HERMES EOS

OUTCOMES BEYOND PERFORMANCE

Hermes EOS

Case study summaries

January 2019

Overview

As clients know, we publish a range of public case studies highlighting our work with companies throughout the year, endeavouring to ensure good coverage of holdings and a mix of thematic areas.

In response to client feedback, we have produced summary versions of our engagement case studies produced in 2018.

These summaries are based on the full length case studies which have been verified by companies. The full length case studies can be found on our website at the following link: https://www.hermes-investment.com/ukw/stewardship/eos-insights/

Case study summaries will be produced on an annual basis and uploaded to our client portal, EOSi.

This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

Case study summaries

National Grid – *published 01 Feb 2018*

National Grid is one of the world's largest publicly listed utilities. Two major storms in the US in October 2012 and February 2013, as well as a number of smaller storms, had a material effect on its results. Between 2009/10 and 2011/12, its lost time injury frequency rate per 100,000 hours rose from 0.15 to 0.18, with three fatalities occurring in 2011/12. We challenged the board on how it ensures the integration of safety management in all its operations. Since 2012, the company has significantly invested in its US electricity infrastructure to improve resilience and help reduce the impact of service interruptions. In 2016/17 the company had its strongest year of performance ever, in terms of safety. In addition, an external benchmarking exercise commissioned by the company demonstrated that this performance is among the best of its peer group.

KB Financial group – *published 19 April 2018*

KB Financial Group is a financial services holding company headquartered in South Korea. We questioned the structure of the board and called for the establishment of a regular communication channel between the board and shareholders. We also encouraged the company to set targets to improve its return on equity (RoE) and recommended more senior level oversight of the group's climate change strategy. Following a tumultuous period of leadership between 2011 and 2014, the company set up a task force to review its corporate governance arrangements which included proposals for changes to its board nomination process and a commitment to conduct external board assessments on a regular basis. In 2015 the company launched an annual shareholder roundtable and has since achieved its RoE target of 8% in the past two years, proceeding to raise the medium term target to 10%. Further, its CDP rating rose to A- in 2017, and the CEO is now responsible for the environmental performance of the group. We continue to engage with the company on a range of issues including human capital management.

United Utilities – *published 08 May 2018*

United Utilities is the second largest of 10 water and waste service companies in the UK. We began our engagement in 2010 and in 2014 we challenged it to improve its environmental performance. In 2016, we asked the company to review and summarise the lessons it had learned following the storms of 2015 and the water quality incident of 2016 and suggested it look at ways to improve its customer service levels. The company has since substantially enhanced its incident management policy, with improvements such as planning for worst-case scenarios and providing specialist training for staff on incident management. The company has also enhanced its planned communication and reported its best-ever customer service results in 2018. In 2017, the Environment Agency awarded the company four stars for its Environmental Performance Assessment for the second year running, putting it best-in-class for environmental performance. We continue to monitor that the company retains this improved level of performance.

Compass Group – *published 07 June 2018*

Compass Group provides catering services to a wide range of institutions in over 50 countries. In 2013, a number of retailers, major manufacturers and food service operators found that some of their products inadvertently contained horsemeat. We pressed the company to demonstrate effective food safety policies and control processes to avoid the recurrence of a similar scandal. The company has since made significant improvements including a food safety incident rate measure in its executive bonus scheme, the launch of a new version of its global supply chain integrity standards and becoming a founding member of an initiative on food integrity – the Food Industry Intelligence Network.

Samsung Electronics – *published 11 June 2018*

Samsung Electronics manufactures a wide range of consumer and industrial electronic equipment and products and also produces internet access network systems and telecommunications equipment. We raised concerns about the composition and effectiveness of Samsung’s board and pointed out that capital efficiency and dividend payout policies are a major concern to investors. In late 2016, the company allocated half of its free cash flow from 2016-17 to shareholder returns, and in late 2017, announced its 2018-20 shareholder return programme, including the payout of KRW9.6 trillion ($9 billion) in dividends for every year of the programme. In 2018 it announced the appointment of three independent directors, including one woman and two men with relevant industry and international experience and also split the roles of CEO and chair. We continue to engage with the company on various other issues.

China Petroleum & Chemical Corporation (Sinopec) – *published 18 June and updated 1 November 2018*

China Petroleum & Chemical Corporation, also known as Sinopec, is one of the major oil and gas companies in China. We first raised concerns about the company’s lack of information and explanation of its climate change strategy and risk mitigation measures in 2014 and subsequently urged the company to set internal targets for the disclosure of carbon emissions information and regularly checked on progress. The company has since created a group-wide initiative designed to reduce greenhouse gas emissions and promote environmental protection. It set up a number of internal task forces to assess its climate change-related risks and identify opportunities that can be incorporated into its longer-term business strategy. It also attended CDP training sessions and reviewed global and local best practices, followed by its first disclosure to the CDP in 2017. In the second quarter of 2018, the company disclosed its absolute level of carbon emissions by business divisions for the first time and announced its Green Enterprise Action Plan in April 2018 with specific targets in 2023, 2035 and 2050. We continue to encourage the company to improve the consistency of the disclosure of its greenhouse gas emissions; to further refine its climate change risks and opportunities assessment framework, including the use of climate-related scenario analysis; and to adopt science-based targets as per the TCFD recommendations.

Antofagasta – *published 28 June 2018*

Antofagasta is a UK-listed Chilean copper mining company. Water stress in particular has been a source of friction between the miners and neighbouring communities at the company’s flagship mine in Central Chile. In the past, this was aggravated by poor stakeholder engagement, putting the company’s social licence to operate at risk. Since the start of our engagement, we have seen a significant change in Antofagasta’s approach to community relations. The company acknowledged the need to have a deeper dialogue with local communities in order to settle disputes more rapidly and to obtain a lasting social licence to operate. In addition to commitments that local water supplies will be protected at its flagship mine, the company launched a new community relations programme in 2014 which has since been extended to other mines. In 2017 it reported no interruptions to the production of its mines due to conflicts with the community.

Petrobas – *published 28 June 2018*

Petróleo Brasileiro (Petrobras) is an integrated energy company. We started our engagement on climate change with an initial focus on the company's reduction of gas flaring and improved energy efficiency in its downstream operations and then on its wider strategy. The company's CDP score rose from C in 2015 to B in 2017, in a reflection of the company's improving greenhouse gas management practices. In December 2017, we were pleased that the transition to the low-carbon economy had been introduced as a strategic priority for the first time in its business and management plan for 2018-2022. We continue to engage with Petrobras to obtain a more comprehensive disclosure of its management of climate change risks and opportunities through the implementation of the TCFD recommendations.

Gender Diversity – Rio Tinto and Glencore – *published 17 October 2018*

Rio Tinto is an international mining company and Glencore is an Anglo-Swiss multinational natural resources company. The UK government-commissioned Davies Review and its successor, the Hampton-Alexander Review called for greater female representation at FTSE 350 companies. In early 2017, we outlined our intention to tighten our voting policy and to oppose the chairs of nomination committees of FTSE 100 companies that fall significantly short of the 2015 board target of 25%, and are unable to demonstrate credible plans to achieve the executive teams and their associated direct reports target of 33% by 2020. In February 2018, Rio Tinto announced the appointment of a new female non-executive director, a step towards 33% female representation. In December 2017, Glencore appointed a second female non-executive director, bringing the company in line with the 25% target set for 2015. We continue to engage with the company on its plan to reach 33% female representation by 2020.

BP – *published 18 October 2018*

BP is one of the world's six oil and gas 'supermajors'. A 2015 shareholder resolution, supported by us, called for enhanced reporting on the company's management of climate change risks, including greenhouse gas (GHG) emissions. In April 2017, we urged the company to set and publish a company-wide GHG emissions reduction target. In April 2018, the company published its new strategy, *Advancing the Energy Transition*, which describes its plan for the transition to the low-carbon economy. It also set three targets for reducing the company's direct emissions and at a level the company demonstrated to us is stretching. We continue to engage with the company on climate change.

Whitbread – *published 19 October 2018*

Whitbread PLC operates hotels, restaurants and coffee shops. Since we began our engagement with Whitbread, the company has made significant improvements to its supply chain practices and approach to nutrition. The company has now mapped and prioritised all of its suppliers according to risk, including second and third tier suppliers for some materials. It has also implemented best practice audit processes, supplementing these with strong supplier relationships and training for its technical teams to identify modern slavery risks when working with suppliers. It has set sugar and salt reduction targets, aligned with Public Health England guidance; reformulated products across its food and drink range; introduced healthier options and clearer nutritional labelling; and established more responsible advertising practices.

Nissan Motor – *published 22 October 2018*

Nissan Motor manufactures and distributes cars and related parts. Nissan's governance structure had raised significant concerns, where there was an apparent concentration of power on its joint chair and CEO Carlos Ghosn, with a lack of independence on the board. We highlighted the importance of adding independent directors to the board and sought clarity on succession planning. In early 2017, Nissan announced that Mr

Ghosn would step down as its CEO and focus on the role of chair, and a new chief executive was appointed. In 2018, the company appointed two independent directors, including the first ever female director. We will continue to press for further improvements, in particular with regard to Mr Ghosn's subsequent arrest in November 2018.

Siam Cement – *published 1 November 2018*

The Siam Cement Public Company Limited (SCG) is a diversified industrial company in Thailand. We encouraged the company to review the emissions targets it had set for 2020, improve assessment of physical risks of its assets, take part in industry collaboration and establish a group-wide climate governance mechanism. In September 2018, it reported that it had committed to the Paris Agreement's global temperature limitation goal, set carbon emissions reduction targets for 2023 and 2030, was in the process of applying the science-based targets to various business units and explained its climate action governance plans. Further, the TPI Transparency Pathway Initiative, a global asset-owner-led initiative which assesses how companies are preparing for the transition to a low carbon economy, published an updated report on cement producers. It showed that SCG had advanced two rankings since 2017 which reflects the company's progress on integrating climate change considerations into operational decision making.

VINCI – *published 01 November 2018*

VINCI is an engineering and construction group with a concessions segment, mainly focused on toll roads and airports, and a contracting one, split across activities related to construction, roads and energy. It was identified as one of the companies exposed to a high risk of complicity with regard to potential labour and human rights abuses, in relation to large construction projects that were initiated in 2010 in Qatar. We asked the company to review its policies and improve its practices in these areas. VINCI created a global task force of human rights directors, appointed an independent third-party firm to conduct a human rights impact assessment and organised a workshop on modern slavery at the subsidiary level of the business. This work also led to the publication of a guide on human rights in 2017, along with a first of its kind agreement in Qatar between a union federation and a Qatari company covering human rights.

HSBC – *published 7 December 2018*

HSBC Holdings is one of the world's largest banking and financial-services companies. We had a successful engagement on its sustainable-finance agenda, focusing particularly on its efforts to support the transition to a low-carbon economy, and on its climate-related disclosures. In November 2017 the board updated the bank's sustainability strategy with five new commitments, to support the transition to a low-carbon economy. We are encouraged by the changes in its new energy policy too. We will continue to engage with the bank to monitor progress against these commitments.

Reckitt Benckiser – *published 7 December 2018*

Reckitt Benckiser (RB) is a leading global household and personal care company. We repeatedly challenged the board on its strategy, risk oversight and executive remuneration framework. Developments in South Korea have led to the creation of a dedicated safety, quality and compliance function, together with a board sub-committee to provide the necessary oversight. Directors have added responsibility as one of its core values and separated out sustainability to become more integrated with broader business teams under a new operational leadership. The executive remuneration framework is now under review with the potential inclusion of an additional performance metric. We will seek further meetings to assess the execution of the more stakeholder-oriented strategy and existence of robust board oversight and consult on the new remuneration policy.

Important information

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