# Public Engagement Report

## CLEAR FOR TAKE OFF
## Can alternative fuels take flight?

The battle for critical minerals

Investor stewardship priorities for India

Q1 2025

Federated Hermes
EOS

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**Welcome to our Public Engagement Report for Q1 2025. In our cover feature this quarter, Will Farrell and Michael Yamoah examine the growth potential for low-carbon fuels, including sustainable aviation fuel, hydrogen and biofuels.**

**While some of these seem to offer an attractive alternative to fossil fuels, there are a few unintended consequences to consider. For example, land use change for the growth of biofuel crops can lead to biodiversity loss, increased greenhouse gas emissions, and the erosion of food security.**

**The low-carbon transition will in part be made possible by a shift from fossil fuel dependency to clean energy technologies such as electric vehicle batteries and wind turbines. But as the demand for EVs and other clean technologies accelerates, the race to secure supplies of lithium, nickel, cobalt and other critical minerals is intensifying. In their article, Dana Barnes and Elissa El Moufti explore the need to enhance transparency to promote responsible practices in this fast-moving space.**

**Finally, Sonya Likhtman, Ross Teverson and Navishka Pandit delve into the Indian market and identify some of the key stewardship challenges for investors to consider including board independence, climate-related risk, and data security.**

**Claire Milhench**
Associate Director – Communications & Content

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# When will alternative fuels take off?

Biofuels, hydrogen, and sustainable aviation fuel have been mooted as potential low-carbon alternatives to fossil fuels. However, although they increasingly feature in company transition plans and government policies as an attractive opportunity, there are drawbacks that must be addressed. By Will Farrell and Michael Yamoah.

## Setting the scene

**Low-carbon fuels, often referred to as renewable or alternative fuels, should provide energy with lower net greenhouse gas emissions than fossil fuels over their lifecycles.[1] Alternative fuels such as hydrogen and sustainable aviation fuel (SAF) are likely to play a pivotal role in delivering net-zero emissions in the harder-to-abate segments of surface transport, aviation, heating, manufacturing and construction, agriculture, and industrials.[2]**

**The International Energy Agency (IEA) expects an expansion of low-carbon fuels from a 1% weight in global final energy consumption in 2022 to almost 5% in 2030 under its Net Zero Emissions by 2050 (NZE) scenario.[3] However, most low-emissions fuels are likely to remain more expensive than their fossil counterparts. For example, SAF is currently twice as expensive as conventional jet fuel.[4] This means that any discussion of the role of low-carbon fuels should focus on credible emissions savings, particularly for those emissions-intensive segments of the economy where the technological and commercial feasibility of electrification remains unlikely or impossible.**

[1] Low-carbon Fuels and Energy Sources Basics | Department of Energy.
[2] Sixth Carbon Budget – Climate Change Committee (theccc.org.uk).
[3] Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach – Analysis – IEA.
[4] Bergero, C. et al. 2023. *Pathways to net-zero emissions from aviation.* Nature Sustainability. Pathways to net-zero emissions from aviation | Nature Sustainability.

Companies are increasingly exploring the potential of low-carbon fuels, seeing them as an attractive 'plug in' solution to some of the challenges associated with the energy transition.

On the surface, alternative fuels appear to help companies continue with business as usual, sometimes without the need to wait for the build out of costly new supporting infrastructure. For example, biomethane can be injected directly into gas grids. However, a push into low-carbon fuels, even as an interim solution, is not without risk, such as competition for supply, or regulatory reversals.

For investors, there are also unintended consequences to consider. The expansion of biofuel crops, such as palm oil and sugarcane, has been associated with land grabbing, forced displacement, and labour exploitation in developing countries.[5] These human rights violations raise ethical concerns, disrupt supply chains, and create reputational risks for companies. Land use change can also have severe environmental and social consequences, including biodiversity loss, increased greenhouse gas emissions from forest and soil carbon release, and the erosion of food security.[6]

The production of advanced low-carbon fuels, such as green hydrogen, also faces technological constraints. Competition for biomass resources between biofuel production, food, feed, and other bio-based industries can lead to price volatility and supply shortages.[7] The lack of adequate infrastructure for the production, distribution, and use of low-carbon fuels presents another supply constraint.

On the demand side, there is uncertainty surrounding long-term policy support for low-carbon fuels, which can dampen investor confidence and limit demand growth. For example, the EU's Renewable Energy Directive II (RED II) has set sustainability criteria for biofuels, including minimum greenhouse gas savings thresholds.[8] These thresholds can limit the demand for certain types of biofuels that fail to meet the required emissions reductions.

**Competition for biomass resources between biofuel production, food, feed, and other bio-based industries can lead to price volatility and supply shortages.**

## Demand for alternative fuels

In the aviation sector, the use of sustainable aviation fuel (SAF) in the near-term is expected to drive emissions reduction, as a fully commercially-viable electrification option is not yet well developed. However, in a business-as-usual demand scenario, 50% biofuel penetration by 2050 would require almost 20% of global cropland to be dedicated to aviation biofuels.[9] Land use, food security, and price concerns associated with such a significant displacement of agricultural markets strengthen the economic case for exploring alternative technologies over the longer term, rather than relying on SAF.


Gas distribution infrastructure also represents a hard-to-abate segment, and the blending of low-carbon gases, such as biomethane, has been mooted as an intermediate solution.[10] We have engaged Engie, the French utility, on the viability of its plans for its biomethane sales to reach 30TWh by 2030. This has included challenging business leaders over the risks of relying on scarce waste feedstocks at a meeting at its headquarters in 2024. We continue to engage on the delivery of this strategy and its consistency with the company's longer-term vision for a hydrogen grid.

In some easier-to-abate sectors, such as power generation, low-carbon fuels can support a lowest-cost energy transition. The co-firing of biomass in coal-fired plants would support near-term emissions reduction in countries where the existing coal fleet is unlikely to be phased out in the near-term. In India, Adani Power – which we have engaged on the transition-related financial risks faced by its fleet of coal-fired power plants – is piloting green ammonia and biomass co-firing. It expects these solutions to reduce coal use by up to 30% over time. However, we do not expect co-firing to be a long-term solution given supply constraints and the cost competitiveness of renewable solutions.[11]

Green hydrogen may also play a role in connecting locations with abundant renewables to centres of high energy demand. This could improve the efficiency and reliability of a net-zero energy system without the significant transmission losses.[12,13] In the UK, National Gas's Project Union is pioneering this approach to build a hydrogen 'backbone' for the country. It is proposing to repurpose 2,000km of gas transmission pipelines to carry hydrogen to connect large-scale offshore wind assets in Scotland to industrial clusters in England.[14]

**For further information, please contact:**

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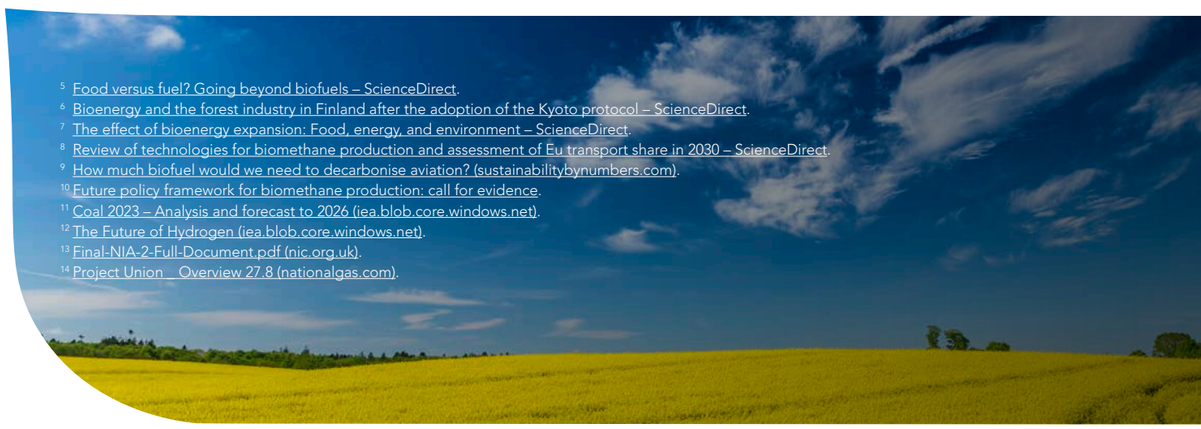
[5] Food versus fuel? Going beyond biofuels – ScienceDirect.
[6] Bioenergy and the forest industry in Finland after the adoption of the Kyoto protocol – ScienceDirect.
[7] The effect of bioenergy expansion: Food, energy, and environment – ScienceDirect.
[8] Review of technologies for biomethane production and assessment of Eu transport share in 2030 – ScienceDirect.
[9] How much biofuel would we need to decarbonise aviation? (sustainabilitybynumbers.com).
[10] Future policy framework for biomethane production: call for evidence.
[11] Coal 2023 – Analysis and forecast to 2026 (iea.blob.core.windows.net).
[12] The Future of Hydrogen (iea.blob.core.windows.net).
[13] Final-NIA-2-Full-Document.pdf (nic.org.uk).
[14] Project Union _ Overview 27.8 (nationalgas.com).



## Low-carbon fuels, their use cases, and competitiveness

| Fuel | Production | Application | Strengths | Weaknesses |
|---|---|---|---|---|
| **Hydrogen** | Hydrogen can be a zero-carbon fuel when produced via electrolysis powered by renewable energy. | Petroleum refining, steel production (coke substitution), renewable energy storage, heavy transport, peaking for critical-load facilities like data centres. | ✓ Renewable energy source for green hydrogen<br>✓ More efficient fuel than its fossil fuel counterparts<br>✓ Hydrogen is extremely energy dense<br>✓ Hydrogen boilers can operate on similar infrastructure to gas boilers, although some retrofitting required | × More flammable<br>× Expensive to produce given inefficiencies<br>× Production of hydrogen can result in $CO_2$ emissions if derived from non-renewable sources<br>× Operational issues experienced at refuelling stations in European pilot programmes[15] |
| **Synthetic ammonia** | An e-fuel that can be produced in gas and liquid form. Its transportation is likely more feasible than that of hydrogen. | Mainly used for fertilisers; remainder is used for various industries such as plastics, explosives, and synthetic fibres. Could be adopted as an energy vehicle for industries transitioning to hydrogen. | ✓ Of all chemicals manufacturing, ammonia is the least technologically difficult to decarbonise<br>✓ Relatively high energy density<br>✓ Existing infrastructure for distribution given agricultural footprint | × Expensive as requires green hydrogen<br>× Toxic gas – requires careful control |
| **e-methanol** | A synthetic hydrocarbon. The production processes require $CO_2$ and green hydrogen. | Marine, aviation, and road transport fuels with existing infrastructure. | ✓ Completely compatible with existing car and truck engines as well as fuel storage and distribution infrastructure<br>✓ Favoured low-carbon fuel of shipping company Maersk | × Lower energy density<br>× Can be corrosive and toxic<br>× Expensive to produce as requires both green hydrogen and nascent carbon capture and storage (CCS) |
| **e-kerosene** | A synthetic hydrocarbon. The production processes require $CO_2$ and green hydrogen. | Mainly for the aviation industry as an alternative to fossil fuel or biomass-derived SAF. | ✓ e-kerosene provides a more scalable source of clean aviation energy<br>✓ e-kerosene can also contribute to improving local air quality, especially around airports, because of its significantly lower particulate matter | × Expensive: seven to 10 times the average price of Jet-A aviation fuel given requirement of CCS and green hydrogen[16] |
| **e-methane** | A synthetic hydrocarbon. The production processes require $CO_2$ and green hydrogen. | Shipping industry and alternative fuel for transport sector. | ✓ Compatible with existing natural gas distribution infrastructure with no adjustments, unlike hydrogen | × Methane leakage is a key risk – a potent greenhouse gas<br>× Expensive as requires both green hydrogen and nascent CCS |

Source: EOS

[15] Klevstrand, A. 2023. Hydrogen Insight. 'Hydrogen refuelling is an industry-wide challenge' | Problems with our 'immature' H2 pumps are not specific to us, says Nel | Hydrogen Insight.

[16] Zhou, Y et al. 2022. *Current and future cost of e-kerosene in the United States and Europe.* International Council on Clean Transportation. fuels-us-europe-current-future-cost-ekerosene-us-europe-mar22.pdf (theicct.org).

Although the examples in the table are not exhaustive, they indicate the complex system impacts associated with low-carbon fuels and the difficulty in assessing their competitiveness. It is reasonable to expect different low-carbon fuels to play a role through the energy transition. Arguably, this has propelled policies to promote the penetration of low-carbon fuels. The US Inflation Reduction Act has stimulated green hydrogen investment through targeted tax credits, contributing to the US$50bn of announced low-carbon hydrogen projects in the US. The EU's Hydrogen Strategy has delivered the European Hydrogen Bank, an Innovation Fund mechanism and €3bn subsidy scheme.[17, 18, 19]

## Implications for engagement

There are several economic and social consequences associated with low-carbon fuels that need to be considered and addressed. These include:

- Justification of why a low-carbon fuel is a significant and competitive emissions reduction lever for the particular intended application, timeframe, and systemic context.
- Feedstock risk management, including:
  - Minimising any negative impacts on biodiversity and water
  - Upholding high human rights standards, including respecting indigenous group and community engagement, and fair labour practices throughout the company's supply chain
  - Addressing potential food security issues, particularly when sourcing food crops for biofuel production.
- Proper board oversight of the strategy on low-carbon fuels and how companies are evolving financial and strategic risk management systems to identify and manage such risks, plus the effectiveness of supplier selection and monitoring processes.
- Addressing technological and infrastructure limitations associated with some low-carbon fuels (where these are reasonably expected to be competitive for the intended application), including through commercial partnerships and public policy.

EOS generally adopts a technology-agnostic approach but routinely inspects transition plans for their robustness and credibility. Where low-carbon fuels are referenced, EOS probes the assumptions being made. We encourage companies to develop capabilities to deliver decision-based climate scenario analysis, and to address their alignment with a transition scenario, capturing system effects. This improves investors' understanding and enables them to play a role in influencing the policy environment. EOS also encourages companies to outline their advocacy efforts for relevant policies supporting low-carbon fuel adoption.

## Our engagement approach

EOS currently engages over 160 companies where their activities are closely related to low-carbon fuels. We engage on fuel and feedstock selection, and the associated climate, biodiversity, and human rights risks and opportunities. These companies include Shell, Valero Energy, and Repsol in the oil and gas sector, where diversification into low-carbon fuels is commonly cited as a strategic aim to manage transition risks.

We also engage with chemicals and industrials companies such as BASF, LyondellBasell, and Covestro; in this sector low-carbon fuels are often mooted as alternative feedstocks. Other relevant sectors include utilities, where there are opportunities to co-fire fossil fuels with low-carbon fuels as an interim transition activity ahead of greater renewables penetration, and transportation, including aviation, maritime, and land transport.

### COMPANY ENGAGEMENTS

**Since 2020, we have engaged with US-based Valero Energy on its emissions reduction strategy and its alignment with the Paris Agreement. The company has diversified its activities through its carbon reduction strategy with greater capital allocation to lower carbon fuel production, such as biofuels.**

As it pursues these attractive opportunities, we have questioned some of its assumptions related to the comparable carbon performance of electric vehicles versus the adoption of its renewable diesel and ethanol fuels and encouraged it to be transparent in its methodology and assumptions. In 2024, the company laid out how these low carbon solutions would be imperative for a 1.5°C aligned future. We will continue to engage with the company on the resiliency of its assets and its contributions to the low carbon landscape.

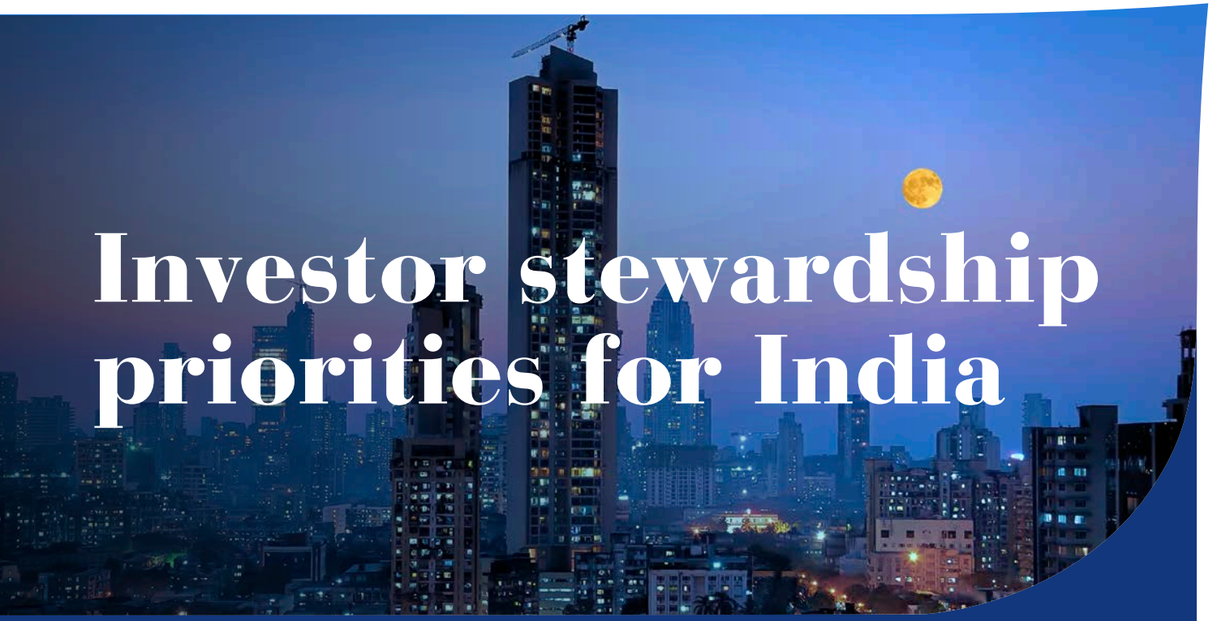
In Denmark, we have engaged the container shipping company AP Moller-Maersk on its management of climate-related financial opportunities and risks since 2016. We suggested that the company should proactively manage the just transition and biodiversity concerns associated with its plans to source low-carbon marine and aviation fuels.

The company has subsequently published a set of policies to ensure the sustainability of green fuels, including biomethanol. The policies include the key safeguard that biofuels will only be derived from waste residues and not rely on any food feedstock, reducing the risk of land use change and biodiversity loss, as well as managing health and safety concerns for workers. We are now engaging the Canadian National Railway Company on similar concerns.

[17] New investments give renewables a big break (deloitte.com).

[18] Go big or go green? The EU's massively expanding hydrogen bet – POLITICO.

[19] European Commission. 2023. *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee of the Regions on the European Hydrogen Bank.* EUR-Lex – 52023DC0156 – EN – EUR-Lex (europa.eu).



# Investor stewardship priorities for India

India can appear attractive to emerging market investors, based on its strong growth opportunities and the variety of listed companies on offer. However, governance challenges, a high exposure to physical climate risk, and cybersecurity issues still present potential pitfalls for the unwary. By Sonya Likhtman, Navishka Pandit and Ross Teverson.

## Setting the scene

**India is large and diverse, with a rich tapestry of languages, religions and cultures. In recent years, socioeconomic indicators have improved, with India's unemployment rate declining to 4.2% in 2023 from 7.7% in 2013,[1] and a 32% fall in the infant mortality rate over the same period. But basic rights such as access to electricity, adequate sanitation, and clean water remain a challenge for many. Meanwhile, the governance scandals that periodically erupt can wipe billions off a company's market capitalisation in a matter of days.**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India remains a popular emerging market for investors, with listed companies in sectors such as financial services, technology, and manufacturing. The economy is expanding, with GDP growth above 6% a year[2] since the pandemic, significantly higher than most other major economies. It is also the largest country in the world by population, with over 1.4 billion people.

EOS has been engaging with Indian companies, policymakers and standard-setters for over a decade, and in recent years we have seen improvements in certain governance areas. However, there are some specific stewardship challenges within the Indian market that minority shareholders need to navigate to ensure that their own rights are protected.

India still performs poorly in certain social and environmental rankings. For example, India ranked 129th in the World Economic Forum's latest Global Gender Gap Report,[3] with concerns across the categories of women's economic participation and health. Poor air quality also remains a problem, with 42 of the 50 most polluted cities in the world located in India in 2023.[4]

With this economic, social and environmental context, we outline five focus areas for investors seeking opportunities in India.

[1] Unemployment, total (% of total labour force) (modelled ILO estimate) – India | Data.
[2] India Fiscal Year GDP Growth.
[3] WEF_GGGR_2024.pdf.
[4] World's Most Polluted Cities in 2023 – PM2.5 Ranking | IQAir.

## Governance and transparency

High-profile allegations[5] of corruption, such as those associated with the Adani Group, serve as a sharp reminder for investors to focus on governance and transparency when adding Indian stocks to a portfolio. A high proportion of Indian companies are still family-owned and led by promoters, a term unique to India, which refers to individuals with direct or indirect control over a company.[6] In some cases, family members and promoters who are interested in ensuring sustained growth may foster a long-term focus, which can be well-aligned with minority shareholder interests.

However, there is increasing scrutiny over related party transactions, which can give rise to potential conflicts of interest, and executive remuneration. Here there is scope to increase transparency, introduce more objectivity into decision-making, and establish pay structures that properly incentivise delivery on long-term strategy. We also continue to track the ratio between CEO and median employee pay, given the high disparities at many companies, and the potential to drive improved employee loyalty and productivity by paying a living wage across the workforce.

Boards and management teams should focus on establishing governance structures that enable long-term value creation. Improvements in governance are likely to increase trust in the market and make India even more attractive to international investors.

Through our policy engagement and market best practice work in India we have sought to drive improvements in governance across the market. For example, we met the capital markets regulator, the Securities and Exchange Board of India (SEBI), in Mumbai as part of the Asian Corporate Governance Association (ACGA) delegation in 2023. We shared views about the importance of separating the chair and CEO roles, the value of having a strong core of genuinely independent directors, and recommendations for executive remuneration.

## The role of independent directors

Board independence in India has improved in recent years, following guidance from SEBI. We expect the improved independence on paper to be reflected in genuine independence in practice, with a healthy level of challenge and debate at the board level. Independent directors are well-placed to provide a valuable external perspective and strengthen the quality of deliberation and decision-making on the board. Part of their role includes representing minority shareholder rights, but their active participation on the board is equally beneficial for controlling shareholders.

> **While board-level engagement is not yet the norm in India, we expect to see a shift in access in coming years, as independent directors begin to recognise that investor dialogue can help them perform effectively.**

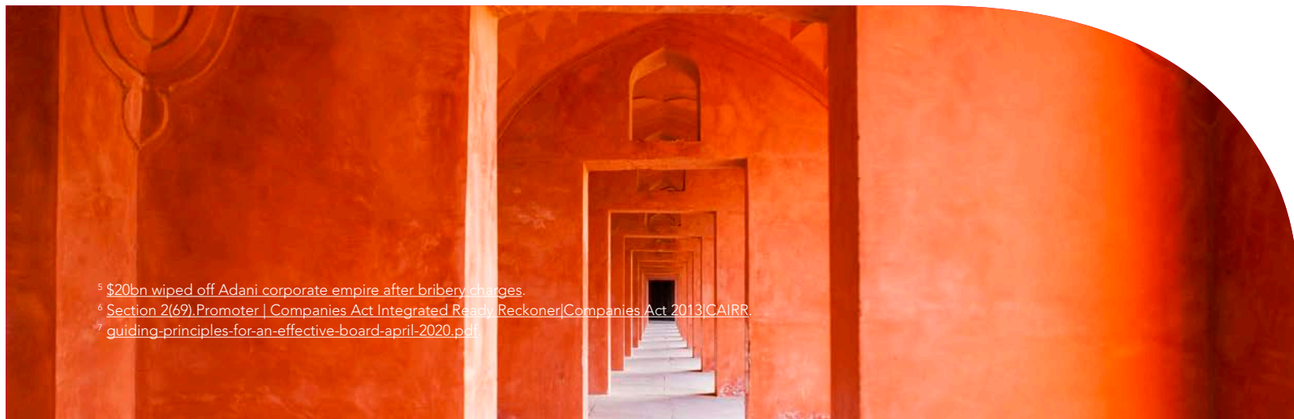
Independent directors have a responsibility to engage directly with shareholders to exchange views on governance and other strategic matters. While board-level engagement is not yet the norm in India, we expect to see a shift in access in coming years, as independent directors begin to recognise that investor dialogue can help them perform effectively.

As outlined in our white paper *Guiding Principles for an Effective Board*,[7] companies in India should continue to focus on achieving genuine board independence, develop plans to separate the chair and CEO roles, and demonstrate a commitment to continuous improvement.

## Gender equality

India's large educated female talent pool presents a significant opportunity for companies to innovate and better serve their customers. Where the current proportion of female employees is low, companies should set ambitious targets and strategies to strengthen women's representation, including at senior levels. This transformation is likely to require a clear tone from the top, improved internal policies, and support to overcome barriers such as returning to work, childcare, and workplace safety. Companies where female participation is already high should focus on retention and ensuring that women are well represented in leadership positions.

Female participation at the board level is critical to bring a broader range of thought and experience to the boardroom, and to strengthen the oversight of management and the company itself. In 2014 SEBI mandated that all listed companies in India should appoint at least one independent female director to the board. Unfortunately, many companies sought only to meet, rather than exceed, this expectation.



[5] $20bn wiped off Adani corporate empire after bribery charges.
[6] Section 2(69).Promoter | Companies Act Integrated Ready Reckoner|Companies Act 2013|CAIRR.
[7] guiding-principles-for-an-effective-board-april-2020.pdf

CASE STUDY

## KEC International Limited

**KEC International is headquartered in Mumbai, India. It is an engineering, procurement and construction company with projects in power transmission and distribution, railways, civil, urban and smart infrastructure, renewables, oil and gas pipelines, and cables. It has over 300 ongoing projects across countries such as India, Brazil and Mexico.**

### Our engagement

We started a dialogue with KEC International in May 2023. We initially raised concerns about the board composition, where independence was 36%, largely due to director tenures exceeding 10 years, and women accounted for only 9%, compared with our market guidelines of 50% and 20% respectively. We shared our perspective about the value that improved independence and representation would bring to the board and the company.

We encouraged board refreshment, and for the audit committee to become fully independent, with all committees chaired by independent directors. The company acknowledged our concerns about board independence and long tenures. It explained that some board terms would end in 2024, after which there would be some refreshment.

At the 2023 annual shareholder meeting the CEO was the only director up for election. While we recommended supporting his election to the board, we reiterated our concerns. In November 2023, we continued the discussion about board composition and effectiveness at a meeting in Mumbai. We highlighted that at the time we considered the audit committee to have no independence, which was particularly concerning. The company said that, in its view, the diversity of skills and the quality of dialogue on the board was high, and that a search for independent directors was being conducted.

### Changes at the company

In 2024, the company undertook a significant board refreshment by adding four new independent directors, reaching 70% board independence. We were especially pleased to see the audit, nomination and compensation committees become fully independent. We also welcomed the increase in female directors, who now accounted for 20% of the board. We believe that these changes should improve the quality of debate and discussion on the board, including strengthening risk management and oversight at the company.

We now want the company to continue focusing on broadening the range of thought, skills and experience on the board, in alignment with delivery on the company's strategy. For future annual shareholder meetings, we have asked the company to present the director election and remuneration proposals separately, rather than bundling them together, so that shareholders can express their views on these points individually. We will also continue to discuss the transparency and alignment of executive remuneration.

**Sonya Likhtman**
**Theme co-lead: Natural Resource Stewardship**



In our view, companies should move away from a mindset of regulatory compliance and consider the opportunity for leadership. From 2026, we will encourage Indian companies to ensure that women comprise at least 30% of Indian company boards, compared with our current level of at least 20%.

### Climate change

India is highly exposed to the physical risks of climate change, particularly intensified water stress, heatwaves and flooding. Mitigating and adapting to climate change must be balanced with achieving universal access to electricity and energy security.

Given the high rate of economic growth, India has significant transition opportunities to leverage. These include export advantages[8] in environmental technology and low-carbon goods, and access to clean and inexpensive renewable energy. India has been investing in renewable energy, particularly solar power, at record rates, with supportive policy measures such as subsidies, improvements to administrative processes, and incentives for domestic production of solar technologies.[9] However, close to 80% of its power generation came from coal as of February 2024[10] and emissions per capita are increasing rapidly, although they remain comparatively low.[11]

India has a target to reach net-zero emissions by 2070, which is one of the latest dates set by a major economy and 20 years later than scientific guidance for global emissions. India's timeline reflects the ongoing need for economic development and improved access to electricity.

In our view, many Indian companies could work towards a 2050 or earlier timeline, helping to strengthen the resilience of their business model. We believe that companies should set short, medium and long-term science-based emissions reduction targets and develop transition plans to tackle climate-related risks throughout their value chains. In the context of India's industrial strategy, companies should also consider opportunities to develop commercial strategies for providing low-carbon products and services.

For example, we are engaging with natural gas company GAIL India on emissions reduction and methane in its supplier due diligence and public reporting. We have also started talking to the company about human capital management and its strategy to hire and retain the best talent.

Environmental issues in India should be addressed holistically, meaning that nature degradation, pollution of the air, soil and water, and broader water-related issues should remain a focus for companies alongside climate change.

### Data privacy, cybersecurity and artificial intelligence

Data breaches across public and private sector entities in India have been relatively frequent in recent years, exposing companies to financial, regulatory and reputational risks. The banking system is undergoing a digitalisation-led transformation, posing cybersecurity and data privacy challenges. SEBI issued a new Cybersecurity and Cyber Resilience Framework[12] for financial institutions and other regulated entities in August 2024.

We believe that companies should establish strong oversight of technology-related risks, including ensuring that directors have the relevant expertise and providing ongoing director education on these matters. Risk management capabilities should be supported by systems, processes and capacity building throughout companies.

In 2025, we plan to engage with several Indian banks on their approach to cybersecurity and data privacy. We will cover topics including the governance and oversight of these issues, balancing the risks and opportunities of digitalisation, and the approach to training and capacity building for employees and the board.

Businesses that are deploying artificial intelligence (AI), particularly generative AI tools, in any meaningful way should publish ethical AI and data governance principles addressing transparency and accountability, fairness and bias, privacy, and other salient risks. We also encourage companies to work towards integrating a culture of responsibility throughout, reinforced by training and regular solicitation of feedback from a range of stakeholders. Taking these steps should support the mitigation of risks associated with digital services and AI, as well as the identification of emerging opportunities.

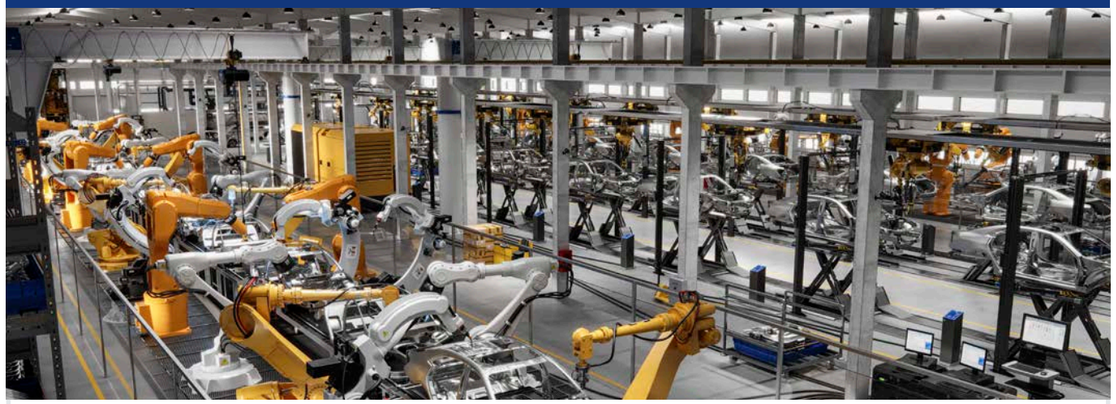
### Conclusion

Companies should prioritise establishing good governance structures and effective boards if they are to profit from some of the opportunities that will be central to the next chapter in India's growth story. We look forward to continuing to engage with companies and regulators on these topics in 2025 and beyond.


[8] Climate Is the Future of the U.S.-India Trade Relationship – Center for American Progress.
[9] India | Climate Action Tracker.
[10] Q&A: What do India's elections mean for coal communities and climate change?
[11] India: $CO_2$ Country Profile – Our World in Data.
[12] SEBI | Cybersecurity and Cyber Resilience Framework (CSCRF) for SEBI Regulated Entities (REs).

CASE STUDY

## Samvardhana Motherson International Ltd



**Samvardhana Motherson International (Motherson) is one of the world's largest manufacturers of components for the automotive industry. There are 12 business divisions, with the four major divisions that contribute over 90% of group revenues being wiring harness, vision systems, modules and polymer products, and integrated assemblies.**

### Our engagement

In 2022, the company set a target to reduce its Scope 1 and 2 emissions to net zero by 2040. In a call with the chief sustainability officer in 2022, we suggested setting interim emissions reduction targets that support the goal of limiting global warming to 1.5°C. Ideally, this would be validated by an external party, such as the Science-Based Targets initiative (SBTi). We also encouraged the company to disclose its Scope 3 emissions, by far the most significant category, as a first step towards setting Scope 3 emission reduction targets.

In February 2023, our Federated Hermes Limited fund manager colleagues visited the company's head office in Delhi to meet the chief operating officer, the former CFO and an investor relations representative. In a call later in 2023, we put forward the view that the company's plan for a "milestone review" of its operational emissions in 2030, was not sufficient. We also discussed what the company was doing to ensure that each division's climate transition plan was sufficiently ambitious and how it was holding its divisions to account. Early in 2024, we wrote to the company to reiterate our concerns.

### Changes at the company

In 2024, the company committed to an interim Scope 1 and 2 emissions reduction target of a 50% reduction by 2030 versus financial year 2022-2023. The target is to be achieved primarily by sourcing renewable energy in the countries where it has manufacturing sites. The company also said it had mapped 80% of purchased goods by value (excluding directed material spend that is not included in financial consolidation) for Scope 3 emissions more accurately.

It is now working to develop strategies with all required stakeholders to address the major contributing factors. This follows the publication of its initial estimated Scope 3 emissions number the previous year as part of India's Business Responsibility & Sustainability Reporting (BRSR) regulatory requirements.

We believe that establishing an interim reduction target for its Scope 1 and 2 emissions and improving transparency for its Scope 3 emissions will help the company to understand and manage its climate-related risks and opportunities, including aligning with its customers' emissions reduction commitments. As the Scope 3 emissions significantly outweigh the operational emissions, we will also continue asking the company to develop a comprehensive strategy, with targets, for how the most material Scope 3 emissions will be reduced.

We also look forward to continuing our dialogue on Motherson's approach to human rights due diligence in its supply chain, the need for goals and targets on circularity, and female representation at the board level.

**Sonya Likhtman**
**Theme co-lead: Natural Resource Stewardship**



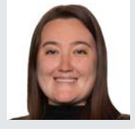
# The battle for critical minerals

Growing competition for critical minerals threatens to exacerbate negative climate, human rights, and biodiversity impacts. Dana Barnes and Elissa El Moufti explore the need for enhanced transparency to promote responsible practices and minimise the risks to companies and investors.

### Setting the scene

**The low-carbon transition will in part be made possible by a shift from fossil fuel dependency to clean energy technologies such as electric vehicle batteries and wind turbines, for which critical minerals are an essential input. However, building these clean energy technologies can be more mineral intensive.[1] Because of this, it is important for stakeholders to understand how the inputs required for the development of clean energy technologies may exacerbate negative environmental and social impacts. The growing demand for critical minerals for the energy sector, amidst competition from the consumer electronics sector for smartphones and televisions,[2] has prompted nation states and global companies to eye deep-sea mining and polar regions, raising biodiversity concerns and geopolitical tensions.**

**For further information, please contact:**



**Dana Barnes**
**Themes: Human Rights, Executive Remuneration**

**Elissa El Moufti**
**Themes: Climate Change, Human Rights**

As demand for electric vehicles and other clean technologies accelerates, the race to secure supplies of lithium, nickel and cobalt is intensifying. These minerals are deemed 'critical' for the transition to a low carbon economy, but with China currently dominating critical mineral processing, other countries are scrambling to catch up.

According to the International Energy Agency's Stated Policies Scenario (SDS), it is estimated that the world is on track to double its overall mineral requirements for clean energy technologies by 2040.[3] Under this scenario, the transport and utilities sectors will see the biggest critical mineral demand. Lithium demand is expected to grow by over 40 times by 2040, with graphite, cobalt, and nickel following in that order.[4] To meet demand for wind turbine blades and solar power, more iron and aluminium will also be required.[5]

Tech companies have already started to think about the impact of critical mineral availability. This is because the failure to secure a reliable supply may hamper production, or expose the company to sudden price increases for vital minerals.

[1] How does the environmental impact of mining for clean energy metals compare to mining for coal, oil and gas? | MIT Climate Portal.
[2] The Role of Critical Minerals in Clean Energy Transitions – Analysis – IEA; and What you need to know about critical minerals and climate change – ABC News (go.com).
[3] Executive summary – The Role of Critical Minerals in Clean Energy Transitions – Analysis – IEA.
[4] Executive summary – The Role of Critical Minerals in Clean Energy Transitions – Analysis – IEA.
[5] Minerals-for-Climate-Action-The-Mineral-Intensity-of-the-Clean-Energy-Transition.pdf (worldbank.org).

For example, when supply is concentrated in politically unstable areas it can lead to business disruption, impacting revenue streams. Companies may face unexpected costs when switching materials during production, and higher insurance premiums as insurers reconsider the risks. Planning becomes more complicated as the availability of minerals changes. We recommend that companies, with board oversight, establish strong risk management systems that include mineral dependency metrics for relevant business units, ensuring that financial models consider extreme but possible disruption scenarios.

Some companies are also cognisant of the broader risks to which they may be exposed. For example, Hewlett Packard Enterprises has changed its critical minerals policy into a responsible minerals sourcing policy, with the inclusion of a human rights lens.

## What makes a mineral critical?

The classification of a mineral as critical relates to how essential it is for a product or the needs of an economy, its impact on national security, the risk to the supply chain, and the lack of an adequate substitute. This can vary by geography and may change over time. For example, the US, EU, Japan, India and Australia identify different minerals as critical.[6] A more universal list reflective of global demand and supply, and based on global clean technology needs, would include lithium, copper, nickel, manganese, cobalt, chromium, molybdenum, zinc, rare earth metals, and silicon.[7]

## Where to find critical minerals

A mineral intensive future will require more mining and processing capacity to fill the growing demand.[8] The extraction of these minerals is spread across a range of countries including Australia, the Democratic Republic of the Congo (DRC), Indonesia, Chile and China. But a significant majority of critical minerals processing takes place in China, including some 60-70% of global lithium and cobalt processing, and an estimated 60% of nickel processing. China is also home to 90% of rare earth metal processing.[9]

This skewed global supply chain has spurred many developed economies to develop national critical minerals strategies based on geopolitical concerns and future energy needs. The US and Canada have entered a global partnership to secure critical minerals that are essential for clean energy technologies,[10] while the EU and other countries have formed the Minerals Security Partnership.[11]

Many demand-side companies are taking unprecedented steps to secure critical minerals for their products. This is changing the traditional supply chain for minerals sourcing, with demand-side companies becoming directly involved in the mining of minerals. For example, as part of its EV strategy, General Motors has invested millions of dollars in partnership with Control Thermal Resources to extract lithium from the Salton Sea Geothermal Field in Imperial, California.[12] Tesla directly sources minerals from miners beyond third-party suppliers.[13] And German car manufacturers Volkswagen and Mercedes-Benz have secured access to critical minerals via a memorandum of understanding with the Canadian government.[14] This is creating new opportunities for companies, but also presents new areas of risk.

Miners are also responding to the shift in demand – energy transition minerals already account for a significant share of production at Vale and BHP. And South32, an Australia-based mining company, sold its last coal asset in 2024 to focus its business strategy solely on critical minerals.[15]

## How clean is clean tech?

The increase in demand for critical minerals, if not properly executed, could have negative environmental impacts. These include increased greenhouse gas emissions, biodiversity loss and land use change, water stresses and pollution. Mining and processing activities generate a significant amount of waste, some of which are hazardous to human health and may impact local communities. There are also other potential negative social impacts, such as corruption and human rights issues, including the use of forced labour and the infringement of indigenous peoples' rights.[16]

[6] Critical Minerals | American Geosciences Institute.
[7] Executive summary – The Role of Critical Minerals in Clean Energy Transitions – Analysis – IEA.
[8] The reinvention of the mining industry | PwC.
[9] Executive summary – The Role of Critical Minerals in Clean Energy Transitions – Analysis – IEA.
[10] U.S. and partners enter pact to secure critical minerals like lithium | Reuters.
[11] https://www.state.gov/minerals-security-partnership/#Framework.
[12] GM moves to secure critical U.S.-sourced lithium for electric vehicles (cnbc.com).
[13] Tesla explains its approach to sourcing lithium, nickel, and cobalt directly from mines in impressive detail | Electrek.
[14] Agreement with German automakers 'unprecedented' for Canada, says auto industry insider | CBC News.
[15] https://www.reuters.com/markets/commodities/australias-south32-sells-flagship-illawarra-project-165-bln-2024-02-28/.
[16] Sustainable and responsible development of minerals – The Role of Critical Minerals in Clean Energy Transitions – Analysis – IEA.

## Financially connected engagement themes for the metals and mining sector

| Engagement Theme | Financial Connections |
|---|---|
| **Climate Opportunities** | • Developing and expanding production capacity in metals and minerals critical to energy transition enabling technologies may impact the value of a company's assets and its capital expenditure – additionally this could impact the cost structure.<br>• Realising energy transition related tailwinds as a growth driver could expand pricing power and top line growth. |
| **Supply Chain Rights** | • Supply chain concerns could cause companies to shift certain elements away from problem areas. This could impact the cost of goods sold and operating expenses.<br>• Supply chain issues could also introduce legal, regulatory, and licence to operate risks. This could result in fines, legal expenses, and access to certain suppliers – all impacting expenses. |
| **Anti-Bribery and Corruption** | • Bribery and corruption issues could introduce legal, regulatory, and licence to operate risks. This could result in fines, legal expenses, and access to certain suppliers – all impacting expenses. |
| **Pollution** | • Changing products and operating practices to curb pollution issues in operations could change the value of certain assets and require additional capital investment.<br>• Pollution issues could introduce legal, regulatory, and licence to operate risks. This could result in fines, legal expenses, and the ability to operate in certain locations. |
| **High Geographic Risks** | • Companies could see their ability to sell into certain key markets hampered by geopolitical activities such as tariffs or supply levers. This could manifest itself in a more limited demand, and by extension revenue, in certain key markets.<br>• If the ability to operate in certain geographies is hampered by tariffs or permitting issues, this could impact the value of assets in those geographies and potentially result in additional capital expenditure to expand production elsewhere. |

Source: Federated Hermes Financial Connectivity.

NB: To clarify the financial relevance and investment connectivity of sustainability themes, the Federated Hermes Responsible Investing Office developed a proprietary analytical framework that evidences how various sustainability themes directly connect to traditional accounting metrics.

Table compiled by Luke Fleisch, ESG Analyst, FHI.

## Deep-Sea Mining

**As demand for critical minerals increases, mining is shifting from land to the seafloor despite research suggesting that deep-sea mining could severely harm marine biodiversity and ecosystems.[17] Deep-sea mining, or the process of extracting and excavating mineral deposits from the deep seabed, is already underway between the coasts of mainland Norway, Svalbard and Greenland. Wider-scale deep-sea mining in international waters could commence as soon as 2026.[18]**

The lack of knowledge concerning the potential harm associated with deep-sea mining exposes companies and financial institutions to significant policy, regulatory, and reputational risks. There is considerable uncertainty surrounding the economic viability and outcomes of deep-sea mining.[19] In 2023, Federated Hermes Limited joined other financial institutions, representing over US$3.5tn in assets, in signing a joint statement urging governments to protect the ocean and not proceed with deep-seabed mining until the risks are comprehensively understood, and alternatives fully explored.[20]

Through its engagement, EOS is asking companies to publicly disclose their exposure to deep-sea mineral extraction and mined minerals in their production and supply chains, and to ensure that they responsibly source all raw materials.

In 2024 we recommended support for shareholder resolutions on sourcing minerals from deep-sea mining filed at auto manufacturers General Motors and Tesla. We believed that a commitment to a moratorium on deep-sea mining or clarification of the companies' positions would signal the importance of supply chain oversight as vehicle electrification accelerates.[21] Many electric vehicle manufacturers have already signed up to the moratorium.[22]

**Joanne Beatty**
**Theme co-lead: Natural Resource Stewardship**

[17] Leading financial institutions call on governments to not permit deep-sea mining - Finance for Biodiversity Foundation.
[18] World Oceans Day: It's time to take action | Federated Hermes Limited.
[19] Leading financial institutions call on governments to not permit deep-sea mining - Finance for Biodiversity Foundation.
[20] Global Financial Institutions Statement to Governments on Deep Seabed Mining_FfB Foundation_19July2023.docx.
[21] Disputes proliferate in fractious vote season | Federated Hermes Limited.
[22] Endorsers | WWF Deep Sea Mining.

## Our engagement

EOS has been engaging on minerals since 2017, when we focused on responsible cobalt sourcing. Since then, we have developed a dialogue with companies along the supply chain and across multiple sectors, including technology hardware and equipment, transportation, and the mining sector.

In North America, we have begun engaging with technology companies such as Micron, Hewlett-Packard Enterprise and Dell Technology to understand how they have assessed the growth opportunities in this space, and the risks around potential supply chain disruptions. We are currently asking companies to publish critical mineral focused responsible sourcing policies.

Vehicle manufacturers such as Ford and General Motors have joined the Initiative for Responsible Mining Assurance (IRMA) to ensure that environmental and social standards are met throughout their supply chains. We encourage other automakers in our engagement programme to do the same.

We are also exploring different investor initiatives or other third-party and collaborative platforms to support our discussions with companies on critical minerals. In 2024, EOS endorsed the Dutch Association for Sustainable Development (VBDO) statement on responsible nickel supply chains in Indonesia. This highlights investor concerns on biodiversity loss, deforestation, water and air pollution, high greenhouse gas emissions, and Indigenous Peoples' and local community rights.

We want to see the critical minerals value chain demonstrate progress in the following areas:

## Transparency and disclosures

- We want companies to improve their due diligence best practices, their assurance process and their transparency in relation to critical minerals sourcing, and their application. We note the importance of better disclosures and the use of reputable third-party frameworks or endorsements as integral in addressing some of the social and environmental concerns that pose reputational and operational risks to companies.
- The Responsible Minerals Initiative, including its global standard for all minerals and ESG standard for mineral supply chains, the OECD Due Diligence Guidance, the Climate-Smart Mining Initiative, and the Initiative for Responsible Mining Assurance (IRMA) offer universal and consistent resources that can help companies to manage and address some of these issues (see box).

**EOS has been engaging on minerals since 2017, when we focused on responsible cobalt sourcing. Since then, we have developed a dialogue with companies along the supply chain and across multiple sectors, including technology hardware and equipment, transportation, and the mining sector.**

[23] Fighting the US Increase in Child Labor: Daily Brief (hrw.org).

## Management of socioeconomic environmental risks

- On the supply side, we encourage companies to demonstrate better risk management in relation to activities in geographical hot spots with high social and environmental risks, including biodiversity and land use impacts, water use and contamination, and human rights.
- To achieve wider access to markets, companies should demonstrate high ethical standards and behaviours that are consistent with anti-corruption practices, and we encourage multinational mining and processing companies to embrace responsible tax practices. Human rights groups have underlined the risks of forced labour and other abuses within the critical minerals supply chain.[23]
- On the demand side, we would like to see transport, utilities and technology companies focusing on product stewardship to ensure supply chain environmental and societal risks are minimised for companies and investors.
- We also encourage companies to minimise the risk of human and labour rights violations across their supply chain through appropriate monitoring, the protection of workers' rights, and the provision of effective remediation if abuses are identified.
- We encourage companies to develop products and systems that support reuse and recycling to minimise waste and additional land use impacts. Leveraging recycling programmes and secondary minerals may be necessary to streamline production and reduce costs.

## Social licence to operate

- Companies should demonstrate their commitment to strong community relations and maintain their social licence to operate. Mining companies should seek consent from Indigenous Peoples before proceeding with projects and this should be reflected in their policy statements. Free, prior, and informed consent (FPIC) commitments offer a standardised framework for companies and minimise material risks for investors.



## Best practice frameworks and standards

### VBDO Nickel Supply Chain Initiative

The Investor Initiative on Responsible Nickel Supply Chains is a collaborative engagement, investor-led and supported by civil society groups. This initiative recognises the pivotal role that nickel will play in the clean energy transition, and is working to reduce the environmental and social impacts associated with nickel mining.[24] EOS has signed up to this initiative.

### The Initiative for Responsible Mining Assurance (IRMA)

The IRMA standard offers the only independent, third-party assessment of industrial-scale mine sites for all mined materials that is governed equally by the private sector, local communities, civil society, and workers.[25] While EOS is not a member of IRMA, it is supported by some of our clients, and we see the value in the organisation's work to reduce risk in all areas of the supply chain. We encourage interested supply-side companies to assess their operations against the IRMA standard, and ask downstream companies to encourage their suppliers to do so.

### Investor Statement on Section 1502 of the US Dodd-Frank Act

In 2017, in response to the US President's executive order to repeal section 1502 of the Dodd Frank Act, which requires US companies to report on how they manage the risk of conflict minerals in their value chains, we signed an investor statement to protest against the repeal. The enactment of the rule has helped to improve the management of difficult supply chains and human rights risks, particularly in the Democratic Republic of the Congo (DRC). Serious abuses of human rights still occur in conflict mineral supply chains and the repeal of the law may result in fewer attempts to resolve these.

### PRI collaborative engagement on Responsible Cobalt Sourcing

In 2017-2019 EOS participated in a PRI-supported collaborative engagement on Responsible Cobalt Sourcing. We visited mining sites in Kolwezi in the DRC to meet local stakeholders and help inform our engagement approach.


## Outlook

As the demand for minerals continues to grow, against the backdrop of a changing geopolitical landscape, it is imperative that companies in each affected sector understand and prepare for the potential risks. In 2025, we will continue to focus our supply-side engagements on the minimisation of environmental and social risks through strong governance structures.

On the demand side, we will target the transportation, technology hardware and equipment, and utilities sectors. These companies are most directly impacted by changes in their supply pipelines and are already beginning to think about how to mitigate supply chain impacts.

[24] More investors join as Investor Initiative on Responsible Nickel Supply Chains has kicked-off - Dutch Association of Investors for Sustainable Development.

[25] Home - IRMA - The Initiative for Responsible Mining Assurance.

# Company engagement highlights

A selection of short company case studies highlighting areas where we have completed objectives or can demonstrate significant progress.

## Overview

**Our approach to engagement is holistic and wide-ranging. Discussions range across many key business strategy and risk management areas, including environmental, social and structural governance (ESG) issues. In many cases, there is minimal external pressure on the business to change. Therefore, much of our work is focused on encouraging management to make the necessary improvements.**

**The majority of our successes stem from our ability to see things from the perspective of the business with which we are engaging. Presenting issues such as board effectiveness or climate change as risks to the company's strategic positioning puts things solidly into context for management. These short company case studies highlight areas where we have completed objectives or can demonstrate significant progress, following several years of engagement.**

## LandMark Optoelectronics

**Engagement theme:**
**Board composition and structure**

**Lead engager: Judi Tseng**

We first expressed concerns about the lack of female directors in 2020, when this Taiwanese electronic components manufacturer had an all-male board. Subsequently, it renamed its corporate sustainability committee as the corporate sustainability and nomination committee to support its plan for adding women to the board.

In the following year, we sought an update and asked the company to disclose the gender of director nominees in its proxy materials. This is not yet required in Taiwan, nor is it common practice. The company said it planned to nominate at least two female director candidates to the board in the upcoming election, aiming for women to comprise a third of board members thereafter.

In 2023, we encouraged the company to work towards women accounting for a third of the board, as recommended by the Taiwan Stock Exchange's Corporate Governance Best Practice. Subsequently, the company amended its articles to allow for the expansion of board seats from seven to nine to support this.



### Outcomes and next steps

In 2023, the company voluntarily disclosed the gender of its nominees in the proxy materials for the election of directors. We welcomed the board's first female director and sought to understand why the company decided to nominate only one woman, as opposed to its plan. It said that given the business's scale and growth, the board had decided to maintain its current size. However, it remains committed to increasing the number of women on the board to at least 30% by 2026.

## Danone

**Engagement theme:**
**Pay design and disclosure**

**Lead engager: Richard Adeniyi-Jones**

We asked French food company Danone to set stretching sustainability metrics in its remuneration that reflect performance against the company's new sustainability goals, particularly for climate. We believe companies should develop remuneration schemes that incentivise executives to generate long-term value.

As of 2022, the company's remuneration structure had a 30% weighting based on metrics drawn from the CDP's Climate Change, Waters and Forests ranking. We did not consider these metrics to be appropriate for the company, given that it has historically performed well on CDP's rankings. There was a risk that these metrics would guarantee a payout instead of incentivising long-term value creation. It was also unclear how these would tie into the company's business strategy.

As a Climate Action 100+ lead for Danone, we held meetings with the company in 2022 and 2023, including the lead independent director, to raise our concerns. We reiterated our request for climate metrics to be part of variable executive compensation. We also asked for health, access to nutrition and/or community interaction to be included in the remuneration metrics. Following engagement from EOS and Danone shareholders, the company acknowledged this feedback and committed to updating its remuneration structure.

### Outcomes and next steps

In 2023, the company split the ESG metric under the long-term incentive plan into three areas with an equal weighting (health, nature and social). Each area had a direct link to the company's strategy. For example, the health metric related to the percentage volume sold of essential dairy and plant-based (EDP) products intended for children that contain less than 10g of sugar. For climate, the company uses a greenhouse gas emissions reduction measure, which focuses on the percentage reduction of Danone's Scope 1 to 3 emissions across its entire value chain. This approach is a better reflection of the company's business strategy and demonstrates greater alignment with its sustainability goals.

## Bayer

**Engagement theme:**
**Responsible tax practices**

**Lead engager: Lisa Lange**

We initiated engagement with pharmaceutical and biotech company Bayer on tax in 2018, sending a letter seeking a discussion as part of the PRI initiative on tax. Between 2018 and 2024, we continued to engage with the company to enact meaningful progress in transparency, asking for public country-by-country reporting and an explanation of Bayer's approach to tax, such as any use of incentives or transfer pricing mechanisms. Over the course of our engagement, the company became increasingly open to discussing tax practices.

Improvements included the introduction of a section on tax in the 2021 sustainability report and a page on the company's website outlining its approach to tax. We also welcomed the rankings achieved in the 2022 and 2023 VBDO tax transparency benchmarks and the absence of controversies.

We met the supervisory board chair in 2024 to discuss tax transparency further. He provided reassurance that meaningful improvements would continue to be made on reporting. We also talked to a tax expert at Bayer to discuss the progress made on reporting since our meeting five years prior in 2019.

He said that work was ongoing to prepare for 2025 disclosures aligned with the EU country-by-country reporting directive. While the company already provides such data to tax authorities, the reporting requirements are not the same and he agreed that explaining the data to the general public would be crucial to avoid misinterpretation.

## Outcomes and next steps

We asked for the publication of a standalone document on the company's approach to tax, signed by the board and reviewed every year. The relevant website page was last updated in 2022.The tax expert said that Bayer was open to updating this page, but there was some uncertainty due to resources dedicated to working on the Corporate Sustainability Reporting Directive and the EU taxonomy. However, as part of reviewing this case study in August 2024, investor relations informed us that work on updating the tax website had taken place and this was due to be published. Overall, this objective is considered as partially achieved.

**We met the supervisory board chair in 2024 to discuss tax transparency further. He provided reassurance that meaningful improvements would continue to be made on reporting.**

## McDonald's

**Engagement theme:**
**Antimicrobial resistance**

**Lead engager: Nick Pelosi**

We have engaged with US fast food retailer McDonald's on antimicrobial resistance (AMR) since 2017, encouraging the company to evidence how it is responsibly reducing antibiotics highly critical to human health in its global pork supply chains. In 2018, in collaboration with the FAIRR Initiative, we co-signed a letter asking the company to establish a comprehensive antibiotics policy with clear targets and implementation timelines.

We followed up in 2020, thanking the company for its commitments to reduce the highest priority critically important antimicrobials (HCPIAs) in its poultry supply chain, and asking if it would make similar commitments for its more complex beef and pork supply chains. McDonald's said it planned to set targets for beef and was committed to establishing a policy for pork, although there were challenges due to a lack of data.

We followed up in correspondence between 2020 and 2023. This included another investor letter in collaboration with the FAIRR Initiative. We also wrote to the company in February 2024 to convey our appreciation that work on a policy for responsible antibiotics in McDonald's pork supply chain was underway.

## Outcomes and next steps

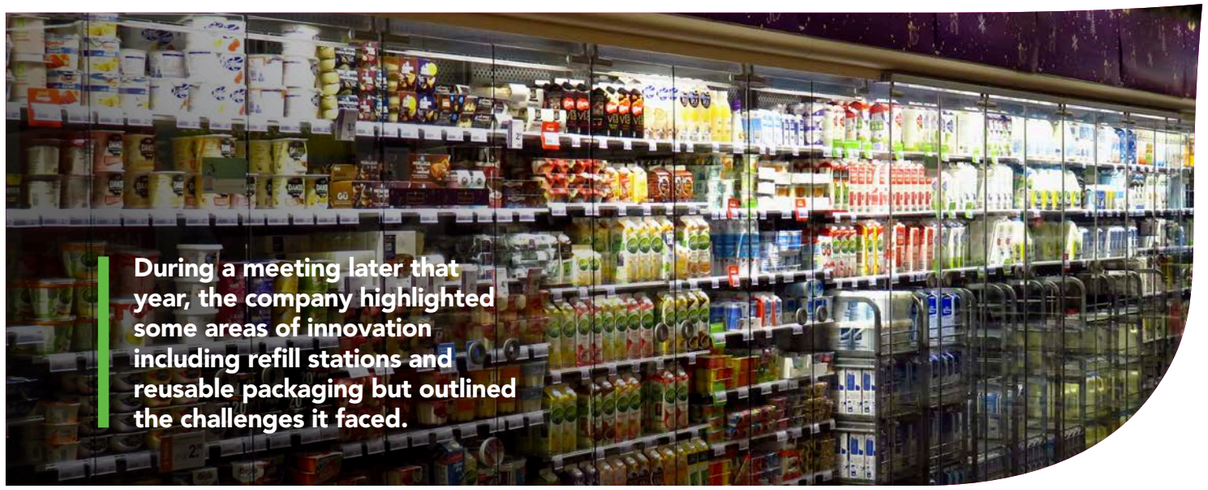
The company remains without clear targets to responsibly reduce antibiotics in its pork supply chain, although it is advancing work in this area. In 2021, it created a global, cross-functional working group to help develop a policy anchored to responsible use. In 2022, it evaluated supplier feedback and used insights to inform updates to the policy, including our implementation timeline.

As of 2024, the company's policy on responsible antibiotics use affirms that it has eliminated all HPCIAs from chicken served in Australia, Brazil, Canada, Europe, Japan, South Korea, and the US, with China expected to comply before the end of 2027. The policy also refers to market-specific targets for the responsible use of antibiotics in its beef supply chain for 10 in-scope markets, representing more than 80% of its beef supply chain as of 2022.

We will continue to engage with the company on AMR as part of broader discussions around animal and human welfare in its workforce and supply chain.

**McDonald's said it planned to set targets for beef and was committed to establishing a policy for pork, although there were challenges due to a lack of data.**





**During a meeting later that year, the company highlighted some areas of innovation including refill stations and reusable packaging but outlined the challenges it faced.**

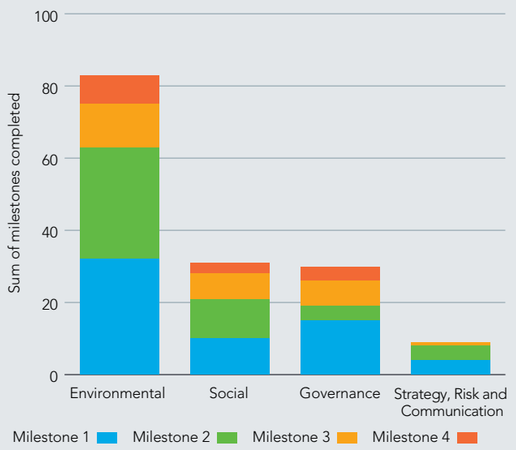
## Ahold Delhaize

**Engagement theme:**
**Circular economy and waste reduction**

**Lead engager: Lisa Lange**

Prior to 2018, food retailer Ahold Delhaize had minimal reporting on plastics as part of its annual disclosures. In 2018, it joined the Ellen MacArthur Foundation's New Plastics Economy Global Commitment and adopted a 2025 target for 100% of its own-brand plastic packaging to be reusable, recyclable or compostable. We praised the company for this, but over the course of our engagement, we asked for reporting on the total volume of plastic generated and on the proportion that was recyclable, compostable or reusable.

**Milestones completed by stage Q1 2025**




Source: EOS data

In 2023, we raised concerns regarding its insufficient progress against its targets. During a meeting later that year, the company highlighted some areas of innovation including refill stations and reusable packaging but outlined the challenges it faced. These included the absence of standardised packaging, the legislative framework to ensure fair competition with a level playing field, and the product lifecycle assessment when taking other factors into account such as energy and water. We asked the company to use its influence by engaging with policymakers, and to demonstrate that it supported ambitious legislation.

## Outcomes and next steps

The company has made significant progress on reporting its plastic performance, including in its annual reports and through the Ellen MacArthur Foundation, and has continued to raise its ambition. Ahold Delhaize also announced new 2025 goals, including a target to reduce the use of virgin plastic in own-brand primary product packaging by 5% versus 2021.

However, its performance lags that of other signatories and in 2023 the company told us that the Ellen MacArthur Foundation target for 100% of its own-brand plastic packaging to be reusable, recyclable or compostable was unlikely to be achieved. The Global Commitment Progress Report confirmed the company's impression that the target would almost certainly be missed by most organisations despite the major investments in packaging design. This is because some plastics are harder to replace or recycle than initially envisaged, and there is still a lack of infrastructure.

We will continue to engage with the company on how it can demonstrate that it uses its influence and engages with the industry and policymakers to support ambitious legislation, and the development of technological and infrastructure solutions to the recycling challenge.

CASE STUDY

## Canadian Imperial Bank of Commerce

**In June 2008, the Truth and Reconciliation Commission of Canada (TRC) was established to document the history and lasting impacts of The Indian Residential Schools (IRS) system. Throughout the approximately 150 years that these schools operated in Canada, they created and left behind a legacy of recognised social inequities and systemic discrimination.[1]**

In 2015, the TRC published 94 "calls to action", with number 92 asking Canada's corporate sector to use the UN Declaration on the Rights of Indigenous Peoples as a reconciliation framework, applying its standards to core operational activities involving Indigenous Peoples and their lands and resources.[2]

In 2021, Canadian Imperial Bank of Commerce (CIBC) formally launched an Indigenous Reconciliation Action Committee to build a framework with clear and measurable commitments to accelerate progress and respond to Call to Action 92.[3]

### Our engagement

We have engaged with CIBC on topics related to Indigenous Peoples since 2022, including the bank's involvement with financing the controversial Line 3 oil and gas pipeline, encouraging CIBC to implement a financing requirement for free, prior, and informed consent (FPIC), and Indigenous representation.

In a meeting with the board chair in 2022, we noted the progress made by the company to reach gender parity at the board level. As a step further, we encouraged the bank to focus on Indigenous representation at the board level to demonstrate and guide its stated commitments to Indigenous Peoples.

We met in person with a senior director of investor relations and attended the company's virtual ESG investor day in 2022, where we reiterated our request for Indigenous representation to the board members present. The company highlighted its targets to increase Indigenous presence in management. During an on-site visit to the bank's new headquarters in 2023, the senior director of investor relations guided us through the bank's Legacy Space, a room designed with the help of local First Nations leaders and Indigenous team members.

### Changes at the company

In November 2023 the company appointed Mark Podlasly to the board. He is a member of the Cook's Ferry Indian Band, Nlaka'pamux Nation in British Columbia and chief sustainability officer at the First Nations Major Projects Coalition. He brings experience in energy infrastructure and First Nations economic development. In a call with the investor relations team in March 2024, we requested a meeting with Mr Podlasly to learn more about his contributions in the boardroom and his views on the bank's reconciliation strategy.

In October 2024, Mr Podlasly met with EOS and some of its clients in the Legacy Space to discuss the importance of board engagement on the bank's reconciliation strategy. Key learnings included the importance of speaking directly to Indigenous Peoples and communities to consider their voices and needs, the business opportunity presented by inclusion, and the impact of Mr Podlasly's own experience within boardroom decision-making. This includes the Seven Generations Principle, a guiding philosophy originating from various Indigenous cultures, which emphasises considering the impact of decisions made today on the next seven generations.

### Next steps

The appointment of Mark Podlasly improves board composition, so it is more representative of the bank's stakeholders, including its customers and employees. Over time, we believe this can contribute to improved board effectiveness, including how the board considers opportunities to grow CIBC's services to Indigenous Peoples, who are estimated to comprise around 5% of the Canadian population. We will continue to monitor the company's board effectiveness.

**Read more about these issues in the full case study at:**
**https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/case-study-canadian-imperial-bank-of-commerce/**

**Engagement objective**

**Social**

- Improved Indigenous representation at board level

10 REDUCED INEQUALITIES

[1] https://www.pbs.org/articles/the-history-and-impact-of-residential-schools
[2] https://www.rcaanc-cirnac.gc.ca/eng/1524506030545/1557513309443
[3] https://cibc.mediaroom.com/2021-06-21-CIBC-recognizes-National-Indigenous-Peoples-Day-with-increased-commitments-toward-reconciliation



# Public policy and best practice

EOS contributes to the development of policy and best practice on corporate governance, sustainability and shareholder rights to protect and enhance the value of its clients' investments over the long term.

### Overview

**We participate in debates on public policy matters to protect and enhance value for our clients by improving shareholder rights and boosting protection for minority shareholders.**

**This work extends across company law, which in many markets sets a basic foundation for shareholder rights; securities laws, which frame the operation of the markets and ensure that value creation is reflected for shareholders; and codes of best practice for governance and the management of key risks, as well as disclosure.**

**In addition to this work on a country specific basis, we address regulations with a global remit. Investment institutions are typically absent from public policy debates, even though they can have a profound impact on shareholder value. EOS seeks to fill this gap.**

**By playing a full role in shaping these standards, we can ensure that they work in the interests of shareholders instead of being moulded to the narrow interests of other market participants, which may differ markedly – particularly those of companies, lawyers and accounting firms, which tend to be more active than investors in these debates.**

### FAIRR public policy working group discussion on COP16

**Lead engager: Ming Yang**

We participated in the quarterly FAIRR public policy working group to discuss updates on the COP16 Biodiversity Summit, the Food and Agriculture Organization (FAO) Global Roadmap for Food and Agriculture, and G20 agricultural subsidies. We emphasised the need for clear definitions and guidance on regenerative agriculture. We highlighted that 2025 will be an important year, with companies expected to disclose more progress on regenerative agriculture based on their own definitions. To assess performance and ensure a level playing field, we asked FAIRR to provide potential public policies on regenerative agriculture that we could leverage.

Additionally, we stressed the importance of public policy engagement on antimicrobial resistance (AMR), to maintain momentum following the UN High-Level Meeting on AMR in September 2024. We asked for FAIRR's assistance in identifying public policy engagement opportunities where we could encourage company contributions. FAIRR responded positively and will provide useful information on these opportunities. We emphasised the need for more research, guidance, and public policy consultation opportunities on water and ocean issues. FAIRR indicated that it was working on water risk and will share further information on this in due course.

## SBTi oil and gas expert advisory group meeting

### Lead engager: Will Farrell

As members of the Science Based Targets initiative's (SBTi) expert advisory group for the oil and gas sector, we joined a meeting to review suggestions for the development of the sector's target-setting guidance. The SBTi had received significant constructive feedback, highlighting the prescriptiveness of the current guidance, which requires absolute production reductions, absolute emissions reductions, and no new development of any oil and gas fields.

We reiterated our concerns that this guidance was likely to preclude oil and gas companies from setting any science-based targets. We highlighted disparate company and basin economics as the driver of this concern, explaining that not all companies would reduce production at the same rate even under a 1.5°C scenario, because the highest cost producers would be eliminated earlier, while the lowest cost producers would be the 'last standing'. We emphasised that this least-cost modelling is the International Energy Agency's (IEA) approach, which also provides the benchmark adopted by the SBTi. Therefore, adopting this benchmark, but prescribing it to all participants, would result in a higher cost transition with risks of unintended consequences.

While the group and the SBTi acknowledged these concerns, other participants pushed strongly in favour of multiple guardrails on target-setting, including absolute production reductions that will be the same for every company. We suggested emissions intensity routes should be explored as an alternative option, given that this would allow for some flexibility and would be robustly aligned with a temperature scenario if this flexibility was driven by disparate basin economics. In effect, this would mean lower cost companies would receive a higher share of the carbon budget, reflecting IEA least-cost modelling. We emphasised the risk that the guidance would likely be an academic exercise in its current form, given limited appetite from the sector to pursue the current form of targets.

## Consultation response to the TNFD's discussion paper on nature transition plans

### Lead engager: Hannah Naumoff

Federated Hermes Limited and EOS jointly submitted a consultation response to the Taskforce for Nature-related Financial Disclosures (TNFD) discussion paper on nature transition plans. We strongly recommended that the TNFD's overall approach should focus on integrated nature-climate transition plans, rather than exclusively nature transition plans, and that the TNFD should develop guidance related to this.

We provided recommendations to clarify and enhance provisions related to the disclosure of relevant activities by financial institutions. We also suggested a greater emphasis on the inclusion of engagement around human rights and just transition, and how and when that might be facilitated during the development of transition plans. We recommended more robust discussion around governance and disclosure regarding nature-related lobbying. Finally, we recommended emphasising that biodiversity credits should only be used as a last resort, and expressed our support for aligning with guidance from the International Advisory Panel on Biodiversity Credits.

## Launch of new sustainability assurance standard and panel review

### Lead engager: Justin Bazalgette

We attended a launch event for the new sustainability assurance standard, ISSA5000. The International Auditing and Assurance Standards Board (IAASB) said it would not publish additional sustainability standards in the short term in order to focus on the implementation of this standard. This is the first international standard on sustainability with support across multiple jurisdictions.

The objective is to bring the same level of confidence, due diligence and standards to sustainability reporting as those for financial reporting. There is a recognition that it will take time to bed in sustainability reporting, resolve issues and make improvements for it to be robust. The audit profession will also need to invest in appropriate training and development. The International Ethics Standards Board for Accountants (IESBA) also presented its revised International Ethics Standards for Sustainability Assurance and confirmed that the language, terminology and taxonomy were aligned with ISSA5000.

Following the launch of ISSA5000, we were asked to join a panel with the IAASB and the International Corporate Governance Network (ICGN) to review it. The ICGN presented an initial overview of the work it had done, and Carbon Tracker gave a view of the challenges faced in getting clarity on how climate targets and strategies are represented in financial statements and reviewed by the auditor.

We stated the importance of statutory auditor commentary on material climate and sustainability topics. We said this should be based on what is deemed to be material to financial decision-making by investors, not just what is financially material to the company.



# Engagement and voting

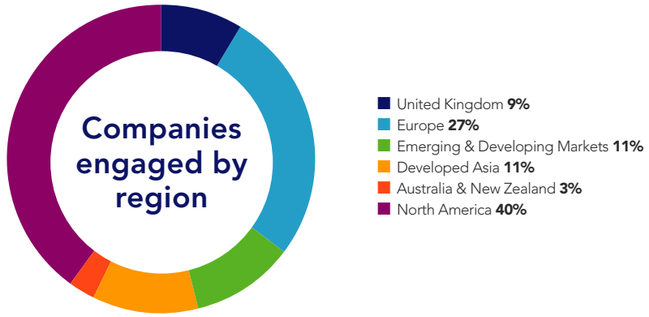
The following pages contain an overview of our engagement activity by region and theme, and our voting recommendations for the last quarter.

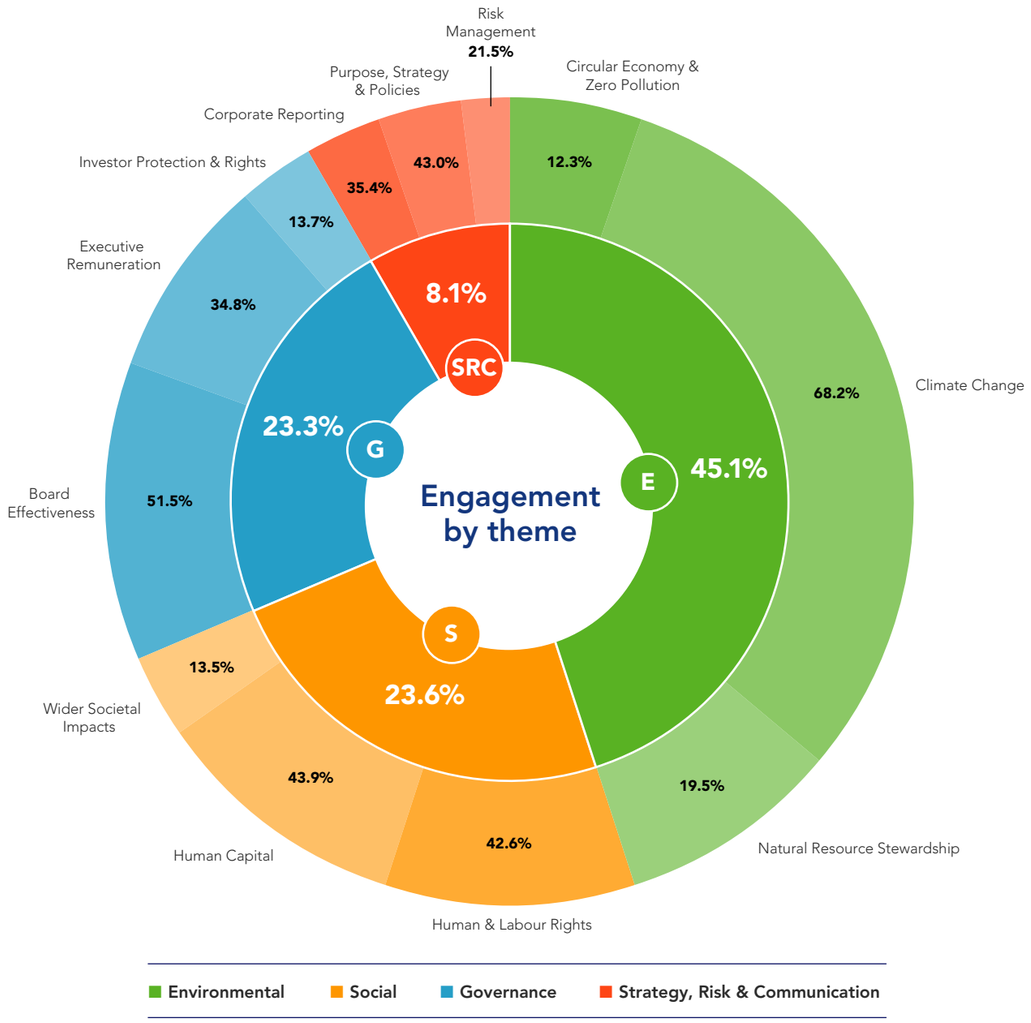
EOS makes voting recommendations for shareholder meetings wherever practicable. We base our recommendations on annual report disclosures, discussions with the company and independent analyses. At larger companies and those where clients have a significant interest, we seek a dialogue before recommending a vote against or an abstention on any resolution.

In most cases where we recommend a vote against at a company in which our clients have a significant holding or interest, we follow up with a letter explaining the concerns of our clients. We maintain records of voting and contact with companies, and we include the company in our main engagement programme if we believe further intervention is merited.

## Engagement by region

Over the last quarter we engaged with 290 companies on 976 environmental, social, governance and business strategy issues and objectives. Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously.




Source: EOS data.

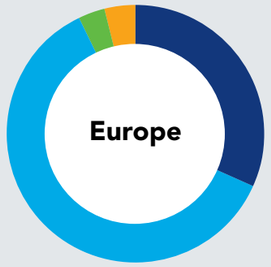


## Voting overview

Over the last quarter we made voting recommendations at 1,764 meetings (13,986 resolutions). At 935 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at 10 meetings and abstaining at 18 meetings. We supported management on all resolutions at the remaining 801 meetings.

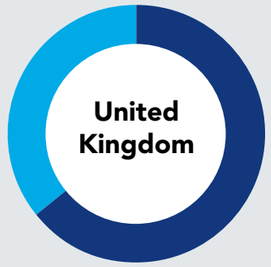

We made voting recommendations at **1,764** meetings (**13,986** resolutions) over the last quarter.

- Total meetings in favour **45.4%**
- Meetings against (or against AND abstain) **53.0%**
- Meetings abstained **1.0%**
- Meetings with management by exception **0.6%**




We made voting recommendations at **183** meetings (**2,936** resolutions) over the last quarter.

- Total meetings in favour **31.7%**
- Meetings against (or against AND abstain) **61.2%**
- Meetings abstained **3.3%**
- Meetings with management by exception **3.8%**

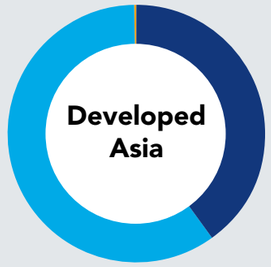



We made voting recommendations at **81** meetings (**905** resolutions) over the last quarter.

- Total meetings in favour **64.2%**
- Meetings against (or against AND abstain) **35.8%**

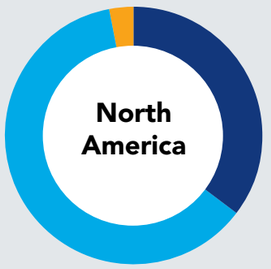

We made voting recommendations at **790** meetings (**4,499** resolutions) over the last quarter.

- Total meetings in favour **51.5%**
- Meetings against (or against AND abstain) **46.7%**
- Meetings abstained **1.5%**
- Meetings with management by exception **0.3%**




We made voting recommendations at **483** meetings (**3,866** resolutions) over the last quarter.

- Total meetings in favour **40.2%**
- Meetings against (or against AND abstain) **59.6%**
- Meetings with management by exception **0.2%**



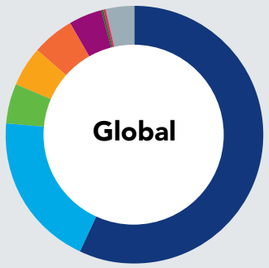

We made voting recommendations at **207** meetings (**1,705** resolutions) over the last quarter.

- Total meetings in favour **35.3%**
- Meetings against (or against AND abstain) **61.8%**
- Meetings with management by exception **2.9%**


We made voting recommendations at **20** meetings (**75** resolutions) over the last quarter.

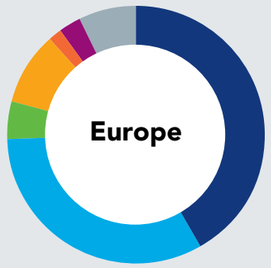
- Total meetings in favour **70.0%**
- Meetings against (or against AND abstain) **30.0%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.



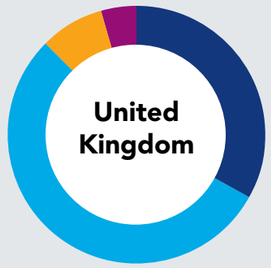

We recommended voting against or abstaining on **2,687** resolutions over the last quarter.

- Board structure **57.1%**
- Remuneration **19.4%**
- Shareholder resolution **5.1%**
- Capital structure and dividends **5.1%**
- Amend articles **5.1%**
- Audit and accounts **4.3%**
- Investment/M&A **0.3%**
- Poison pill/Anti-takeover device **0.1%**
- Other **3.6%**




We recommended voting against or abstaining on **314** resolutions over the last quarter.

- Board structure **43.7%**
- Remuneration **34.3%**
- Shareholder resolution **4.7%**
- Capital structure and dividends **9.7%**
- Amend articles **1.8%**
- Audit and accounts **2.8%**
- Other **7.4%**

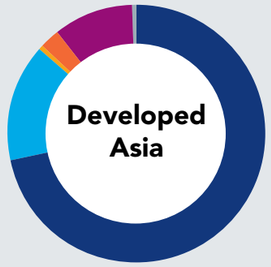



We recommended voting against or abstaining on **68** resolutions over the last quarter.

- Board structure **33.3%**
- Remuneration **54.2%**
- Capital structure and dividends **8.3%**
- Audit and accounts **4.2%**

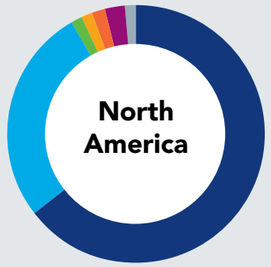

We recommended voting against or abstaining on **1,214** resolutions over the last quarter.

- Board structure **56.6%**
- Remuneration **14.5%**
- Shareholder resolution **2.8%**
- Capital structure and dividends **7.1%**
- Amend articles **8.8%**
- Audit and accounts **2.4%**
- Investment/M&A **0.6%**
- Poison pill/Anti-takeover device **0.2%**
- Other **4.9%**




We recommended voting against or abstaining on **784** resolutions over the last quarter.

- Board structure **65.9%**
- Remuneration **13.6%**
- Capital structure and dividends **0.4%**
- Amend articles **2.3%**
- Audit and accounts **9.2%**
- Poison pill/Anti-takeover device **0.1%**
- Other **0.3%**




We recommended voting against or abstaining on **287** resolutions over the last quarter.

- Board structure **61.4%**
- Remuneration **26.1%**
- Shareholder resolution **1.3%**
- Capital structure and dividends **1.2%**
- Amend articles **1.6%**
- Audit and accounts **2.4%**
- Other **1.2%**


We recommended voting against or abstaining on **21** resolutions over the last quarter.

- Board structure **33.3%**
- Remuneration **66.7%**
- Shareholder resolution **0.2%**



# 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 enhancing long-term, enduring business performance.

**This is achieved through dialogue with companies and policymakers on governance and strategy, including relevant and material environmental and social issues.**

We believe this is essential to support a global financial system that aims to deliver improved long-term returns for investors, and better outcomes for society and the environment.

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


### Engagement

We engage with companies that form part of the public equity and corporate fixed income holdings of our clients to seek positive change for our clients, the companies and the societies in which they operate.

### Voting

We make recommendations that are, where practicable, engagement-led and involve communicating with company management and boards around the vote. This ensures that our rationale is understood by the company and that the recommendations are well-informed and lead to change where necessary.

### Public policy and market best practice

Engaging 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.

### Screening

We help our clients to fulfil their stewardship obligations by monitoring their portfolios to regularly identify companies that are in breach of, or near to breaching, international norms and conventions.

### Advisory

We work with our clients to develop their responsible ownership policies, drawing on our extensive experience and expertise to advance their stewardship strategies.

# EOS team

## Engagement

**Leon Kamhi**
Head of Responsibility and EOS

**Richard Adeniyi-Jones**
Sectors: Consumer Goods, Financial Services, Industrial & Capital Goods

**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

**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

**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**
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**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

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Sectors: Retail & Consumer Services, Technology

**Kenny Tsang**
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**Judi Tseng**
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**Mark Turner**
Voting and Engagement Support

**Haonan Wu**
Sectors: Transportation, Chemicals, Retail & Consumer Services, Technology, Utilities

**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

**Alishah Khan**
Client Service

**Jonathan Lance**
Client Service

**Alice Musto**
Client Relations Lead

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Federated Hermes

EOS

## Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, to contribute to positive outcomes that benefit the wider world.

## Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by five decades of experience
- **Private markets:** private equity, private credit, real estate, infrastructure and natural capital
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

## Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of their assets. EOS is based on the premise that companies with informed and involved investors are more likely to achieve superior long-term performance than those without.

For more information, visit **www.hermes-investment.com** or connect with us on social media: