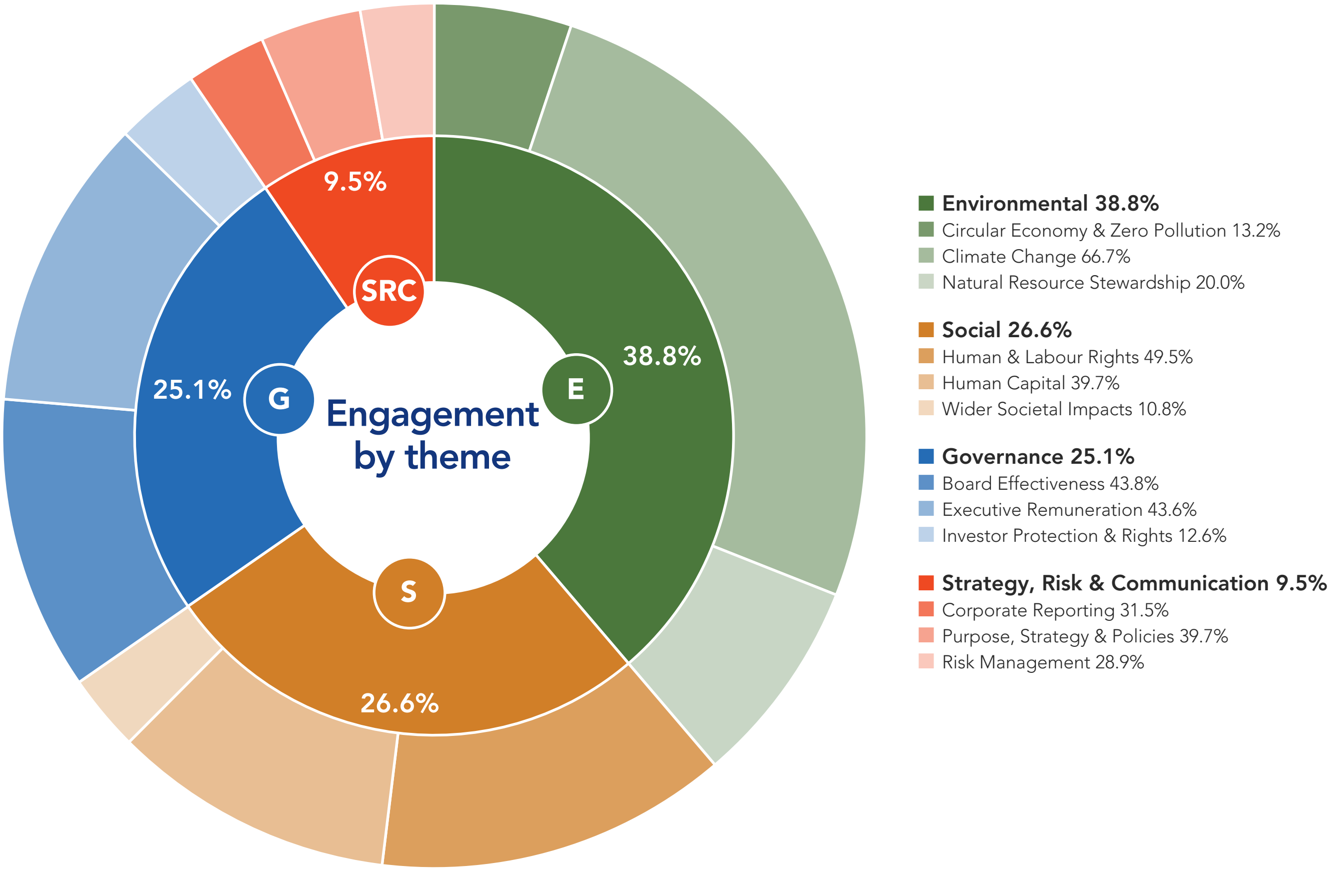
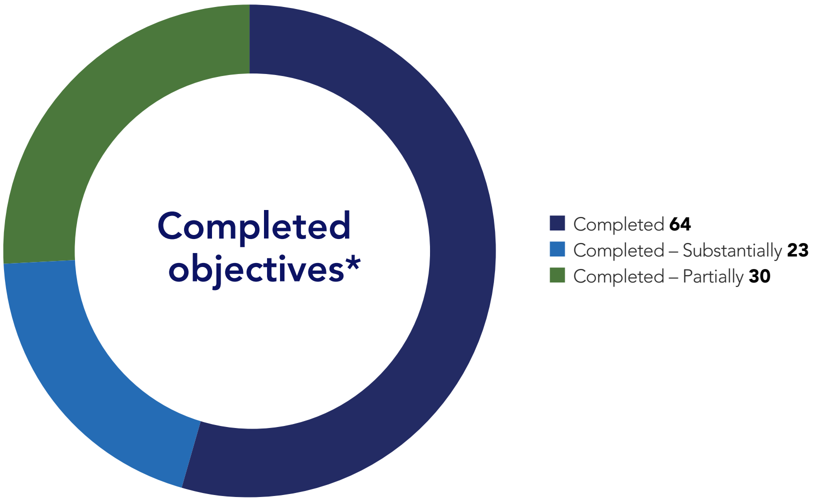
Brown Shipley’s activity for 2025

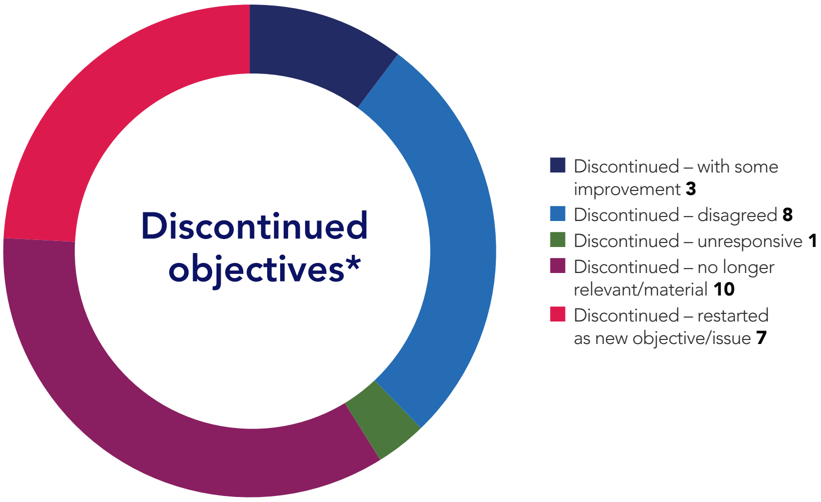
Engagement overview

In 2025, EOS engaged with **451** companies on **2,436** environmental, social, governance, strategy, risk and communication issues and objectives. Its holistic approach to engagement means that it typically engages with companies on more than one topic simultaneously.









93

companies featured engagements with the CEO or chair

304

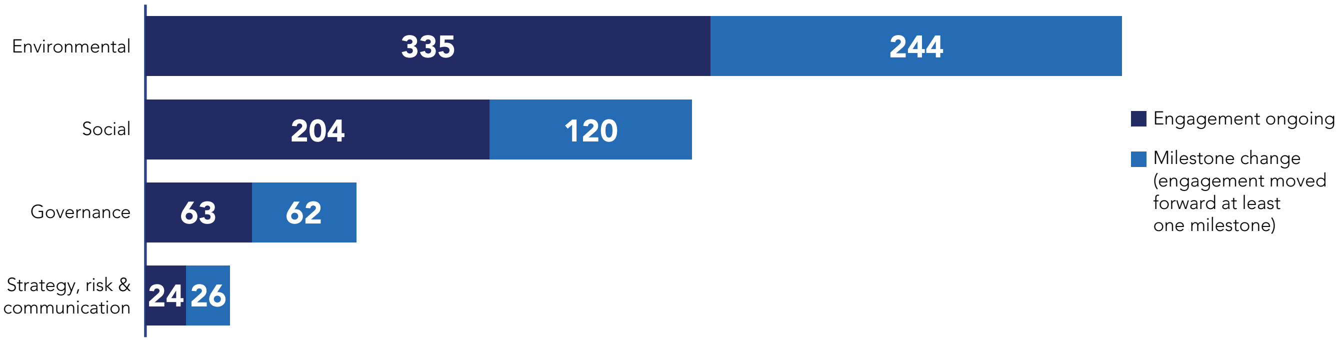
companies featured engagements with senior management or board members

236

public policy interactions, including consultation responses, letters, meetings and discussions

Engagement progress in 2025

EOS made solid progress in delivering engagement objectives across regions and themes. At least one milestone was moved forward for about **42%** of its objectives during the year. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



* The closure rationale is manually selected by each engager from a menu of options, taking a view of the extent to which they believe the objective has been implemented by the company. In most cases this is necessarily a subjective assessment.

In 2025, there were an additional **25** administrative closures associated with companies removed from the Engagement Programme.

Supporting the UN Sustainable Development Goals

The chart below illustrates the proportion of **1,594** engagement objectives and issues on which we have engaged in 2025, which we believe are directly linked to an SDG (noting that one objective or issue may directly link to more than one SDG).

1 NO POVERTY	No poverty	2%
2 ZERO HUNGER	Zero hunger	6%
3 GOOD HEALTH AND WELL-BEING	Good health and well-being	9%
4 QUALITY EDUCATION	Quality education	3%
5 GENDER EQUALITY	Gender equality	6%
6 CLEAN WATER AND SANITATION	Clean water and sanitation	7%
7 AFFORDABLE AND CLEAN ENERGY	Affordable and clean energy	23%
8 DECENT WORK AND ECONOMIC GROWTH	Decent work and economic growth	20%
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Industry, innovation and infrastructure	12%
10 REDUCED INEQUALITIES	Reduce inequalities	9%
11 SUSTAINABLE CITIES AND COMMUNITIES	Sustainable cities and communities	5%
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Responsible consumption and production	34%
13 CLIMATE ACTION	Climate action	36%
14 LIFE BELOW WATER	Life below water	5%
15 LIFE ON LAND	Life on land	9%
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Peace, justice and strong institutions	12%
17 PARTNERSHIPS FOR THE GOALS	Partnerships for the goals	1%

The EOS approach to engagement

EOS at Federated Hermes Limited is a leading stewardship service provider. Our engagement activities enable long-term institutional investors to be more active owners of their equity and fixed income assets, with the objective of maximising shareholder value over the long term, in our clients' portfolios.

Our company and policy engagement objectives complement each other by seeking to enhance the performance of individual holdings, whilst addressing systemic opportunities and risks to the economy that are likely to affect long-term returns for broadly diversified asset owners.

Our Engagement Plan is client-led. We undertake a formal consultation process with multiple client touchpoints each year to ensure that the Plan is based on their long-term objectives and covers their highest-priority topics.

Our services

Voting
Screening
Engagement
Public policy
Advisory

Engagement

We engage with companies in our clients' portfolios using a constructive, objectives-driven and continuous dialogue. Our strategies are informed by our deep knowledge across themes, sectors and regions. We seek to ensure that our engagement is tailored and focused on financially material factors.

Voting

We offer an intelligent voting service, covering listed equity holdings in all markets and indices. Each EOS client adopts a voting policy that represents their own beliefs and supports their investment objectives. Each EOS client acts independently when exercising their voting rights. EOS takes an engagement-led approach, where possible, when implementing each client's voting policy. Votes are tailored to the individual company's circumstances, with clients retaining the ability to vote how they wish.

A dynamic three-tier framework guides the implementation of each of our clients' voting policies – country-specific policies, our EOS regional corporate governance principles, and our overarching global voting guidelines. These ensure that our clients' votes account for regional differences, cultural norms and the relevant stage of the stewardship journey, so that the rationale for each vote is understood by the company.

Public policy and market best practice

We engage with legislators, regulators, industry bodies and other standard setters to shape capital markets and the environment in which companies and investors can operate, more sustainably. In addition, we often contribute to industry collaborations such as the PRI, enabling us to increase the reach of our work on behalf of clients.

Screening

Our quarterly screening tool monitors our clients' portfolios to identify companies that violate, or are at risk of violating, commonly accepted international norms and standards. This enables our clients to see where risks may arise in their portfolios, and to review any company responses to these based on our engagement insights where possible.

Advisory

We help our clients to meet stewardship regulations, and work with them to develop their responsible ownership policies, drawing on our extensive expertise and proprietary tools, to advance their stewardship strategies.

Foreword

Leon Kamhi
Head of Responsibility and EOS

In 2026, investor stewardship will need to increasingly focus on systemic economic risks and opportunities alongside the financial performance of individual investments. Universal owners are widely invested in the economy, with long-term investment horizons, so absolute returns matter. Indeed, it's arguable that the performance of the benchmark can be of greater value than relative returns.

With this in mind, we believe that stewardship needs to extend beyond engagement with companies to include policy and market best practice engagement, to help address systemic risks. When carried out effectively, this will provide the policy and industry environment in which companies can grasp the opportunities that new market trends afford. This will help to preserve long-term value for our clients, and their beneficiaries.

Three trends for 2026

Three trends are currently dominating the global economic landscape: artificial intelligence (AI), the climate transition, and geopolitics. Each requires a distinct approach, recognising what it is feasible to achieve through engagement.

- **Geopolitics** – Whilst investors can and should engage with companies on their supply chain resilience, target markets and operational risk, influencing international political outcomes at a policy level is outside the remit of investor stewardship. The focus should be on mitigating individual investment risk without pursuing political agendas.
- **Climate transition** – Investors can engage with governments, regulators and standard setters to encourage measures that will facilitate profitable investments in the transition by companies, whilst benefitting the end consumer through energy security and affordability. Time-bound policies focused on infrastructure development, blended finance, sector-specific subsidies, workforce retraining, and carbon pricing could all provide companies with the impetus to take investment risk. Once renewable solutions are established, market forces will sustain profitable growth. Investors can also encourage companies to collaborate across sectors on the development of best practices.
- **Artificial intelligence** – The adoption of AI is accelerating, which will make some industries obsolete and transform others. AI will reshape jobs and the customer experience, while raising societal concerns around data privacy and consumer rights. Investors will benefit from engaging with policymakers and sector associations as well as companies, to develop economic models that safeguard consumer, employee and citizen rights as industries rapidly evolve.

Looking ahead, policy and market best practice engagement should become a critical lever for enhancing portfolio returns. Complementing company engagement, which will remain central, 2026 will mark a material shift towards addressing systemic issues in alignment with investors' long-term financial interests. Stewardship will evolve to become more strategic, helping to shape the frameworks within which companies and economies can thrive.

Working closely with our clients, EOS at Federated Hermes Limited has embarked on three initiatives to enhance its stewardship service and its delivery for clients. These are: a focus on stewardship outcomes at companies; the financial materiality of company engagement; and policy and market best practice engagement objectives and activity.

Our engagement plan

Our engagement focuses on those issues with proven financial materiality to companies across different sectors. Through engagement, we support consideration of those actions aligned with improved risk-adjusted returns at each individual company, and which improve long-term systemic outcomes.

In 2025, artificial intelligence (AI) moved firmly into the mainstream of business operations. Geopolitical instability persisted, with the Russia-Ukraine war entering its fourth year and conflicts across the Middle East. Defence spending surged, and as defence equities rallied, investors re-evaluated the ethical and sustainability profile of defence investments.

The energy transition continued, with renewables accounting for 38% of global energy supply growth[1] and global electric vehicle sales accounting for nearly 20% of total car sales.[2] Throughout 2025, the world continued to experience extreme weather events at an unprecedented scale, reinforcing the need for companies and governments to invest in climate physical risk resilience.

Businesses faced a challenging tariff landscape, with average effective tariffs increasing from 2.4% to 11-12%.[3] While inflationary pressures eased in certain markets, real wage growth remained sluggish, and consumers continued to face a high cost-of-living. Given the rising risks and opportunities associated with technological, environmental and societal megatrends, investor protections, strong governance, and an adaptive corporate strategy are more important than ever.

Bruce Duguid
Head of Stewardship, EOS

Upgrading our approach to engagement

In 2026, we are upgrading our engagement approach in three important areas. The Engagement Plan now fully integrates the Financial Connectivity™ platform into the prioritisation of engagement topics for each sector. This informs our selection of the more financially material engagement topics for individual companies (see box on next page for more details).

Public policy has struggled to keep pace with rapid innovation and the adoption of new technologies in areas such as AI and the energy transition. In our 2026-28 plan, we will increase our efforts to coordinate our company engagement work with our complementary and supportive public policy and market best practice activities.

Finally, we have introduced new approaches to ensure that our engagement is focused on achieving positive outcomes aligned with the enhancement of sustainable long-term value for our clients. This includes seeking to identify the potential future outcomes that may result from our engagement activities, and monitoring these over time.

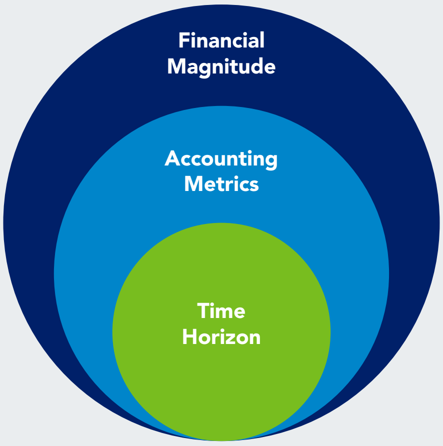
> **Throughout 2025, the world continued to experience extreme weather events at an unprecedented scale, reinforcing the need for companies and governments to invest in climate physical risk resilience.**

[1] ETI 2025: How far advanced is the energy transition? | World Economic Forum
[2] Key findings – Global Energy Review 2025 – Analysis – IEA
[3] Short-Run Effects of 2025 Tariffs So Far | The Budget Lab at Yale

Focusing on Financial Materiality

In today's complex and volatile markets, developing unique thematic insights and building an analytical research advantage is more important than ever. Our company engagement is focused on those issues with a proven financial materiality across different sectors.

Financial Connectivity™ logic assesses magnitude, accounting linkage and time horizon

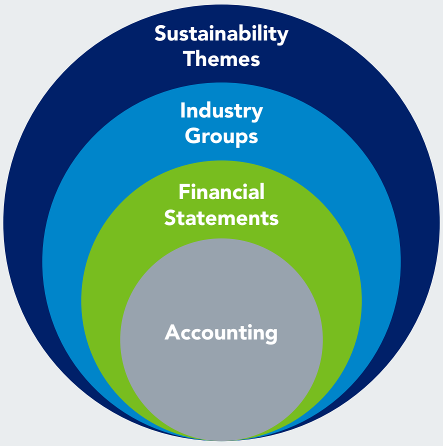


What: Financial Magnitude
Uses empirical data to evidence how specific industries and companies may be more (or less) financially exposed to each theme.

How: Accounting Metrics
Establishes the transparent intersection of the theme with the company's industry and its balance sheet, income statement and cash flows, with detailed SCORE (Suppliers/Customers/Owners/Regulators/Employees) analysis.

When: Time Horizon
Determines whether each accounting metric impact will be event-driven (short), require operational changes (medium), or be systemic (long).

The Financial Connectivity™ platform directly links sustainability and finance



To help identify the most material topics of relevance at each company, Federated Hermes' Responsible Investing Office (RIO) has developed the Financial Connectivity™ platform. This is a proprietary, patent-pending analytical tool that bridges sustainability themes and financial accounting metrics with granularity and sophistication.

This novel, AI-enabled platform directly connects our proprietary EOS engagement taxonomy of 36 sustainability-related themes to traditional financial statement categories, customised for 27 different industries and calibrated for different time horizons. This innovation equips our global investment and stewardship teams with a data-driven financial compass, reinforcing our efforts for engagement in pursuit of long-term, risk-adjusted returns, in line with each client's fiduciary duties.

The 2026-28 Engagement Plan fully integrates the Financial Connectivity™ platform into the prioritisation of engagement topics for each sector. This informs the selection of engagement topics for individual companies. The platform further enhances engagement effectiveness, providing a clear financial compass to guide engagement due diligence and discussions with companies, to holistically assess risk and uncover opportunities.

Priority themes

We will continue to engage on the most financially-connected drivers of long-term shareholder value creation, with a focus on four priority themes, while varying our approach depending on local legal and regulatory requirements in the relevant jurisdictions.

Board effectiveness

To enhance the quality of board performance, which is foundational for good corporate decision-making and durable financial returns, boards should set their risk appetite so that this is aligned with the company's strategic goals, including profitable growth. We seek improvements to a board's "software," relating to how it functions, and its "hardware," relating to its composition and structure, whilst avoiding a box-ticking approach. The board should continuously assess the prevailing company culture to ensure alignment with purpose, strategy and returns on capital employed.

The energy transition and extreme weather

We support companies in taking a pragmatic approach to climate-related opportunities and risks, and related targets. This can include reshaping capital allocations, seizing opportunities to drive revenue growth, and mitigating the costs associated with energy transition risks. Where commercially feasible, and subject to local laws and regulations, we seek greenhouse gas targets aligned as far as possible with the long-term global goals of the Paris Agreement.[4]

We continue to evaluate the credibility of transition plans and encourage company disclosure of key policies, innovation, capital expenditure and market dependencies. Our areas of focus will include engagement with high methane-emitting industries associated with the AI ecosystem, and all relevant sectors, to build resilience to physical climate risks.

[4] The goals of the Paris Agreement can be summarised as limiting climate change to below 2°C and pursuing efforts towards 1.5°C.

Human and labour rights

With rising levels of conflict around the globe, we will continue to focus on protecting human rights in high-risk regions, helping companies to reduce liabilities and costs from operational and financial risks. We will also maintain our emphasis on supply chain rights where there is an elevated risk of forced labour, unsafe working conditions, and value chain financial vulnerabilities.

We are increasing our focus on the protection of human rights and related obligations in the virtual world. This includes challenges to data privacy rights and the right to freedom of expression, and protection from unfair biases, which the use of AI may amplify, in order to enhance compliance, reduce costs and improve cashflow.

Human capital

Our engagement focus on upskilling and reskilling workers remains, given the likely disruption to jobs through the deployment of AI, robotics and the ongoing energy transition. We will also maintain our focus on talent management, asking companies to achieve merit hiring practices that avoid discrimination, and to consider an expanded range of metrics of engagement and belonging, boosting productivity and agility, and future-proofing profitability. Our health and safety engagement now encompasses new areas, including managing heat-stress, psychological safety, and mental wellbeing, as well as actions to halt continuing incidences of sexual harassment.

Expanding themes

In addition to the above, we will intensify engagement on two rapidly evolving topics in 2026 as follows:

Nature and biodiversity

Ecosystem degradation and deforestation risks can impair asset values and increase liabilities. Therefore, we will continue to explore the opportunity for companies to take action across their products, operations and supply chains to halt and reverse biodiversity loss by 2030, in line with the Kunming-Montreal Global Biodiversity Framework. The aim is to protect against future potential regulatory liabilities and associated costs, as well as to secure supplies.[5]

Food sector retailing and production will remain an area of focus given its high impacts and financial dependencies on biodiversity and ecosystem services, along with the mining and agrochemicals sectors. We will continue to work with global initiatives such as the Rainforest Alliance,[6] PRI Spring[7] and Nature Action 100[8] to bring clarity and financial evidence to engagements with affected companies.

AI and risk management

We will increase our engagement with companies to ensure board oversight of the full range of strategic risks that can influence a company's profitability and cost of capital, or an investor's financial forecasts and growth expectations. These risks include rising challenges across systemic megatrends including conflicts and wider geopolitical tensions, increasingly frequent and intense weather events, higher and fluctuating barriers to trade, greater risks of cyberattacks and an increased dependency on rapidly evolving technologies.

This includes AI, where we will engage with companies on their strategies to seize the revenue opportunities and manage the liabilities associated with the unintended consequences of AI deployment. These may include problematic content on social media, AI hallucinations and reinforcement of unintended bias, and health and safety impacts on children and young people.

We maintain a comprehensive engagement plan covering a broad range of other themes, including increasing resource efficiency through the circular economy, reducing waste and harmful pollution, and seeking positive wider societal outcomes through increased corporate responsibility, including responsible tax practices. While these themes vary significantly by industry, applying our Financial Connectivity™ platform provides a granular and efficient mechanism to clarify the financial accounting linkage for corporate issuers, improving stewardship outcomes.

[5] Kunming-Montreal Global Biodiversity Framework | UNEP – UN Environment Programme
[6] Rainforest Alliance | Creating a Better World for People and Nature
[7] PRI | Spring
[8] Nature Action 100 – Supporting greater corporate ambition and action on tackling nature and biodiversity loss

A guide to engagement terminology

Our engagement approach is systematic and transparent. Our proprietary milestone system allows us to track the progress of our engagements relative to the objectives set for each company.

Objectives

We set clear and specific objectives within our company engagements to ensure we achieve positive outcomes. An objective is a specific, measurable change defined at the company – an outcome we are seeking to achieve. Each objective is tracked using milestones. Objectives are regularly reviewed until they are completed – when the company has demonstrably implemented the change requested – or discontinued. Objectives may be discontinued if the objective is no longer relevant, or because the engagement is no longer feasible or material.

We may engage with a company on multiple objectives at any one time, covering a variety of material ESG issues. An example of an objective could be: "Development of a strategy consistent with the goals of the Paris Agreement, including setting science-based emissions reduction targets for operating emissions (Scopes 1 and 2 emissions)." Each objective relates to a single theme and sub-theme.

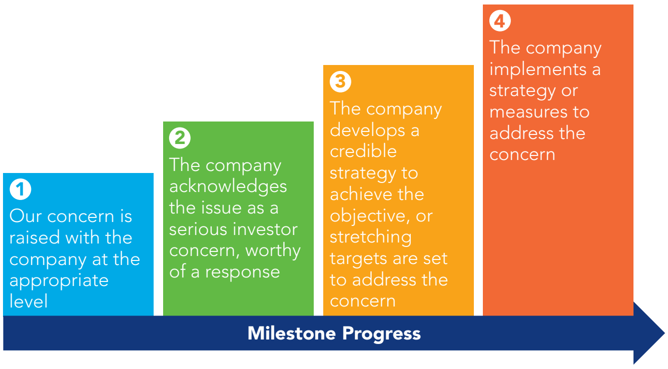
> **To measure our progress and the achievement of engagement objectives, we use a four-stage milestone strategy.**

Issues

How does an objective differ from an issue, another term we use within our engagement? An issue is a topic we have raised with a company in engagement, but where we do not precisely define the outcome that we are seeking to achieve. This can be more appropriate if the issue is of lower materiality and so we do not anticipate engaging with the frequency required to pursue an objective. Or perhaps we are still in the process of identifying what type of change we may want to see at a company and so are not yet able to set a precise objective. Issues are frequently used for companies outside our continuous engagement programme, for example those where we typically engage only around the annual shareholder meeting and the implementation of our clients' voting policies.

Milestones

To measure our progress and the achievement of engagement objectives, we use a four-stage milestone strategy. When we set an objective at the start of an engagement, we will also identify recognisable milestones that need to be achieved. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.



1 Our concern is raised with the company at the appropriate level

2 The company acknowledges the issue as a serious investor concern, worthy of a response

3 The company develops a credible strategy to achieve the objective, or stretching targets are set to address the concern

4 The company implements a strategy or measures to address the concern

Milestone Progress

Actions

These are the interactions that take place between our engagement professionals and the companies or public policy bodies with whom they are engaging. Every call, meeting or correspondence is recorded as an action. Actions can be linked to objectives or issues. We only consider companies to be engaged when we have an individual interaction with the company that relates to an objective or issue.

Environmental

From climate ambition to implementation

At COP30 in Brazil, delegates agreed a new climate deal to triple adaptation finance by 2035 and kickstart international cooperation on a just transition. But the final text withheld comment on fossil fuels or deforestation. Will Farrell reflects on the key takeaways for investors and companies.

Ten years on from 2015's landmark Paris Agreement, expectations were high for the Amazon-based COP30 to deliver concrete steps for multilateral climate action against a fractured geopolitical backdrop. Held at the inflection point between the UN's decade of ambition (2015-2025) and the decade of implementation (2025-2035), it was hoped that participants would be able to agree a roadmap for a global transition away from fossil fuels.

Our delegation to COP30 engaged with policymakers, industry, and civil society in the blue zone – the official negotiating area in Belém under UN jurisdiction – and the summit's side events, which were split between Belém and São Paulo. We advocated for translating national commitments into investable sector transition plans, scaling blended finance, protecting forests and biodiversity, agreeing adaptation funding, and delivering a just transition that ensures transition policies meet citizens' core needs.

After two weeks of intense negotiations, and beleaguered by the heat and humidity of the negotiating rooms, delegates heralded the adoption of the Belém Package. The COP30 climate deal advances key mitigation and adaptation finance mechanisms, sets out actions for countries to deliver their national commitments through implementation policies and investment plans, and adopts a new institutional mechanism to support just transitions globally.

Will Farrell
Theme co-lead: Climate Change

Our key messages for policymakers

- **Bridge ambition and implementation** – Translate national climate goals into investable projects and predictable frameworks that attract long-term capital, particularly policy-backed, strategic sector transition plans.
- **Enable and reward credible and resilient transitions** – Focus regulation and incentives on measurable progress and real-world impact that deliver on citizens' core needs and incentivise growth in line with planetary boundaries, not just targets.
- **Scale blended finance** – Combine public and private funding to de-risk transition and nature-positive investment, particularly in emerging markets, including through strategic deployment through sector transition planning.
- **Protect forests and biodiversity** – Embed deforestation-free and nature-positive criteria in national transition plans and finance frameworks.
- **Agree adaptation funding and measurement models** – Integrate the Global Goal on Adaptation (GGA) adopted at COP28 into transition planning through clear measurement and funding models, resolving the prisoner's dilemma of who pays for adaptation across the private and public sectors.
- **Deliver a just and inclusive transition** – Ensure that climate and nature policies create economic and social benefits for communities and maintain their democratic consent, especially in emerging markets.

Our advocacy on the road to COP30

We began our planning for COP30 in January 2025, building an advocacy programme on the road to the most highly-anticipated UN climate summit since Glasgow's COP26 in 2021. This included defining our strategic advocacy messages and identifying how we could contribute to the policy environment with the most impact.

We worked closely with the Institutional Investors Group on Climate Change (IIGCC) to develop a set of principles for governments drawing up sector transition plans, including sitting on a dedicated investor working group. The principles, published in February 2025, outlined the importance of sector transition plans being credible and useful, underpinned by public policies that support a commercial sectoral transition, and accompanied by financing mechanisms that catalyse the investability of climate opportunities.[1]

In February, we were appointed to the Transition Finance Council – co-launched by the UK Treasury and the City of London Corporation – as a member of the working group on sector transition plans.[2] We subsequently lead-authored guidance on the development of sector transition plans in *The Finance Playbook*.[3] The playbook describes practical steps for how government, industry, and finance can work together to close the finance gap and accelerate the transition, with sector transition plans as the vehicle for implementation. It also provides a structured approach for deploying blended finance most effectively.

We have subsequently disseminated this work through a series of meetings with governments and related bodies before, and at COP30, including Australia, Brazil, the European Union, Mexico, Norway, South Korea, and the UK.

> **Through our pre-COP30 advocacy, we have amplified our engagement on integrating nature into climate policy.**

Highlights of our activity in São Paulo

- We chaired a roundtable of senior stakeholders discussing the concrete steps that industry, finance, and governments can take together to bridge ambition and implementation, including through the co-creation of sector transition plans and supporting policies.
- We spoke on several panels on the topics of agri-food transition pathways, indigenous and land rights in the context of deforestation, oceans and the blue economy, and quantifying the financial effects of sustainability risks and opportunities.
- We contributed to roundtables on adaptation to physical climate risks, making nationally determined contributions (NDCs) investable, and how to scale investments into nature and resilience.
- We co-hosted a reception on the topic of physical climate risks and the role of COP30 in charting a path towards mitigation and adaption to these evolving risks.
- We joined meetings convened by the Investor Policy Dialogue on Deforestation (IPDD), of which we are a member, with Brazil's central bank and Brazil's Treasury department.

For example, we have engaged with the UK and Brazilian governments via the Investor Policy Dialogue on Deforestation.

What was achieved at COP30?

The UN's latest emissions gap[4] report states that the world is likely facing a global temperature rise of 2.8°C this century, well-above the Paris Agreement goal. Adaptation to the physical impacts of climate change was therefore a priority topic at this COP, concluding the Baku Adaptation Roadmap and emphasising the role of scaling international climate finance into adaptation. The final COP30 agreement ultimately saw countries call for "efforts to at least triple adaptation finance" by 2035.

While the language falls short of the binding commitments sought by developing nations, including small island states, the agreement secures adaptation finance as a key topic for subsequent COPs. Alongside progress on mitigation finance following on from the Baku to Belém Roadmap, this raises prospects for blended finance instruments to play a more significant role as a catalyst for mobilising and scaling private finance behind climate and nature opportunities, especially in emerging markets.

[1] IIGCC Principles for developing sector decarbonisation roadmap – the investor perspective for policymakers 2025.pdf
[2] Transition Finance Council: leadership and structure
[3] Sector transition plans: the finance playbook
[4] https://www.unep.org/resources/emissions-gap-report-2025

Making the transition investable?

At COP30, we advocated for policymakers to bridge ambition and implementation by translating nationally determined contributions (NDCs) into investable projects and stable policy frameworks that attract long-term capital. We also advocated for the strategic development by governments and industry of sector transition plans, which could serve as the channels for policy development and value chain coordination that sufficiently recognise and address sector-specific transition hurdles and opportunities.

While the UN's process does not have jurisdiction over national policies, including sector policies, the final Belém package does reflect calls for making NDCs investable. The agreement formally "invites parties [countries] to develop implementation and investment plans for their [NDCs]."[5] This outcome – an evolution of the traditional invitations to improve the ambition of NDCs – reflects the heightened focus on ensuring that national commitments are translated into investable delivery policies, which will inherently require a sector-specific lens. Governments including Australia, Japan, and the UK have already begun developing sector transition plans.

Renewed national policymaking efforts aimed at unlocking the commercial cases for transition should expand capital allocation opportunities for companies and investors alike. We also expect that these efforts will increasingly rest on stronger government and industry partnerships, motivating closer engagement across the transition planning ecosystem.

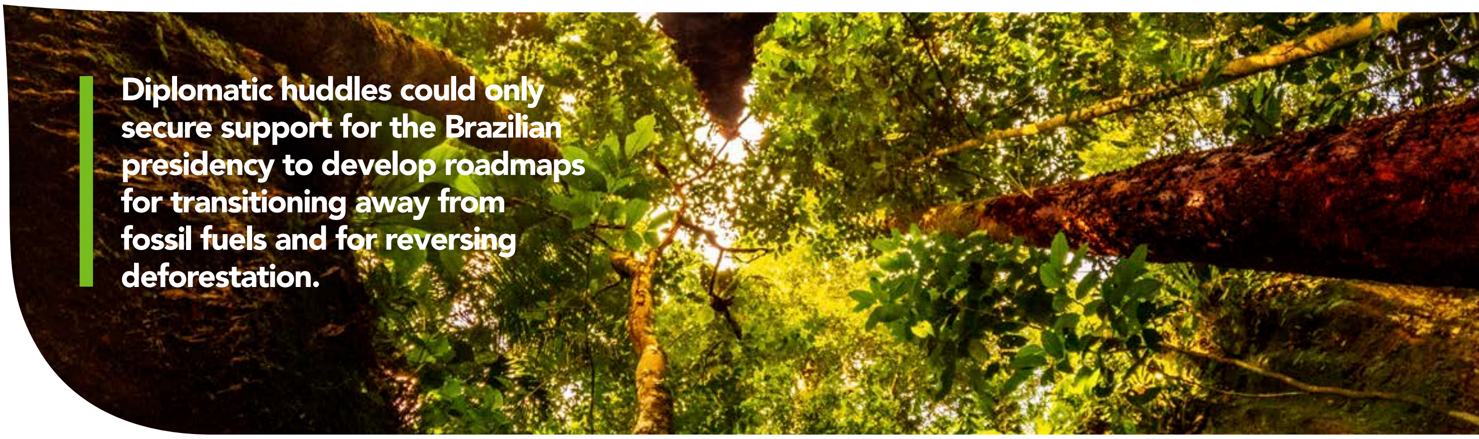
The final Belém package reflects calls for making nationally determined contributions investable.

Highlights of our activity in Belém

In Belém, we spoke at the:

- Opening of the Singaporean government's pavilion, focusing on the role of emerging technologies to promote supply chain resilience and adaptation across Asia
- UK government's pavilion on the role of business in building climate resilience, including discussing the policy levers required to drive adaptation investment
- South Korean government's pavilion on how to mobilise public and private finance into nature
- Global Resilience Hub's event on how to ensure that AI opportunities are a catalyst for the energy transition
- UN High Commissioner on Refugees' event on unlocking private capital for fragile contexts and emerging markets
- Brazilian Ministry for Environment and Climate Change's event on forest finance and the road to 2030
- Launch of Parliamentarians' Global Guide to Climate Change and Solutions
- First ministerial meeting of the Intergovernmental Council for Buildings and Climate
- Global Alliance for a Sustainable Planet's event on climate resilience for peace and sustainability in Asia
- SB COP and FAIRR's high-level panel on transforming food systems for climate, nature, and people
- S&P Global's event on the energy, food, and water nexus of resilience
- TheCityUK's event exploring UK sustainable finance leadership
- OECD's event on debt markets for sustainability and climate transition
- Deloitte's event on sustainable cities and infrastructure that leverage smart technologies
- JPMorgan's event on mobilising sustainable capital for climate and development
- World Climate Foundation's event on nature-positive building design and materials
- KPMG's Transition Planning Bootcamp on the role of industry, finance, and policymakers across the transition planning landscape
- World Business Council for Sustainable Development's event on quantifying the financial effects of sustainability risks and opportunities

[5] https://unfccc.int/sites/default/files/resource/cma2025_L24_adv.pdf



Diplomatic huddles could only secure support for the Brazilian presidency to develop roadmaps for transitioning away from fossil fuels and for reversing deforestation.

Uncertainty on thorny issues

The Belém package reflects a fractured world markedly different from the consensus-based international order conducive to the Paris Agreement in 2015. Negotiating blocs including the EU, UK, and small island nations had pushed for firm, coordinated actions to advance COP28's agreement to "transition away from" fossil fuels, as well as efforts to halt deforestation.

However, diplomatic huddles could only secure support for the Brazilian presidency to develop roadmaps for transitioning away from fossil fuels and for reversing deforestation, which will sit outside the formal UN Framework Convention on Climate Change (UNFCCC) architecture. For companies and investors navigating the energy transition and deforestation risks, uncertainty persists.

> **The Belém package reflects a fractured world markedly different from the consensus-based international order conducive to the Paris Agreement in 2015.**

No stable climate without nature

Convening at the gateway to the Amazon rainforest, delegates could not overlook nature's foundational role in securing a stable and prosperous climate. There was an early win in the form of Brazil's successful launch of its novel Tropical Forest Forever Facility (TFFF) at the very start of the summit with more than $5bn of funding.[6] The fund aims to scale investment into the protection of rainforests, which is crucial to support mitigation efforts.

Following the agreement at COP29, the international carbon market was also widely expected to scale finance into nature-based solutions. However, the rulebook was subject to some controversy at this year's summit, with stakeholders raising concerns over whether the requirements around permanence exclude many or all nature-based projects. The rulebook was ultimately reasserted and, therefore, the eligibility of investors' and companies' nature-based projects to access revenues through the market remains unknown.

Disappointingly, the final agreement text did little to advance cooperation and coordination between the climate COPs and its close cousins, the biodiversity and desertification COPs.

Climate policies must deliver on livelihoods

COP30's Just Transition Work Programme (JTWP) successfully secured agenda time and resulted in the adoption of a new institutional mechanism to support equitable workforce and consumer transitions globally in the Belém Package.

The final text saw countries aiming to "enhance international cooperation, technical assistance, capacity-building, and knowledge sharing, and enable equitable inclusive just transitions". While the mechanism remains nascent and its ultimate impact unknown, its formal adoption marks a significant upshift in representation of workforce and affordability considerations within the formal UNFCCC architecture.

Where next?

COP31 will be hosted by Turkey and presided over by Australia. We expect that the funding of mitigation and adaptation mechanisms will be the centrepiece of international negotiations, while the nature and just transition workstreams will require continued development. Extending our focus on sector transition plans in 2025, we also expect Australia to elevate the focus of sector transition planning in its pre-COP31 roadshow of countries, in a bid to respond to the call for investable NDCs.

[6] https://cop30.br/en/news-about-cop30/over-usd-5-5-billion-announced-for-tropical-forest-forever-facility-as-53-countries-endorse-the-historic-tfff-launch-declaration

Q&A: Fast Fashion

Lisa Lange
Theme: Circular Economy and Zero Pollution

We have been engaging with companies on the problems endemic in the fast fashion industry since 2021, using the criteria we set out in our white paper, *Fixing Fast Fashion*. This explains why the fashion industry's linear model is unsustainable and how companies might adopt more circular approaches such as reuse and recycling.

Since the paper's publication, we have seen more use of recycled materials and some reduction in the use of hazardous chemicals, as well as changes in consumer behaviour, with second-hand clothing websites growing in popularity. But adoption of circular business models, including rental, resale, and repair, remains limited, and high street retailer provision of these services is still at a small scale.

Q. Where have we seen the most progress since 2021? Can you highlight some positive engagement examples?

A. We began our focused engagement with key companies in the apparel sector by undertaking a benchmarking exercise in 2021. We repeated this in 2025 to identify areas of progress. Engagers Navishka Pandit and Ming Yang have made important contributions to this work. Analysing the results, we identified progress in climate strategy and science-based target setting.

Across our assessment framework, nine out of the 15 companies improved on our internal benchmark in the climate category between 2022 and 2025. Apparel producers, which have more direct control over supply chain emissions, are making the fastest progress compared with retailers. Companies have shifted from just making broad ambition statements, to setting validated targets, with robust reporting. This has created greater transparency in the sector, which benefits investors.

Apparel companies that are prioritising more sustainable practices should be more resilient to, and better positioned for, changing global regulations, resource management best practices, and customer preferences. This means reduced legal and compliance costs, efficient resource cost management, and enhanced brand reputation and revenue capture.

To give an example, we have engaged with Adidas, the largest sportswear manufacturer in Europe, on climate-related risks and opportunities since 2018. Between 2022 and 2025, Adidas advanced in our benchmarking from level three to level four, which was the best score for the companies being assessed. This reflected its more comprehensive, validated climate commitments, which included near-term and net-zero targets.

We have also engaged with Primark, which is part of Associated British Foods (ABF). It has committed to Paris Agreement-aligned 1.5°C carbon reduction targets for Scope 1, 2 and 3 emissions. Now it is working with external consultants to measure and validate its emissions, particularly its Scope 3 emissions, which cover its supply chain and product use. In November 2023, Primark's targets were officially validated by the Science Based Targets initiative (SBTi), giving investors confidence in the stringency of these commitments. The company also managed to reduce its absolute emissions below its 2018/19 baseline, even as its business continued to expand. The 2030 target is ambitious – a 3.2 million tonne reduction in CO_2e against a 6.5 million tonne baseline.

China's ANTA Sports has also made progress since we began our engagement with the company. It has now set robust targets to cut its Scopes 1 and 2 emissions by 42% and its Scope 3 emissions by nearly 52% by 2030, versus a 2022 base year. The company is working to collect and verify its Scope 3 data, a critical step for transparency.

China's ANTA Sports has also made progress since we began our engagement with the company.

Q. One of the most difficult problems to tackle is the 'take-make-waste' approach, where companies focus on selling new lines at low prices. Is there any sign of business models shifting across the fast fashion industry? How might this be addressed?

A. Despite growing awareness, the industry's core business model, the take-make-waste approach, remains largely unchanged. The model's emphasis on rapid production and low prices continues to drive overconsumption and waste. However, there are signs of incremental progress, mostly in the adoption of targets for more sustainable materials.

Circular models could help to reduce waste-related costs in production and regulatory risk, while unlocking new revenue streams from resale and recycling. By improving resource efficiency and creating less capital-intensive revenue streams in resale platforms, such models can

enhance free cash flow and business resilience. These strategies may also strengthen the company's competitive position and attract sustainability-minded customers, which can drive additional revenue and long-term profitability.

Primark is an interesting example, having pledged that by 2030 all its garments will be made from recycled or more sustainably sourced materials, with a strengthened interim goal of 100% recycled, organic, or sustainable cotton content by 2027. As of 2023, nearly half of its clothing met this standard. H&M also targets 100% recycled or sustainably sourced materials, although it acknowledges the technical challenges of using 100% recycled cotton. Japan's Fast Retailing, the owner of Uniqlo, has set a 2030 goal to use 50% recycled materials and achieve zero waste. Its Re-Uniqlo programme offers repairs and garment collection, although fibre-to-fibre recycling is still in the developmental stages.

However, the adoption of circular business models, such as rental, resale, and repair remains limited. None of the major high street brands derives a significant portion of their revenue from these services. While pilot initiatives exist, scaling them has been difficult due to logistics, consumer preferences, and the industry's reliance on new product sales for profitability.

Regulation may provide the nudge needed for broader change. The EU's Extended Producer Responsibility (EPR) scheme will begin to mandate the collection, sorting, and recycling of textiles in coming years, with real financial consequences. These relate to the additional costs in complying, or in the case of non-compliance, may involve fines or legal fees, all of which pose cost increases. These frameworks could accelerate the industry's shift beyond targets for more sustainable materials, to fundamentally new models of fashion consumption, but as of 2025, this transition remains in its infancy.

Q. We have also engaged on the use of hazardous chemicals and the problem of environmental discharge. Are there any positive developments within textile production processes?

A. There has been tangible progress in hazardous chemical management and pollution controls among the leading apparel brands. Several companies have made progress in mapping hazardous chemical use, setting clear targets, and improving wastewater standards. Pollution control and water stewardship can enhance a company's operational resilience as regulations tighten, as well as protecting brand equity, supporting long-term revenue durability.

Adidas is a leader here, introducing the 'adiFormulator' programme to promote sustainable chemical processes among its suppliers. By 2023, 67% of chemical formulations used by Adidas suppliers met the highest Zero Discharge of Hazardous Chemicals (ZDHC) Manufacturing Restricted Substance List (MRSL) Level 3 standard, and it is on track to reach 80% by 2025.[1] However, this only covers its tier one suppliers, so we will continue engaging with Adidas on expanding the scope of its targets beyond tier one. The company is also close to eliminating per- and polyfluoroalkyl substances (PFAS) and has set ambitious targets for wastewater discharge quality at its suppliers.

Inditex, the parent of Zara, has created its own programme, 'The List', in collaboration with industry partners, to classify and improve chemical products throughout its supply chain. With a universal zero-tolerance policy for hazardous discharges, Inditex is working with researchers to close data gaps and improve risk assessment.

H&M has set a 2030 target for 100% ZDHC MRSL compliance in tier one and two factories, having reached 97% in 2024; it is nearly at full compliance for wastewater discharge standards. The brand's work on regenerative cotton projects with BetterCotton and WWF also addresses upstream chemical use and occupational health.

H&M's work on regenerative cotton projects with BetterCotton and WWF also addresses upstream chemical use and occupational health.

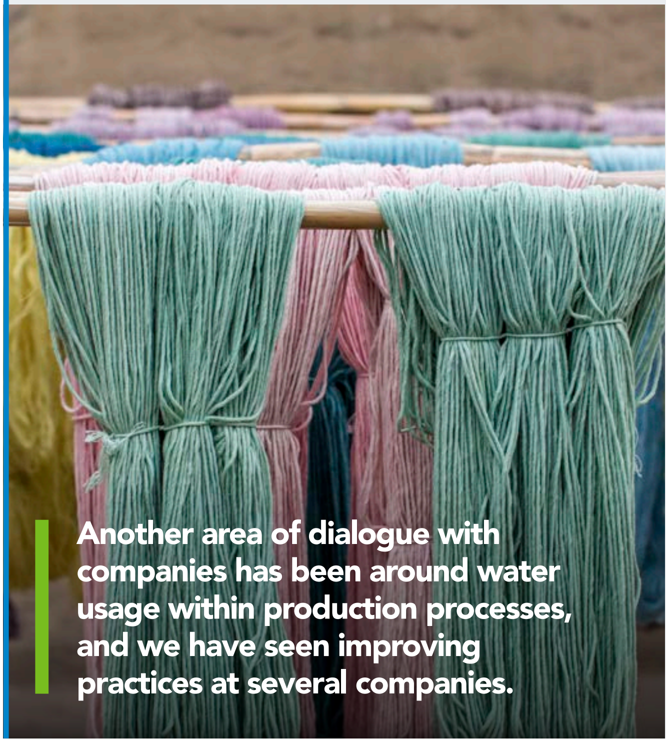
[1] https://report.adidas-group.com/2024/en/group-management-report-sustainability-statement/esrs-e2-pollution/entity-specific-information.html#sel=4:1:Fr1,5:103:lN3

Another area of dialogue with companies has been around water usage within production processes, and we have seen improving practices at several companies. Fast Retailing's approach includes mandatory wastewater testing, a target for a 10% reduction in water use per unit at each factory by 2025, and the aim of zero hazardous chemical discharge by 2030. This is supported by investments in water-saving technologies and holistic water management across the company's value chain.

We began engaging on opportunities to reduce water usage at US company Carter's in 2022. It is mapping high-risk suppliers and has set qualitative targets to reduce water use in manufacturing and washing by 2025. It measures water impacts through the Higg Index and requires all factories and mills in its supply chain to complete assessments. Since 2019, Carter's has cut water use in garment washing by 50%.

Another US company, VF Corp, assesses water-related risks and opportunities across its supply chain, prioritising high-risk suppliers and requiring tier one and two suppliers to report annually via the Higg Facility Environmental Module. Its suppliers must meet Global Water Discharge Standards. By 2025, VF Corp plans to set time-bound targets to reduce water impacts across its value chain.

Nine out of the 15 companies in our benchmark now have hazardous chemical targets or zero-tolerance criteria, but the complexity of global supply chains and varying supplier standards remain obstacles to further progress. Still, collaborative industry efforts such as the ZDHC Roadmap to Zero are gaining traction.



Another area of dialogue with companies has been around water usage within production processes, and we have seen improving practices at several companies.

Q. Where do you hope to see progress in 2026? Are there any nascent areas where companies might improve?

A. Biodiversity and nature will become more prominent topics for our engagement with the apparel sector in 2026. Integrating biodiversity considerations could help to mitigate risks to companies from ecosystem degradation and tightening nature regulations, which may inflate compliance costs and impact their upstream suppliers. The sector is only just beginning to systematically assess its impacts and dependencies on nature, but we do see some momentum in our engagement. There is a recognition that resource scarcity and supply disruptions could mean additional costs for businesses as they search for alternative supplies, or may lead to supply shortages, reducing sales volumes.

Most companies now acknowledge biodiversity risks in their sustainability disclosures, but none set time-bound nature-related targets. However, several leading brands are making steps in the right direction. Adidas conducted a dependencies and impact analysis in 2023/2024, using Encore, a tool for biodiversity and assessments related to natural capital. After finding that a 2025 target to eliminate deforestation and conversion from its supply chains was unrealistic, the company set a commodity-specific target for bovine leather sourcing to be deforestation- and conversion-free by 2030.

H&M participated in the Science Based Targets Network (SBTN) target validation pilot exercise, which included 17 companies in the food and beverage, retail, consumer goods, healthcare, and metals and mining sectors. The pilot identified key targets such as zero conversion of natural ecosystems and land footprint reduction, and H&M is now developing measurable KPIs for internal use.

Of the companies benchmarked by EOS, seven are working on regenerative agriculture approaches, with a focus on cotton farming. H&M is on the advisory board of BetterCotton and has invested in several projects in India to improve soil health and help farmers become climate resilient. Meanwhile Walmart has committed to protecting and restoring at least 50 million acres of land by 2030.

Technological innovation could play a critical role in accelerating progress. Blockchain, radio-frequency identification (RFID), and digital product passports are enhancing supply chain transparency, while new materials such as Tencel, Piñatex, and mycelium-based textiles offer lower-impact alternatives to traditional fibres. Artificial intelligence is helping brands to improve their demand forecasting, reducing overproduction and waste.

CASE STUDY

Centrica

Centrica, a British integrated energy company, delivers energy services to households via its retail brands, including British Gas – the UK's second largest gas and electricity utility – and Bord Gáis Energy in Ireland. The company also produces and stores energy through its stake in the UK's nuclear fleet, a portfolio of renewable, storage and flexible assets, Spirit Energy (a gas production business), and the Rough gas storage facility. Centrica is also engaged in the trading of energy, including through its LNG shipping business.

Technological change, innovation, and the energy transition challenge the company's traditional business model of fossil fuel-driven electricity generation, natural gas retail and storage, and gas boiler installation and maintenance. At the same time, the transition presents a considerable commercial opportunity for Centrica to lead in low-carbon solutions, reshape its service offerings, and accelerate progress towards a more sustainable energy system.

Our engagement

In 2021, we began engaging Centrica as company co-lead under the Climate Action 100+ collaborative engagement initiative, focusing on the company's energy transition strategy. The UK had announced its target for a net zero power grid by 2035, but uncertainty remained over how heat would be decarbonised to achieve the UK's wider net zero by 2050 commitment. This raised questions around how the company would deliver its targets, with implications for capital expenditure and long-term growth.

Centrica had established a target to reduce its customer emissions intensity (electricity and gas sales) by 28% by 2030 versus 2019.[1] Over the next few years, we met several times with the CEO, the chair, the head of environment, the head of strategy, the company secretary, and technical experts from the company. We asked Centrica to consider whether this target was sufficiently ambitious to remain competitive, including evaluating the compatibility of this plan with the Paris Agreement goal of 1.5°C and the commercial opportunities that this presents.

In 2024, the company invited us and an investor to participate in a series of technical engagements with Centrica's head of environment and sustainability strategy teams to allow an exchange of views on strategic opportunities for the energy transition. These covered how Centrica would address its gas-fired electricity generation, commercial levers for low carbon heat provision, its LNG growth strategy and its public policy advocacy strategy.

Changes at the company

In 2025, Centrica published its updated climate transition plan. It brought forward its Scope 1 and 2 emissions net zero commitment to 2040 from 2045, while retaining its 2050 net zero commitment for customer Scope 3 emissions, currently primarily attributable to the use of natural gas for domestic and commercial heating.

For the customer emissions intensity associated with electricity and heat, the company retained its target to reduce this figure by 28% by 2030 versus 2019, while also referencing a new 'stretch' goal to reduce the customer emissions intensity by 40% by 2030, recognising that this would be required to deliver a 1.5°C-aligned pathway.[2]

Supplementing these targets, Centrica has identified and quantified individual decarbonisation levers across electricity, heat electrification, and gas distribution, guiding investors on the strategic positioning of the business. The plan brings clarity to the roles for heat electrification versus hydrogen solutions, and each lever is complemented by an articulation of the company's policy dependencies, as well as proactive advocacy actions identified to promote an enabling external environment. Over 50% of its future capex over the period from 2023 to 2028 is classified as 'green' by the company.

Next steps

We plan to continue engaging with Centrica on the implementation of its transition plan, including how energy transition implications will be addressed by the LNG shipping business and how the company will remain agile against a backdrop of policy uncertainty. We also aim to continue engaging on succession planning and board effectiveness as the company seeks to replenish its balance sheet through significant planned greenfield capital expenditure.

Will Farrell
Theme co-lead: Climate Change

[1] Centrica's Climate Transition Plan
[2] Emissions and Targets

Social

Why protecting worker rights matters

Long and complex supply chains raise multiple risks for leading brand names, with investors and consumers regarding fair labour practices as a financially material issue. Kenny Tsang and Ross Teverson explain how protecting worker rights directly impacts a company's bottom line.

Protecting worker rights is materially linked to long-term value creation for companies. Those that uphold fair labour practices, whether within their own operations or across supplier networks, can reduce the risk of operational disruptions, improve productivity, and strengthen supplier relationships. In addition, improved employee retention resulting in lower turnover, and enhanced production quality, can lead to lower expenses and higher revenues, making this a potential source of competitive advantage, rather than just compliance.

Conversely, labour exploitation at any level exposes brands to the risk of higher legal expenses, as well as reputational risks that can erode brand value and negatively impact revenues. Strong supply chain standards build trust and identity, supporting employee and customer loyalty. Enhanced brand strength can drive higher margins and long-term profit growth, which improves investor confidence. Embedding these standards enhances transparency and resilience, helping companies avoid costly operating disruptions, fines, or supply chain interruptions.

Strong supply chain standards build trust and identity, supporting employee and customer loyalty.

Kenny Tsang
Theme: Human and Labour Rights

Ross Teverson
Theme: Human and Labour Rights

As many consumers and investors increasingly favour businesses committed to responsible labour practices, firms that lead on these issues are better positioned to capture investment and growth, while maintaining their competitiveness. We encourage companies to recognise these dynamics and integrate robust practices that protect workers and long-term investor interests.

Key drivers of supply chain worker rights

We identify several drivers that play a pivotal role in advancing supply chain labour rights: customers, regulators, investors, NGOs, and companies themselves.

Customers

Consumers are increasingly vocal about ethical sourcing, with protests, boycott campaigns, and social media amplifying pressure on brands that fail to respect labour rights. This activism can quickly translate into lost sales and diminished brand equity, making it a powerful driver for change. Companies that demonstrate strong commitments to worker welfare often enjoy greater loyalty and pricing power, reinforcing the link between ethics and profitability.

Well-known brands such as Patagonia and Unilever are recognised for their ethical sourcing practices, which strengthen their market position. In contrast, some brands operating in the discounted fast fashion space have attracted protests catalysed by allegations of unethical sourcing practices.

Regulators

Regulatory frameworks are tightening globally. The EU Corporate Sustainability Due Diligence Directive (CSDDD), the UK Modern Slavery Act, and the US Uyghur Forced Labor Prevention Act (UFLPA) impose obligations on companies to identify and mitigate human rights risks in their own operations and supply chains. Non-compliance can lead to fines, litigation, and supply chain disruptions, causing reputational damage and short-term costs for companies. These regulations signal a global shift towards mandatory human rights due diligence, making proactive compliance essential for companies operating internationally.

Investors

In addition to their focus on the reputational impacts on sales and costs from regulatory non-compliance, investors are increasingly linking human rights practices to access to capital. Initiatives such as the UN Guiding Principles (UNGP) and investor-led stewardship frameworks emphasise that poor labour practices can result in exclusion from sustainable investment portfolios and potentially higher financing costs. Conversely, strong governance on labour rights can attract sustainability-focused capital and enhance shareholder confidence, reinforcing the financial case for robust human rights management.

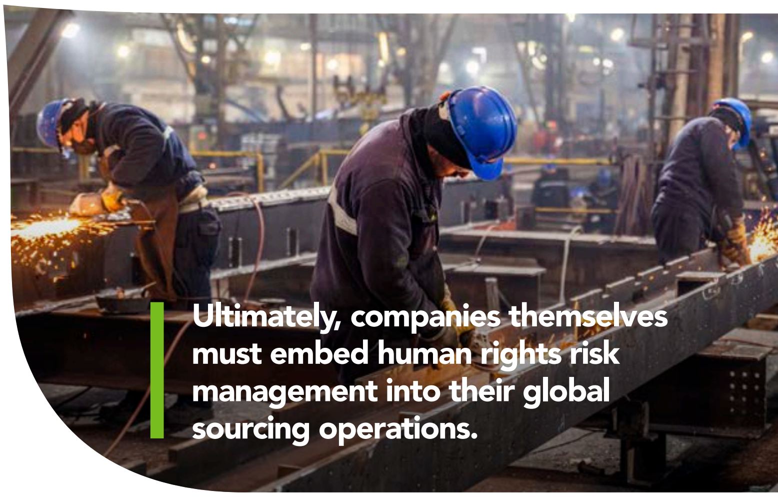
NGOs

Non-governmental organisations (NGOs) play a watchdog role, monitoring and exposing violations that can trigger reputational crises. For example, in 2024, the Business & Human Rights Resource Centre alleged that certain fast fashion and luxury brands were linked to labour rights abuses.[1] NGO reports may influence public opinion and investor decisions, making transparency and collaboration essential for companies seeking to maintain trust. Engagement with credible NGOs can help businesses identify risks early and demonstrate accountability.

> **NGO reports may influence public opinion and investor decisions, making transparency and collaboration essential for companies seeking to maintain trust.**

Companies

Ultimately, companies themselves must embed human rights risk management into their global sourcing operations. This requires investment in thorough supplier due diligence from the outset, effective grievance mechanisms, and board-level oversight, in line with the UN Guiding Principles (UNGPs) followed by many companies. By addressing these drivers collectively, businesses can strengthen their competitive position while meeting growing expectations from stakeholders and capital markets.



> **Ultimately, companies themselves must embed human rights risk management into their global sourcing operations.**

Challenges and caveats

While these drivers exert significant influence, there is no silver bullet for eradicating labour rights abuses. Customer activism can be powerful but often reactive, short term and inconsistent, with attention shifting quickly between issues. Regulatory frameworks, although strengthening, vary across jurisdictions and can be slow to enforce, leaving regulatory gaps. Even robust laws depend on effective monitoring of corporate compliance, which remains a systemic challenge.

Investor pressure is growing, yet ESG integration remains uneven, and overly short-term financial priorities can dilute commitments to human rights that would be supportive of long-term value creation. NGOs provide critical oversight, but their reach is often constrained by limited resources and a lack of formal investigative powers. This restricts engagement access, as companies may refuse to respond to requests, or respond defensively rather than collaboratively.

Corporate risk management is essential, but implementation across complex global supply chains is challenging, particularly where subcontracting and informal labour are prevalent, as in developing countries. We recognise these limitations and engage to encourage systemic improvements, fostering collaboration between stakeholders and promoting transparency. Progress requires persistent effort and shared responsibility, as no single actor can fully mitigate the risks alone.

[1] Fast fashion and luxury brands shift orders in hunt for cheaper labour, impacting thousands of garment workers – Business & Human Rights Resource Centre.

CASE STUDY

BYD

BYD is a leading Chinese electric vehicle (EV) manufacturer, seeking to build market share in key European territories. In April 2025 it outsold Tesla in Europe for the first time, following a consumer backlash against the US EV manufacturer.[2,3] However, in May 2025, Brazilian prosecutors brought a lawsuit against BYD over labour conditions at a factory construction site.[4]

The case highlighted the severe risks of inadequate human rights oversight in global supply chains. According to media reports, a Brazilian labour department surprise inspection in late 2024 allegedly revealed poor conditions for over 100 Chinese workers at BYD's EV plant construction site in Bahia, Brazil.[5] The lawsuit filed in May alleged human trafficking and forced labour, and sought damages of approximately US$45m. The incident delayed the plant launch and disrupted BYD's South American expansion, while raising reputational concerns globally.

We have engaged with BYD on this matter since January 2025, pressing for stronger governance and risk management. While BYD has terminated its contractor, repatriated workers, and formed a compliance committee, we consider these steps to be reactive, exposing gaps in board-level oversight.

The case underscores financially material risks, such as legal penalties and associated compensation, which increase costs. Other risks include operational delays and reputational harm, potentially deterring prospective buyers, reducing sales and revenue. This is harmful to profitability and can also deter investors. We continue to advocate for systematic improvements, including third-party audits, greater local expertise, and robust oversight, to prevent a recurrence at other overseas manufacturing premises, and protect long-term value.

CASE STUDY

ANTA Sports Products

In 2022, we engaged with ANTA's ESG team in Hong Kong and raised the issue of labour rights concerns relating to its supply chain. We encouraged the company to strengthen its due diligence processes, referencing the Corporate Human Rights Benchmark, and to improve transparency around human rights breaches and remedies. In a follow-up meeting in 2023, we recommended implementing a supplier heatmap to identify and audit high-risk suppliers, and to consider alternative sourcing where necessary.

By the end of 2024, ANTA had made notable progress in supply chain transparency. It had published supplier details, adopted internal and external human rights standards, and rolled out a supplier code of conduct. Nearly 40% of its tier one suppliers were enrolled in its ESG audit programme, rising to 100% by 2024, with 60% rated good or above.[6]

The company also introduced a procurement contingency plan to address zero tolerance labour risks, demonstrating improved traceability and oversight. These steps reduce financial risks such as costly disruptions, regulatory penalties, and reputational damage, while delivering benefits including reputational and operational resilience.

[2] https://www.reuters.com/business/autos-transportation/chinas-byd-outsells-tesla-europe-first-time-report-says-2025-05-22/.

[3] https://www.jato.com/resources/media-and-press-releases/byd-outsells-tesla-in-europe-for-the-first-time-as-registrations-surge-in-april.

[4] https://www.bbc.co.uk/news/articles/c3v5n7w55kpo.

[5] https://www.bbc.co.uk/news/articles/c8xj9jp57r2o.

[6] ANTA 2024 Environmental, Social and Governance report 2024 (page 11)

Q&A: Engaging with the Defence Sector

Joanne Beatty
Themes:
Climate Change, Natural Resource Stewardship

Ellie Higgins
Theme:
Human and Labour Rights

There has been a shift in sentiment towards the defence sector in recent years, with some responsible investors showing increased interest. However, there is no clear consensus on what constitutes a responsible approach to investing in this sector. EOS engages with defence companies on a variety of sustainability topics.

Q. How have investor views on the defence sector changed in recent years?

A. Defence companies have traditionally been excluded from many responsible investment portfolios, often regarded as "sin stocks" alongside tobacco, alcohol or gambling. However, sentiment is shifting, in part driven by geopolitical instability, national security risks, and a surge in defence-related spending.

In 2024 there was the largest increase in global defence spending since the Cold War, up 9.4% to US$2.7tn.[1] Investment and exposure to the sector also increased, with the prices of many defence stocks reaching all-time highs over the same time period.[2] In addition, there has been significant investment in new technologies such as AI, autonomous and counter-drone systems, cybersecurity and hypersonic weapons.[3] However, there is no consensus on whether or how defence stocks should be included in responsible investment portfolios, so institutional investors are adopting different approaches.

Q. How have these trends impacted our engagement activities?

A. Our engagement with defence companies continues to evolve, reflective of the sector's well-known risks, as well as the emerging opportunities, in line with our client's fiduciary duties. Many of our clients have policies in place informed by international treaties, particularly those relating to controversial weapons[4] such as cluster munitions, as well as chemical and biological weapons.[5]

We ask defence companies to have policies in place that align with the UN Guiding Principles on Business and Human Rights. This would include policies and internal controls to minimise the risk of products or services being misused, or used in violation of treaties and laws, civil liberties or human rights.

We expect defence companies to be able to describe their adherence to the external regulatory and licensing criteria that apply to their sales, and ensure that ongoing monitoring of the ultimate destination and use of their products or services is in line with such criteria. This is important to avoid reputational harm, which could ultimately negatively impact the ability to obtain and retain contracts.

We also expect defence companies to manage wider risks to their business models, such as cyberattacks, and employee health and safety, which can introduce additional costs to their business models. They should also put in place measures to curb bribery and corruption, to avoid legal costs and maintain their licence to operate.

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Q. How feasible is it to engage on defence? Are some areas more feasible than others?

A. Defence companies are highly regulated, and their confidentiality obligations often create barriers to transparency. Their business activities intersect with sensitive issues such as armed conflict and a range of human rights issues often associated with conflict zones. Despite these challenges, there are significant opportunities for engagement in the defence sector if the approach is carefully framed around financially relevant issues that can affect long-term value creation.

[1] Stockholm International Peace Research Institute.

[2] Defense Stocks Hit Records As Middle East Violence Erupts.

[3] Investing in Defense and Aerospace | Morgan Stanley; Creating a modernized defense technology frontier | McKinsey.

[4] There is no universally accepted definition of controversial weapons. Certain weapons are considered controversial due to their disproportionate and indiscriminate impact and may include anti-personnel mines, nuclear weapons, cluster weapons, biological and chemical weapons, depleted uranium and white phosphorus munitions. Source: Sustainalytics.

[5] Defense of Europe as a Responsible Investment.

We have also engaged with a major defence and aerospace manufacturer since 2008 on topics such as human rights and environmental risks.

We engage with companies in this sector on their exposure to high-risk regions and conflicts, human rights and due diligence. We also engage with defence companies on methods to prevent the diversion of their products to bad actors, and the use of their products for unintended purposes. This may help to mitigate negative human rights impacts and other related risks without undermining their core business models. Defence companies are reliant on critical minerals to manufacture their products, and we engage on the appropriate management of environmental and social sourcing risks to promote supply chain resiliency.

Q. Can you give some examples of how we have engaged with companies?

A. We have engaged with an advanced technology-led defence aerospace and security solutions company since 2018. More recently our engagement has focused on the company's management of human rights in high-risk geographies. The company considers the risk of its products causing unintended harm and has said that this is why it does not sell cluster munitions or land mines. In 2021 the company communicated its intention to cease supplying products containing white phosphorus after assessing the reputational risks and stakeholder concerns, looking instead to identify alternatives.

We have also engaged with a major defence and aerospace manufacturer since 2008 on topics such as human rights, environmental risks and opportunities, human capital, governance and circular economy and waste. Through our engagement we have sought to understand how the board is reviewing its policies and processes for controversial weapons sales, and whether changes could be made to reduce the likelihood of harm to civilians. In response the company has increased its disclosure and action on human rights and has sought our views on its policy approach.

Q. How will we engage on this next year? Are we looking at specific areas or companies?

A. We will continue to engage on material topics such as risk management, business ethics and human rights, as well as encouraging increased transparency and outcomes-based performance metrics. This includes asking companies to demonstrate how they are minimising the risk of human and labour rights violations across supply chains through appropriate monitoring and the effective remedying of identified abuses, as well as mitigating heightened human rights risks relating to their products and operations in high-risk regions. We would like to see companies move beyond binary exclusion frameworks to a more nuanced approach that recognises the increasing investor interest in the sector, and the sector's role in national security.

Engagement with pure play defence companies, where controversial weapons may be a core business, can be challenging. For companies where controversial weapons may form a small percentage of their overall revenue, we are engaging on whether ceasing involvement may lead to more shareholder investment, and a reduction in ethical and reputational risks. We are also trying to identify opportunities for engagement with companies with a non-core exposure to controversial weapons, or those that are developing technology, products and services for both civilian and military use.

There may also be opportunities to engage with relevant companies on their compliance with treaties such as the non-proliferation of nuclear weapons. This aims to prevent the spread of nuclear weapons and weapons technology, while promoting cooperation for the peaceful uses of nuclear energy.

There may also be opportunities to engage with relevant companies on their compliance with treaties such as the non-proliferation of nuclear weapons.

CASE STUDY

Apple

Apple is one of the world's largest technology companies, with a market cap above US$2tn. It is a global leader in technology innovation, known for its cutting-edge hardware and software products, seamless ecosystem and commitment to design excellence, privacy and user experience.

Our engagement

In Q1 2022, we suggested that the company consider conducting a third-party assessment covering business risks such as avoiding liabilities associated with discrimination and ensuring fair treatment of its workforce, customers and communities. The aim was to enhance the board's effectiveness in overseeing human capital management in the interests of long-term value creation. In the US, this is often referred to as a civil rights audit.

We recommended support for a 2022 shareholder proposal for such a report that passed with 54% support. We also encouraged Apple to consider addressing potential civil rights impacts from the use of machine learning algorithms embedded in its products and services, consistent with the EOS Digital Rights Principles. Also in 2022, at Apple's request, we provided feedback on its ESG Report. We highlighted opportunities to improve human capital management oversight and disclosure, including how it could benefit from describing areas of difficulty where it had not met its own values and aspirations.

Prior to the audit's publication in 2023, Apple assured us that it was addressing the audit thoughtfully and recognised it would become an example that would influence other companies. In 2024, we reiterated our perspective that civil rights practices should include an increased focus on the rights of children and how best to protect them, pointing to potentially material legal and regulatory risks.

In Q3 2024 and Q1 2025, we suggested to Apple that undertaking an audit provided opportunities to deepen the integration of inclusion practices into the organisation. For example, we continued to probe how Apple planned to implement audit recommendations that intersected with the EOS Digital Rights Principles, such as further coordination of its existing efforts to consider civil rights risks related to its core business operations, including in product design and development.

Changes at the company

Apple completed a third-party civil rights audit in 2023. The published report addressed its products and services, workforce, customers, and communities and laid out 40 recommendations. These included suggestions to consider enhancing the company's staff "AfterCare" programme to include monitoring the aggregated retention, promotion progression, and attrition rates of employees who make complaints of workplace misconduct.

The recommendations also suggested that Apple could analyse customer feedback about potentially inappropriate or discriminatory employee conduct, such as sexual harassment, received through its staff survey, executive escalations, or other channels to identify potential trends regarding the incidence of misconduct.

We believe that the audit provided the board with additional information that could help to enhance the oversight of corporate culture and the management of business risks, such as workplace behaviours and algorithmic bias, to the benefit of long-term shareholder value. The 2023 proxy clarified that the compensation committee had in practice been responsible for overseeing human capital and the 2024 proxy subsequently referred to it as the compensation and people committee, more clearly indicating board oversight of human capital issues.

Next steps

Implementing the actions of the third-party civil rights audit should contribute towards Apple taking effective strategic actions to promote sound human capital management practices, impacting a workforce of 164,000 employees. These operational changes could help to enhance talent management with a view to advancing productivity and innovation, while reducing business risk to the benefit of company performance. This should also improve the relevance and accessibility of its products to the benefit of Apple's global customers and communities, in line with long-term shareholder value.

We plan to explore how Apple is preparing to implement the audit's workforce recommendations. We will generally encourage the company to incorporate actions that could help to expand the workforce's capacity for innovation, improve employee retention to reduce turnover costs, and boost productivity, thereby improving long-term business outcomes.

Diana Glassman
Themes: Human Capital, Board Effectiveness

Navishka Pandit
Themes: Climate Change, Human and Labour Rights

Governance

Paths diverge in 2025 voting season

Investors continued to call for change across Europe, Australia and Asia in the 2025 voting season, but in the US, the number of shareholder proposals fell as filers contended with a new regulatory backdrop.

Shareholders and companies grappled with heightened geopolitical tensions and policy uncertainty in the 2025 voting season. In Europe and Australia, environmental topics remained high on the agenda, while in North America there was a marked reduction in the number of shareholder proposals filed. This was accompanied by a decline in their quality, as new guidance from regulators, and resource constraints for co-filers, limited the number of proposals making it on to the ballot. Across Asia, we saw notable improvements in board independence. Female representation on boards also improved, helped by regulations in markets such as China.

In 2025, EOS's voting service covered 13,516 meetings, comprising 131,979 proposed resolutions. This was down from 14,701 meetings in 2024 and 143,075 proposed resolutions. Overall, our clients' policies resulted in votes against management at 63% of meetings, versus 67% in 2024. EOS does not have the discretion to vote proxies on behalf of any client. Each client retains the power to make their own determination for each proxy vote.

Environmental topics

There is likely to be voting against the re-election of relevant directors at companies where insufficient management of climate-related opportunities and risks is indicated, using region and sector-specific guidelines and various relevant climate risk indicators. In 2025, our clients' voting policies led to votes against the re-election of directors or relevant proposals at 297 companies due to concerns about insufficient management of climate-related risks and opportunities.

In Europe, following several years of intensive engagement, our clients' policies provided support for Centrica's revised energy transition plan. The company's in-depth transition planning, assessment of external dependencies, and advocacy strategy sufficiently reassured us of the readiness of the business to capitalise on climate opportunities and manage commercial risks related to the energy transition.

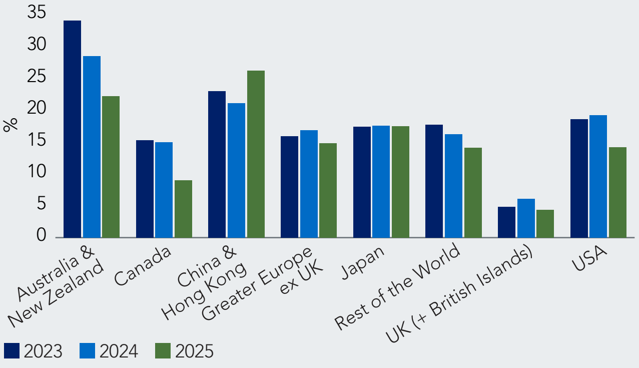
> **We continued to raise concerns about the inadequate management of climate-related risks and opportunities across Asia and emerging markets.**

At Shell, our clients' policies indicated support for a shareholder resolution requesting more disclosure on the consistency of the company's LNG strategy with its climate goals and long-term resilience. This could help Shell and its investors gain more insight into the potential risks to the company's LNG expansion strategy. The proposal was supported by just over 20% of shareholders.[1]

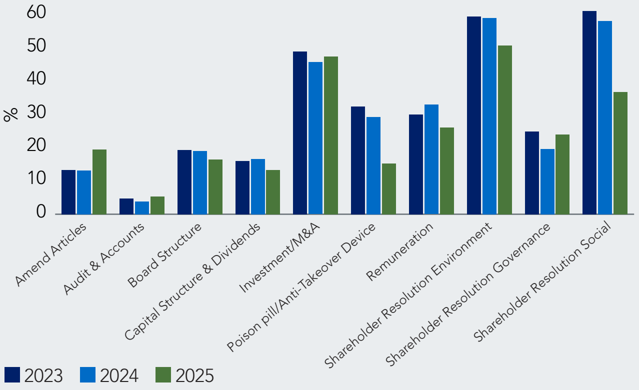
In Australia, our clients' policies led to votes against Santos's climate transition action plan. We have observed a positive direction of travel in Santos's development of its climate transition strategy over the last three years. However, Santos has yet to meet sector best practices in the management of climate-related financial opportunities and risks, particularly in scenarios aligned with the goals of the Paris Agreement.

[1] https://shareaction.org/news/investor-support-for-shell-resolution-on-lng-sends-strong-message.

Proposals with votes against management by key markets, 2023-2025



Proposals with votes against management by theme, 2023-2025



Source: EOS data

We continued to raise concerns about the inadequate management of climate-related risks and opportunities across Asia and emerging markets. In China and Hong Kong, our clients' policies indicated votes against 168 companies on climate-related grounds, a significant increase from 55 companies last year. Despite this rise in votes against, regulatory developments in the region prompted improved climate disclosures, allowing some flagged votes to be overridden.

Hong Kong's stock exchange now requires companies to report climate-related information using the Task Force on Climate-related Financial Disclosures framework, starting in 2025 with reports expected in 2026. In China, the government and major stock exchanges also introduced new climate reporting standards based on global guidelines, with the first reports due in April 2026.

In cases of coal expansion or exposure, which we believe may introduce undue financial risks to the company based on various criteria, clients' policies resulted in votes against the re-election of relevant directors at companies such as Manila Electric Company, Hokuriku Electric Power Company, and JSW Steel.

To address deforestation concerns, clients' policies prompted votes against the re-election of relevant directors at more companies in Japan, such as Meiji Holdings, and Kikkoman. Following our meeting with WH Group in Hong Kong, we remained concerned about its ongoing supply chain deforestation risks, and clients' policies indicated voting against the vice chair's election.

Shareholder proposals on environmental topics in our markets were once again concentrated in Japan, with filing levels similar to 2024. Clients' policies led to support for all climate-related proposals at three major banks, three trading houses, and one utility company, calling for greater transparency on climate transition plans and oversight of climate-related financial risks. The proposals aimed to accelerate the disclosure of critical information for investors to assess the alignment of the company's transition plan with the goals of the Paris Agreement, and sought more transparency on risk controls.

Human rights proposals

In North America, we saw several shareholder proposals relating to artificial intelligence (AI), with increasingly sophisticated requests and scrutiny of company practices. Many of these proposals explored the intersections of AI and other topics such as climate change, data privacy, and human capital. Our recently-published EOS Digital Governance Principles[2] expands on these perspectives.

While such proposals were often filed with technology companies on the frontline of AI development, companies in other sectors received them as well. Many Canadian companies received shareholder proposals requesting a commitment to the Canadian government's Voluntary Code of Conduct on the Responsible Development and Management of Advanced Generative AI Systems.

In China, the government and major stock exchanges introduced new climate reporting standards based on global guidelines.

[2] https://www.hermes-investment.com/uploads/2025/04/22447fb9628e69c9dc1c13559cf64c4f/2025-eos-digital-gov-principles.pdf

VOTING CASE STUDY

Shareholder proposals at utility companies

For years, North American regulated utilities have grappled with the difficulty of getting their climate-related goals validated by an independent third party. In the context of large, hard-to-predict energy demand increases from datacentres and onshoring, different stakeholders would benefit from clarity about how energy needs can be met affordably, quickly and in a way that manages long-term environmental risks to business growth.

Several North American utility companies are engaging with the Electric Power Research Institute (EPRI) to contribute to a regional specific framework to establish and validate emissions reductions targets. A proposal was filed at PPL, Alliant and Ameren asking for an independent evaluation of the science-based alignment of the companies' current short and medium-term targets.

We considered the challenges in finding a suitable independent assessor for these targets, given the available Science-Based Targets initiative's reliance on the global sectoral pathways. These pathways do not currently account for specific North American regional regulatory regimes, and may be commercially unfeasible to adopt, based on a lack of regulatory support for a faster transition.

With growing uncertainty around regulatory support for low-emissions technologies, there is a need for better consideration of these companies' local regulatory context, as their long-term capital allocation plans are fully dependent on regulatory approval.

On balance we found that there was sufficient evidence that these companies were working on developing credible short-to-medium term goals, as well as a need for more time, as the EPRI framework is being developed to qualify as a suitable science-based target evaluation methodology. We will continue to engage with each company on how it is addressing climate-related opportunities and risks.

Velika Talyarkhan
Themes: Climate Change, Human Capital

Michael Yamoah
Themes: Climate Change, Wider Societal Impacts

We encourage companies to adopt responsible AI principles and adhere to an evolving set of legal and voluntary best practices, while also giving them discretion to decide which best practices are most relevant to their business. Although we generally support the Code, in line with our clients' voting policies, the proposal's request for each company to adhere to the Code rather than have the board undertake a feasibility assessment or due diligence, was considered to be overly prescriptive and not necessarily in the long-term interests of the company.

Clients' voting policies indicated support for the shareholder proposals seeking a report on child safety impacts at Alphabet and Meta. Both companies seem to prioritise adult privacy rights over child safety without sufficiently mitigating the harms resulting from this trade-off. Each has an opportunity to provide the additional metrics needed to assess the effectiveness of their efforts, such as the number of underaged users detected over a given timeframe, or performance targets to help improve management focus.

Tax transparency

On behalf of its clients, EOS continues to advocate for increased tax transparency including country-by-country reporting, in line with our Responsible Tax Principles[3] and engagement approach on the basis that this is in the interests of companies and investors. In response to the growing demand for greater tax-related transparency, reporting standards and regulatory requirements are emerging.

The EU and Australia now require certain multinational companies to file country-by-country reporting publicly.[4] However, increased tax transparency regulatory requirements have not fully eliminated the relevance of shareholder proposals seeking greater tax transparency. We believe public disclosure often encourages further board and management scrutiny and provides investors with information that may be useful in their decision making.

[3] https://www.hermes-investment.com/uploads/2024/08/541a80ae3961d0273ab471e82b9ab975/eos-corporate-responsible-tax-principles-2024.pdf.
[4] https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/public-country-country-reporting_en.

In 2025, we saw tax-related shareholder proposals filed at several North American companies. Clients' voting policies led to support for a shareholder proposal at Merck & Co requesting that it publish a tax transparency report in line with the Global Reporting Initiative's Tax Standard. Further alignment with this standard would support investors' understanding of how the company balances financial efficiency in tax practices with protecting against the risks of reputational damage, and the legal penalties associated with tax avoidance.

Similar to last year, le Mouvement d'éducation et de défense des actionnaires (MÉDAC), a frequent filer of shareholder proposals in the Canadian market, put forward tax-related shareholder proposals at various Canadian banks. As the proposal resolve clause had not fundamentally changed year-on-year, clients' policies indicated support for management in voting against these resolutions. The country-by-country tax reporting requested would not result in robust outcomes or increased shareholder value. We shared our own expectations on responsible tax reporting with the banks.

Executive pay

We continued to see significant levels of CEO pay and complex structures in various sectors and markets. As part of our engagement and the implementation of our clients' voting policies, we emphasised the need for a clear link between pay and performance, as well as a consideration of the broader stakeholder environment when determining executive pay policies.

In Europe, we engaged with Centrica around its proposed remuneration policy, which sought to increase the CEO's salary and restricted share grant. While we acknowledged the material outperformance of the company over the four years since the CEO's appointment, we were not convinced by the rationale or the size of the proposed changes, and ultimately the implementation of clients' policies resulted in votes against the proposed policy.

We also engaged with pharmaceutical company GSK ahead of the submission of its proposed remuneration policy. This sought to increase the CEO's salary and maximum long-term incentive award grant, following a new benchmarking approach. After feedback from EOS and investors as part of an extensive consultation process, the company made revisions to its proposed policy, including an ultimate cap on the CEO's salary, which led to support under our clients' policies.

We also engaged with pharmaceutical company GSK ahead of the submission of its proposed remuneration policy.

At Siemens Energy, we were concerned about the unusual remuneration policy proposed at the AGM. The company was prevented from paying variable incentives to its executives whilst a federal contract was in place to provide financial support. This support enabled the company to service its substantial backlog of orders, and resulted in a proposed one-off remuneration package. Following engagement with the supervisory board chair, and with a further opportunity for shareholders to vote on the outcome once the related remuneration report is published, clients' voting policies provided support for the package.

In Australia, clients' policies led to a vote against Woodside Energy's remuneration-related items. This was due to concerns about the low CEO shareholding requirement, the complete reliance on total shareholder return (TSR) as a long-term incentive criterion, and the material increase in the CEO's base salary.

> **We continued to see significant levels of CEO pay and complex structures in various sectors and markets.**

Board composition

Where board composition best practice or listing rule obligations exist in a country, we generally expect companies to adhere to these, or provide an explanation as to why they do not. For example, European refractory supplier RHI Magnesita, a FTSE 250 company, fails to comply with the Financial Conduct Authority's listing rules on board composition. As a result, our clients' policies indicated voting against the nomination committee chair.

The UK vote guidelines adopted by our clients indicate a vote against the board chair or nomination committee chair if the company is listed on the FTSE 100 and women comprise less than 25% of the executive committee and direct reports. This is the case at Howden Joinery, which is in the bottom 10% of FTSE 100 companies for female representation. As a result, clients' voting policies indicated votes against the board chair.

Similarly, at home improvement company Kingfisher, our clients' policies indicated voting against the election of the nomination committee chair, who is also the board chair, due to concerns related to female representation within the executive team. The executive team is made up of 11 members, two of which are women (around 19%). This is considered low for a FTSE 100 company.

VOTING CASE STUDY

Shareholding requirements at US banks

11-21
WALL ST
1-26
BROAD ST

Well-structured remuneration can be an important ingredient in delivering long-term business success and aligning the interests of management and other stakeholders. One of EOS's remuneration principles is that executive management should make a material long-term investment in the company's share.

Pay packages should enable executives to accrue wealth as ongoing owners and in support of the company's longer-term success, and pay schemes should acknowledge that executive tenures are generally shorter than the timeframes of accountability for their decisions. Bearing this in mind, we take note of a company's CEO shareholding requirements and holding period in retirement.

Over 50% of S&P 500 companies have a minimum shareholding policy whereby CEO shareholdings must be six times base salary, to align the interests of executives with those of shareholders. Over the last four years this has been our minimum expectation for S&P 500 companies, but we have encouraged companies to consider a CEO shareholding requirement of between eight and 10 times base salary.

During the 2024 and 2025 voting seasons, US banks made significant progress on this. Citigroup requires executive officers to hold at least 75% of the net after-tax shares acquired through incentive compensation programmes, which is well in excess of between eight and 10 times base salary. At Goldman Sachs, the CEO shareholding requirement is 10 times. JPMorgan Chase & Co requires a fixed dollar value of shares to be held by the CEO, set at US$75m. In 2024, this represented a CEO shareholding requirement of 50 times base salary.

Navishka Pandit
Theme: Human and Labour Rights

In 2025, gender diversity thresholds under our clients' voting policies were raised for markets such as Japan, South Korea, and Brazil. This led to an approximately 20% increase in our total indicated clients' votes against directors. The practice of supporting female directors by exception was maintained where appropriate, to encourage board diversity in markets that lag others in their region. At Japanese supermarket chain Yaoko, our clients' policies indicated support for the long-tenured female director for her active role in advancing diversity initiatives. Similarly, support was indicated for a director at Chinese real estate company KE Holdings, following recent engagement, as the company committed to improving board gender diversity in future election cycles.

Regulatory developments also played a role. The Hong Kong Stock Exchange (HKEX) introduced new requirements effective from 1 July 2025, banning single gender boards. At Chinese social media company Weibo, clients' policies prompted support for an executive by exception, given HKEX's ban on single-gender boards, as she was the only female director.

Board independence

Clients' voting policies resulted in votes against fewer directors on independence grounds in markets such as Japan, Hong Kong, China, Taiwan, and South Korea. In India, following the Companies Act 2013 regulation limiting independent directors to two five-year terms, many long-serving directors retired or stepped down in 2024, which contributed to enhanced board independence across Indian companies.

Across Asian and emerging markets, while board structures continue to evolve, we are scrutinising the quality of independent directors to enhance board independence. For example, clients' policies indicated votes against two long-tenured directors at AIA Group as overfamiliarity was potentially compromising their independence. We also continue to seek meetings with independent directors to strengthen the overall dialogue about genuine board independence and effectiveness.

Across most markets, we also generally advocate for fully independent audit committees and majority-independent nomination and remuneration committees, all chaired by independent directors and excluding executive members. In 2025, voting policies adopted by our clients were updated to reflect voting against CEOs serving on board committees, as seen at the Philippines-headquartered Bloomberry Resorts. This is due to concerns that their influence may potentially weaken committee functions.

Auditor tenure

In North America, excessive auditor tenures persisted at certain companies, with no plans to rotate the auditor. In Europe, it is common to rotate the audit firm before its tenure reaches 20 years, and tenures running longer than that can raise questions about independence and conflicts of interest. However, many North American companies maintain that their long-tenured auditors have acquired the necessary experience to audit their complex businesses, and therefore are an asset rather than a risk.

Voting escalations in 2025

EOS believes that engagement and voting go hand in hand. Below we have provided examples of significant votes where voting has reinforced the engagement approach. Compiled by Howard Risby.

Company	Sector	Engagement Objective/Issue	Escalation through voting
The Walt Disney Company	Software & Communication Services	Executive remuneration	Over several years, we have raised concerns in engagement meetings about the high pay quantum and discussed an increase in the company's minimum stock ownership and holding requirements. In previous years clients' voting policies have led to votes against the say-on-pay agenda item due to ongoing concerns that the pay structure is not sufficiently long term in nature to align with long-term shareholders' interests. In 2025, there were votes against the compensation committee chair due to these concerns.
AerCap Holdings	Industrials	Pay transparency and alignment, say-on-pay vote	For some years, we have engaged with the company about the transparency of its pay practices. AerCap does not offer a say-on-pay vote, and we had previously highlighted the need for remuneration systems that align incentive structures for executives with broader stakeholder interests. Our concerns were exacerbated by the CEO's relatively high pay quantum. We also had concerns about succession planning and board independence, and noted that the chair was non-independent due to his long tenure. In 2025, clients' policies prompted opposition to the discharge of board directors and the re-election of the board chair, who is also the remuneration committee chair.
Berkshire Hathaway	Financial Services	Board composition, succession planning and executive remuneration, elimination of multi-class share structure	We have engaged with the company for several years about board composition and succession planning. This is due to the combined executive chair/CEO role and the lack of a lead independent director, leading to reduced accountability, increased governance risk and inadequate scrutiny and challenge of management's business decisions. There are further concerns about board independence. We have also noted that the company is not taking adequate steps to assess and mitigate environmental-related business risks. In 2025, clients' voting policies resulted in opposition to the re-election of the chair of the compensation, nomination, and governance committees. There were also votes against the audit committee chair due to the inadequate assessment and mitigation of environmental-related business risks.
Bayerische Motoren Werke	Transportation	Antitrust and legal risk, board independence and remuneration	In engagements over several years, we have discussed the company's response to ongoing alleged antitrust violations, including collusion on diesel emissions and vehicle recycling. We have also engaged with BMW on board independence and oversight over multiple years. In 2025, clients' policies led to voting against the discharge of the supervisory board members. There was also opposition to the election of a new supervisory board member due to a lack of independence and insufficient board oversight.
Alphabet	Software & Communication Services	Executive remuneration and shareholder rights	We have had long-running engagements regarding Alphabet's multi-class share structure and the lack of sufficient external challenge to the board. In 2025, our clients' policies led to votes against the longest-tenured independent directors. There was also opposition to the chair of the leadership development, inclusion, and compensation committee due to concerns about compensation oversight.
Yakult Honsha Co	Consumer Goods	Board composition	For several years, we have engaged with Yakult Honsha about the low gender diversity at board level. In 2025, clients' policies resulted in voting against the president due to our concerns. In relation to this, there was also support for a shareholder proposal for a majority-independent board to enhance long-term effective governance.

Clients' voting policies resulted in votes against the audit committee chair and the ratification of the external auditor where the audit firm had been in place consecutively for an excessive period, for example over 100 years, with no review or consideration of auditor rotation. This year clients' voting policies prompted opposition to the auditor and audit committee chairs at 56 US companies. This included Archer-Daniels-Midland, the Goodyear Tire and Rubber Company, ExxonMobil, and Chevron, all of which have audit firms with tenures over 90 years. Clients' voting policies also led to voting against at Sherwin-Williams, Dow, Deere & Co, and Caterpillar, where auditor tenure is over 100 years.

Q&A: Climate-Aligned Accounting

Justin Bazalgette
Themes: Climate Change, Corporate Reporting

Haonan Wu
Themes: Climate Change, Investor Protection & Rights

Over the last five years, we have worked with companies, auditors, standard-setters and industry bodies to improve financial reporting on climate-related risks and opportunities. Although companies may make bold commitments to net zero, with interim targets and ambitious plans for delivery, in many cases their financial statements shed little light on the assumptions made in relation to these material commitments.

As a result, investors are unsure how the company's climate commitments have been accounted for, reducing confidence in capital allocation decisions. Where explanations have been given, investors would also like to see companies provide a sensitivity analysis, checked by the auditor, to show how changes in the assumptions might affect the company accounts.

Q. What progress have we seen on this topic since 2023? Can you give some examples of good company engagements and outcomes?

A. We have noticed improvements in companies making a clear link to climate-related risks and opportunities in their financial statements, providing clarity to investors. Companies such as Shell, BP and Rio Tinto are leading in this area, but we have seen recent progress from others.

For example, since 2020 we have engaged on this topic with CRH, a global construction materials company in a high-emitting sector. After several discussions with the board chair and audit chair, in 2025 CRH included detailed information in its International Financial Reporting Standards (IFRS) submission as to how it had accounted for its energy transition strategy. The new auditor, Deloitte, was also clear about how it had audited the company's approach to climate business risk in the accounts.

However, there are many uncertainties and assumptions being made by companies that remain undisclosed, preventing a thorough understanding of how a company has assessed the financial implications of its long-term climate commitments. Whilst some company disclosures in their financial statements have improved, auditor commentary on their assessment of how the company has accounted for climate risk is less developed.

Few companies are providing any information relating to scenario analysis, but this is important for understanding the extent to which the physical risks of climate change itself, and regulatory and market responses, will impact asset valuations, capital expenditures, ongoing compliance expenses, and revenue opportunities.

> Our focus has been on those companies identified as the most impacted by the Paris Agreement.

Q. Were there any notable developments in the 2025 voting season?

A. Our focus has been on those companies identified as the most impacted by the Paris Agreement. But we have also engaged with banks such as Westpac, HSBC, BNP Paribas and others in relation to the assumptions they have made about long-term credit losses, and their disclosures. In the 2025 voting season, three Japanese megabanks – MUFG, SMBC and Mizuho – received shareholder proposals calling for the disclosure of the financial risk audit. We recommended support for these.

Q. Are you seeing some regional differences?

A. A 2024 report from Carbon Tracker, a climate-focused NGO, indicated regional differences in company disclosure. The UK market is leading, followed by the EU and Australia. Japanese and US companies generally provide more limited references. Auditor commentary on company climate disclosures has been even lower, with auditors in Germany and France often making little or no mention of how they have audited the impact of climate-related risks and opportunities.

In 2025 we saw a significant reaction to the US administration's policies, with some companies reducing their climate-related disclosures in the financial statements of their GAAP-compliant reporting. However, many US companies have maintained their commitments to the Paris Agreement and their energy transition strategies, as material matters affecting their business model. This demonstrates the financial risks and opportunities presented by climate change, and the importance of effective management strategies to long-term financial success.

In developed Asia and emerging markets, we are seeing companies beginning to shift from scoping their climate change commitments and improving their reporting and target setting, to aligning their accounts with these commitments. We expect this to continue in 2026.

Q. What have we done to try to overcome the challenges that persist in certain markets?

A. We have engaged with standard setters, seeking more clarity on how their standards should be interpreted by companies. In June 2025, following engagement by EOS and investors, the International Accounting Standards Board (IASB) issued a near-final draft of illustrative examples showing how climate-related risks and other uncertainties should be reported using its IFRS accounting standards. In late November 2025, it issued the final version, with minor amendments.

Most countries base their accounting standards on those of the IASB, with the US an exception in using the Financial Accounting Standards Board. We have highlighted the IASB's draft to the high-emitting companies in our engagement programme and their auditors, asking them to confirm that they will assess their current reporting and improve their disclosures in line with the IASB's illustrative examples.

We have also engaged with the four big audit firms, advocating for better assessments within the audit report of how a company has treated climate-related risk in its accounts. If a high-emitting company states that there is no financial impact to the accounts from climate-related opportunities or risks, it is reasonable to seek to understand the rationale behind this conclusion. Also, the assessment should be financially grounded and independently verified by the auditor to give investors confidence that it is an accurate reflection. Investors may not necessarily agree with the way the company has assessed the financial impact of its climate commitments, so this disclosure would allow them to raise questions and seek clarity.

We have engaged directly with auditor professional bodies in France and Germany, where we see the biggest gaps in auditor assessment, and participated in investor roundtables to raise awareness. For example, we presented at a panel discussion organised by the Global Accounting Alliance at the launch of the International Standard on Sustainability Assurance (ISSA5000) in March 2025.

> **We have engaged directly with auditor professional bodies in France and Germany, where we see the biggest gaps in auditor assessment.**

We emphasised that financially material disclosures had a significant impact on investor due diligence. Therefore, clarity on how companies had assessed issues such as climate-related opportunities and risks in their accounts was a research factor in understanding the long-term business risks involved. When a company has made long-term commitments about a financially material matter, it should explain how it has considered and quantified the risks in its disclosures.

Q. How will we engage on this in 2026?

A. We are hopeful that the IASB's clarification of how companies should handle uncertainties such as climate in their financial statements will lead to a significant step forward in providing investors with the information that they need for decision-making. Our engagement will focus on supporting companies to ensure that their disclosures follow the illustrative examples published by the IASB, and advocating for auditor commentary.

Companies in Asia are increasing their climate change commitments and targets, with the Singapore and Hong Kong listing bodies mandating that companies follow the Task Force on Climate-related Financial Disclosures framework. We also expect the implementation of IFRS S2 to help with our request for companies to disclose a scenario analysis. This is a sustainability disclosure standard that focuses on climate-related physical and transition risks. In Japan and South Korea, we expect to see alignment with IFRS S2 within the local standards.

We plan to engage with national reporting standards regulators, encouraging them to confirm that they expect companies to follow the IASB illustrative examples. They should also clarify what action they will take if companies fail to do so in their 2025 disclosures. In short, with the IASB publication, IFRS S2, and the EU Corporate Sustainability Reporting Directive requirements, 2026 should see a significant step forward in climate-aligned accounting and auditing.

CASE STUDY

Cemex

Cemex is a global construction materials company, which manufactures and distributes cement, Readymix concrete and aggregates. It is headquartered in Mexico but is listed on both the Mexican and New York stock exchanges.

Within Mexico, most company boards exhibit practices that raise concerns about their effectiveness. These may include oversized boards, excessively long tenures, a lack of genuine independence, insufficient breadth of skills or an insufficient diversity of backgrounds.

In a meeting with Cemex's board secretary in Q1 2019, we first recommended that Cemex implement a board evaluation framework to help identify any areas for improvement. We reinforced our view and shared some examples of board evaluation good practice in 2021 and 2022, given the slow progress in Cemex's board refreshment.

Changes at the company

Cemex was among the first large Mexican companies to disclose the names of board candidates ahead of the AGM, and to allow shareholders to vote on candidates individually. This went beyond the requirements set out in the local legislation. Further disclosures have helped to increase shareholder scrutiny of board candidates, highlighting excessive time commitments and long tenures.

The company established a board evaluation framework, which was implemented in Q1 2024. This comprised peer evaluation and self-evaluation but lacked an independent assessment by a third party. Board composition and effectiveness showed some improvement following the nomination of two new members.

At the 2025 AGM, our clients' voting policies indicated votes against the re-election of three directors with very long tenures. Continued use of Cemex's board evaluation framework should help to identify opportunities for improvements in board effectiveness, including in areas such as board composition, skills and dynamics. This should help to strengthen the board's ability to capture opportunities and mitigate risks, helping to drive long-term shareholder value.

Jaime Gornsztejn
Themes: Board Effectiveness, Human Capital

CASE STUDY

Siemens Energy

Siemens Energy is a German-listed company formed through the spin-off of the former gas and power division at Siemens AG. It operates across the energy value chain.

Following the 2020 spin-off of Siemens Energy, Siemens AG retained a substantial equity stake and appointed two non-independent directors to the board. One of these individuals was named audit committee chair, while the board chair – deemed non-independent due to his former role as Siemens AG's CEO – was also a committee member. With four additional non-independent employee representatives and only two independent shareholder-elected members, the audit committee's composition fell short of widely accepted independence standards. This raised governance concerns, particularly around the committee's ability to act in the best interests of minority shareholders and provide effective oversight.

Prior to the 2021 AGM, we wrote to the chair of Siemens Energy and raised questions at the AGM to highlight our concerns. We received reassurance that the issue would be addressed in the coming year. In early 2022 we again engaged with the board chair who confirmed that an independent board member would be nominated for audit committee chair, and that a lead independent director would be established to oversee board activity. We continued engaging with the company between 2022 and 2025, raising questions at the 2023 AGM, with the aim of increasing audit committee independence.

Changes at the company

At the end of 2021, the non-independent audit committee chair stepped down and was replaced by an independent member of the committee. In 2024 the non-independent Siemens AG shareholder representative sitting on the audit committee stepped down from the board, increasing the overall independence of the board and the audit committee.

At the 2025 AGM, the non-independent board chair stepped down from the audit committee, which resulted in the committee moving more into line with our prevailing board guidelines for independence. In our view, this should help to strengthen oversight of the company and improve identification of risks and opportunities for the business.

Justin Bazalgette
Themes: Corporate Reporting, Climate Change

Regional public policy highlights

Throughout 2025 we have participated in public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties to contribute to the development of policy and best practice. The aim is to protect and enhance value for our clients by improving shareholder rights. This is a selection of some of the key market trends and highlights.

Continental Europe

We signed a joint statement with industry peers to demonstrate broad industry backing for preserving key elements of the EU sustainable finance framework. This was due to the revisions being made under the EU's Omnibus initiative. This package introduced a reduced compliance burden with fewer companies in scope, lighter reporting, and extended timelines for key directives including the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). While simplified, the requirements are still complex for in-scope companies as double materiality, supply chain emissions, and audit requirements remain.

> **We signed a joint statement with industry peers to demonstrate broad industry backing for preserving key elements of the EU sustainable finance framework.**

We provided feedback on the Institutional Investors Group on Climate Change's EU Stewardship Position Paper. We are part of the EU Stewardship Code Working Group, which had given input to this paper. We broadly supported the proposed priorities for an EU Stewardship Code and changes to the EU regulation on stewardship. However, we felt that some proposed regulatory changes would not be an effective use of resource.

Our feedback focused on the need to reduce the reporting burden for those firms that would be signatories to both the UK and EU Stewardship Codes (for example through equivalency or cross-referencing in reporting), and ensure that any EU Stewardship Code is principles-based and outcomes-focused.

> **In 2026 we will continue to seek greater access to board directors, including beyond the chair, in markets where this remains low, such as Scandinavia, Italy and Spain.**

Across Europe we continued to seek genuinely majority independent boards, and fully independent audit committees. While we were pleased to see improvements in independence and composition across the region, we remained concerned by the amount of companies where the board does not reflect the skills required for the company's future direction and strategy. In 2026 we will continue to seek greater access to board directors, including beyond the chair, in markets where this remains low, such as Scandinavia, Italy and Spain.

UK

We responded to the UK government consultation on the drafts of the UK Sustainability Reporting Standard. These are based on the standards published by the International Sustainability Standards Board (ISSB). In our response we explained that, in our view, sustainability disclosures should be designed to shed light on financially material risks and opportunities. Sustainability-linked disclosures should therefore be published at the same time as financial reporting to ensure that investors have access to all useful information.

> **We continue to advocate for more focus on outcomes and the importance of systemic stewardship.**

We welcomed the changes to the UK Stewardship Code to reduce the reporting burden, maintain the apply and explain principle, and focus more clearly on material systemic risks. We continue to advocate for more focus on outcomes and the importance of systemic stewardship.

We responded to the UK government consultation on whether it should mandate transition planning for large, listed companies and financial institutions. Our response highlighted the importance of robust transition planning, for capital markets competitiveness and as an input to subsequent UK policy development.

We explained that, in our view, transition planning is a cornerstone of effective corporate governance in sectors exposed to material climate-related financial risks, including hard-to-abate sectors. Because of this, robust transition plans can be viewed as contributing to improved financial performance, including resilience through the energy transition, as well as a way of exploring potential climate opportunities. In turn, transition plans can also support investors' and banks' assessments of a company's resilience and upside opportunity, informing investment and lending decisions.

US

We responded to the US Securities and Exchange Commission's consultation on disclosure requirements for executive compensation. We said that well-structured remuneration can have a positive influence on the delivery of business success and plays an important role in aligning the interests of management and shareholders. We expressed our view that this can be achieved most effectively by using simple and transparent remuneration structures that are tailored to companies' individual contexts. We pointed out that many such structures and related disclosure requirements have become increasingly complex, while often failing to illustrate the connection between pay and performance.

> **In the US we seek to protect and, where appropriate, advance shareholder rights on behalf of institutional investors.**

In the US we seek to protect and, where appropriate, advance shareholder rights on behalf of institutional investors. This includes the right to receive good quality corporate reporting and material information on a timely basis, to vote at shareholder meetings on issues such as the annual election of directors, to propose new candidates to the board or other shareholder resolutions, and to convene in a special meeting format when other avenues for engagement have been ineffective.

Asia

Across Asia, regulators increasingly focused on creating environments favourable to minority investors. We sought the implementation of corporate governance reforms that promoted board accountability and protected minority shareholder interests.

South Korea made a pivotal shift, passing landmark amendments to the Commercial Code. Notable changes include extending directors' fiduciary duties to all shareholders, mandating cumulative voting, and requiring at least two audit committee members to be elected separately under the 3% cap to voting rights. This was to prevent undue influence by large shareholders. We deepened engagement with regulators and ministries on continued enhancements to the Code, and the practicality of enforcing the Value-Up Programme and compulsory retirement of treasury shares. We advocated for shareholder engagement with independent directors, and board capacity building through effective training and international appointments.

> **We responded to the Hong Kong Stock Exchange's corporate governance review and provided initial feedback to China's revised Corporate Governance Code.**

In Japan, the Tokyo Stock Exchange tightened its rules on management and controlling shareholder buyouts to enhance the fairness and transparency of proposed transactions. Despite these reforms, controversial takeover proposals, such as Toyota Motor's acquisition of Toyota Industries, exposed governance gaps. We engaged with both companies and regulators, proposing improved shareholder communication and clarity on complex deal structures.

Regulators in China and Hong Kong advanced reforms to strengthen minority shareholder protection, board effectiveness, shareholder returns, and sustainability disclosure. We responded to the Hong Kong Stock Exchange's corporate governance review and provided initial feedback to China's revised Corporate Governance Code. This solidifies conduct requirements and responsibilities for directors, management and controlling shareholders. The goal is to improve the alignment of their long-term interests with those of the broader shareholder base, through modernised incentive and governance mechanisms.

Our policy engagement in India and Taiwan focused on board effectiveness and independence, independent director access, and remuneration transparency. In Indonesia, we initiated dialogue on governance reforms, encompassing board independence criteria and stronger management of related-party transactions.

Beyond foundational corporate governance, we focused on nature and climate across the region. Highlights included joining a nature roundtable on private sector action with the Indonesian government, contributing to Japan's Strategic Energy Plan, and outlining methane-related risks and opportunities at the Methane Summit in Beijing. We also expressed our views to financial supervisors in Hong Kong and Malaysia on sustainable finance taxonomies, setting out our expectations on aligning capital markets with climate resilience and long-term value preservation.

Judi Tseng
Themes: Climate Change, Human Capital

EOS team

Engagement

Leon Kamhi
Head of Responsibility and EOS

Dana Barnes
Sectors: Oil & Gas, Utilities, Technology

Justin Bazalgette
Sectors: Consumer Goods, Industrial & Capital Goods

Joanne Beatty
Sectors: Chemicals, Industrial & Capital Goods, Transportation

George Clark
Voting and Engagement Support

George Daglish
Sectors: Financial Services, Oil & Gas, Utilities

Emily DeMasi
Sectors: Financial Services, Pharmaceuticals & Healthcare

Bruce Duguid
Head of Stewardship, EOS

Elissa El Moufti
Sectors: Financial Services, Mining & Materials, Oil & Gas

Will Farrell
Sectors: Utilities, Chemicals, Financial Services

Diana Glassman
Sectors: Oil & Gas, Financial Services, Technology

Trey Goff
Sectors: Retail & Consumer Services, Transportation

Jaime Gornsztejn
Sector: Mining & Materials

Tsitsi Griffiths
Sector: Chemicals

Hannah Heuser
Sectors: Oil & Gas, Utilities

Ellie Higgins
Sectors: Utilities, Retail & Consumer Services, Consumer Goods

Shoa Hirosato
Sectors: Financial Services, Transportation, Utilities

Alexis Huang
Sector: Retail and Consumer Services

Lisa Lange
Sector: Transportation

Sonya Likhtman
Sectors: Transportation, Consumer Goods, Financial Services

Earl McKenzie
Voting and Engagement Support

Claire Milhench
Communications & Content

James O'Halloran
Director of Business Management, EOS

Navishka Pandit
Sectors: Financial Services, Technology, Consumer Goods

Xinyu Pei
Sectors: Oil & Gas, Utilities, Mining & Materials

Nick Pelosi
Sectors: Mining & Materials, Financial Services, Technology

Howard Risby
Sectors: Financial Services, Mining & Materials, Oil & Gas

Velika Talyarkhan
Sectors: Utilities, Consumer Goods, Retail & Consumer Services

Ross Teverson
Sectors: Retail & Consumer Services, Technology

Kenny Tsang
Sector: Consumer Goods

Judi Tseng
Sectors: Financial Services, Technology

Mark Turner
Voting and Engagement Support

Haonan Wu
Sectors: Transportation, Chemicals, Retail & Consumer Services

Michael Yamoah
Sectors: Technology, Oil & Gas, Utilities, Financial Services

Ming Yang
Sectors: Consumer Goods, Pharmaceuticals & Healthcare

Client Service and Business Development

Mike Wills
Head of Client Service and Business Development, EOS

Diego Anton
Client Service

Amy D'Eugenio
Sustainability Director

Jonathan Lance
Client Service

Alice Musto
Client Relations Lead

Julia Schimmelmann
Client Service

Note on Brown Shipley 2025 Voting Activity

During most of the calendar year 2025, Brown Shipley experienced an issue in the vote execution process which resulted in a significant proportion of intended votes not being successfully submitted. As a result, Brown Shipley has not published a standalone voting report for this period.

As of calender year 2026, the issue has been fully identified and resolved. Enhanced oversight, strengthened controls and close coordination with Brown Shipley's service providers have been implemented to ensure that voting is now operating as intended.

Brown Shipley remains firmly committed to the effective exercise of shareholder rights on behalf of its clients and to maintaining full transparency in how these responsibilities are carried out.

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