

EOS Case Study

February 2021

Daimler

Daimler has embarked on an ambitious business strategy to support its transition to the low-carbon economy, following a decade of engagement by EOS to achieve a roadmap for alternative technologies and sustainable vehicle models, culminating in a sustainable product portfolio.

Background and company overview

Daimler is one of the world's largest manufacturers of premium passenger cars and commercial vehicles, comprising the businesses Mercedes-Benz Cars & Vans, Daimler Trucks & Buses and Daimler Mobility. Daimler Mobility offers financing, leasing, fleet management and mobility services. The transition to low-carbon vehicles is a major disruptor to the automotive industry and Daimler is no exception in needing to adapt to this global shift.

Our engagement

EOS at Federated Hermes has a long history of engaging with Daimler that extends back to 2007 covering a wide range of ESG issues. We have met regularly with the supervisory board chair to discuss the long-term strategic direction of the company, management board nominations and succession planning. Since 2010, we have been engaging on climate change, with the focus to achieve a roadmap for alternative technologies and sustainable vehicle models aligned to international climate goals. Following the emission scandal at Volkswagen in 2015, we met with senior executives at Daimler's headquarters in Stuttgart to gain assurances that the company had not used any defect software or devices in its cars. In 2018, we took on the lead role of engaging with Daimler as part of the collaborative investor Climate Action 100+ initiative, intensifying engagement through a series of meetings with the supervisory board chair and company executives.

We challenged the company to articulate its mobility strategy more clearly and requested more ambitious emissions reduction targets aligned to the Paris goals. In that year, we also raised concerns with the chair about the apparent misalignment between the company's position to support the Paris Agreement and the positions of its third-party member industry associations,

Engagement objectives:



Environment:

Climate change



Governance:

Succession planning



Strategy, risk and communication:

Business strategy

Sustainable Development Goal:



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For us, sustainability means creating lasting value for all stakeholder groups - for customers, employees and investors as much as for business partners and society as a whole. The constructive dialogue with EOS as part of Climate Action 100+ is an example of how we are incorporating these interests into our sustainable business strategy, which is guided by a responsible balance of environmental, social and economic goals.

– Dr Manfred Bischoff, Chair of the Supervisory Board of Daimler AG

which openly lobbied against more ambitious 2030 vehicle emissions reduction targets in Europe. We shared the Institutional Investors Group on Climate Change investor expectations on corporate lobbying and followed up with multiple intensive discussions with the head of external affairs and the chair of the supervisory board on how to align its lobbying to investor expectations. In our speech at the 2019 shareholder meeting, we stated the need for this alignment, urging the executive board to report on how Daimler has positively influenced the position of industry associations on the subject of climate change.

In parallel to the focused climate engagement we have also addressed the need for a more systematic approach to succession planning, given the long tenure of the incumbent CEO, and consulted on a new remuneration system more aligned to our remuneration principles.

Changes at the company

In May 2019, only a week before its annual shareholder meeting, the company announced its "Ambition2039" strategy, outlining its new ambitions for the transition to a low-carbon business model. The strategy sets targets for carbon neutral production, and all Mercedes-Benz passenger vehicles sold to be carbon-neutral in both manufacturing and use by 2039, aligned with our request.

In our speech at the 2019 shareholder meeting, we welcomed the progress the company had made and indicated our support for the newly appointed CEO and CFO. In particular, we commended the supervisory board for having accelerated the succession planning of the long-tenured CEO, in light of the challenges facing the automotive industry. We also stressed the need for the company to take action to ensure alignment between its own support for ambitious climate policies and the positions of its membership industry associations.

In October 2019, Daimler Trucks & Buses also followed with the strategic goal to offer only new vehicles that are CO2-neutral in driving operation ("tank to wheel") in its major markets by 2039. At the same time, Mercedes-Benz Cars & Vans set a Scope 3 emissions reduction target of more than 40% for 2030, verified by the Science Based Targets initiative.

In line with our remuneration principles, we were pleased to see part of executive compensation now explicitly linked to sustainability goals, including the company's carbon footprint, highlighting its recognition of the need to incorporate long-term sustainability as a key component of its corporate strategy. In statements from both the supervisory board chair and CEO, the company acknowledged the importance of aligning corporate lobbying with the Paris Agreement.

Next steps

We will seek further meetings with the chair, CEO and sustainability executives, to ensure the supervisory and management boards maintain robust oversight of the execution of the company's mobility strategy. In addition, our engagement will include the succession of the longstanding chair whose mandate will expire at the end of the 2021 shareholder meeting.

Achieving the goals of the Paris Agreement requires ambitious climate targets for all countries and all sectors. According to the new European Green Deal, to achieve climate neutrality, a 90% reduction in transport emissions is needed by 2050. The implementation of this strategy should be undertaken with a socially responsible approach to preserve jobs, in line with the principles of a just transition to a low-carbon economy.

We continue to closely watch the company's progress in reviewing the alignment of the lobbying position of third-party industry associations of which it is a member with the Paris Agreement, to publish these findings and then take appropriate action if any misalignment is identified.



Roland Bosch
Engagement
EOS



This case study has been fact-checked by Daimler to ensure a fair representation of EOS work carried out and changes made at the company.

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Federated Hermes

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

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- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **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.

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