



OUTCOMES
BEYOND
PERFORMANCE }

Hermes EOS

OUR APPROACH TO STEWARDSHIP

AMEC PRESENTATION, BRAZIL.

Hermes EOS

September 2017

For professional investors only.



HERMES
INVESTMENT MANAGEMENT

AGENDA

Hermes EOS

1. Introduction
2. Engagement
3. Voting
4. Reporting
5. Academic evidence

INTRODUCTION

Our mission

■ ■ Hermes EOS mission is to assist asset owners and asset managers in adding long-term value to their investments and managing their risks, by engaging with companies and policy-makers on environmental, social, governance, strategic and financial issues. ■ ■

Our history

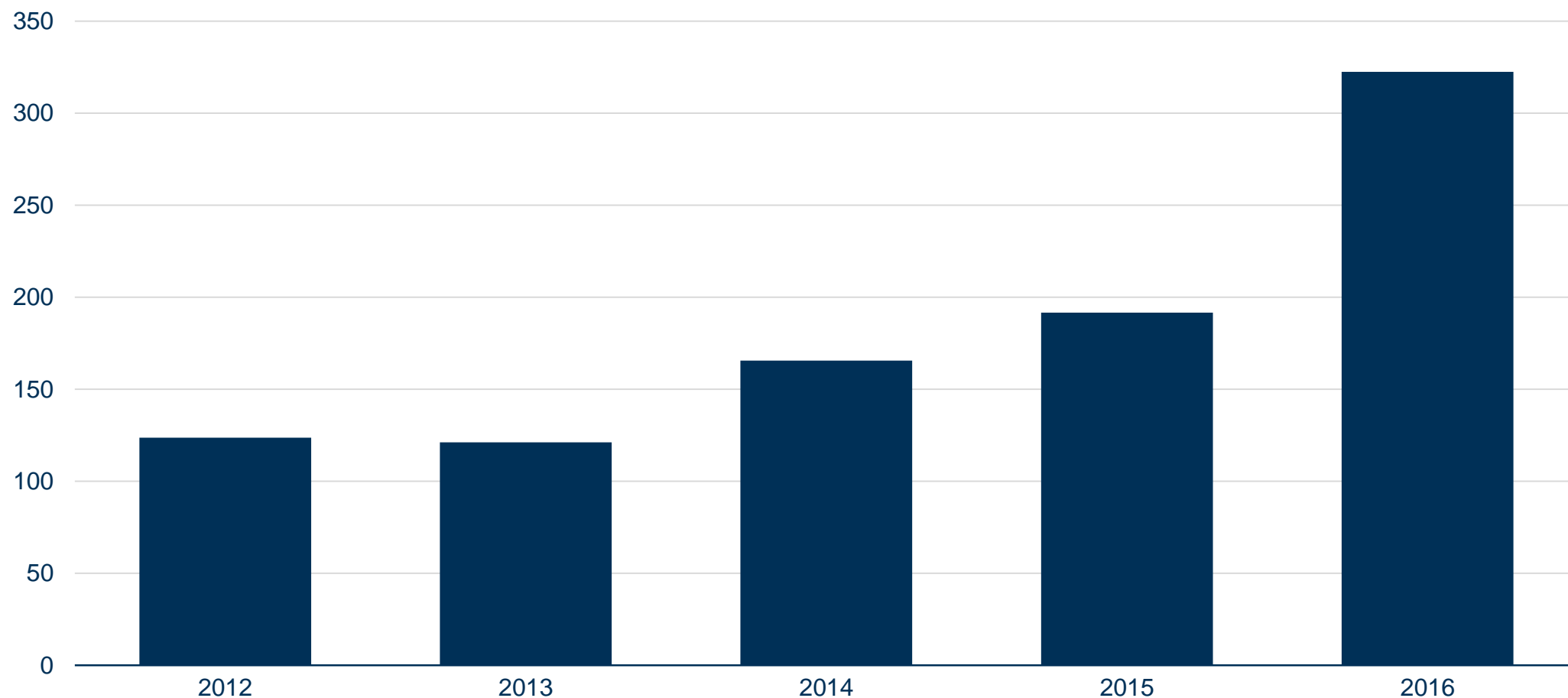
- ▶ Hermes EOS was established in 2004 in recognition that stewardship activities require specialist skills and processes.
- ▶ Hermes EOS is part of Hermes Investment Management, which is wholly owned by the BT Pension Scheme (BTPS), one of the UK's largest pension funds.
- ▶ We provide a platform for like-minded investors to pool resources, creating a powerful force for positive change.
- ▶ 42 institutional investors in nine countries delegate to us the stewardship of \$403bn of assets¹ invested in over 10,000 companies worldwide.
- ▶ We have 25 staff and advisers organised according to their sectoral and country expertise. We also have excellent working relationships with many of the world's largest institutional investors.
- ▶ We currently advise and represent clients invested in listed equities and corporate fixed income.

¹ Assets under Advice as at 30 June 2017

WE ARE LEADERS IN PROVIDING ACTIVE OWNERSHIP SERVICES FOR ASSET OWNERS AND ASSET MANAGERS



Stewardship assets under advice USD billion



REPRESENTING A GLOBAL CLIENT BASE AND 25 MILLION BENFICIARIES

A selection of our 42 clients in nine countries with over \$403bn in AuA¹



¹ Assets under Advice as at 30 June 2017 (\$403.52bn / £310.6bn / €353.8bn)

OUR TEAM

Passionate, experienced, international

Engagement professionals



Senior Advisors



Client & Business Development



Chair of Hermes EOS



INTEGRATED ENGAGEMENT CAPABILITIES

Our stewardship services

Corporate engagement

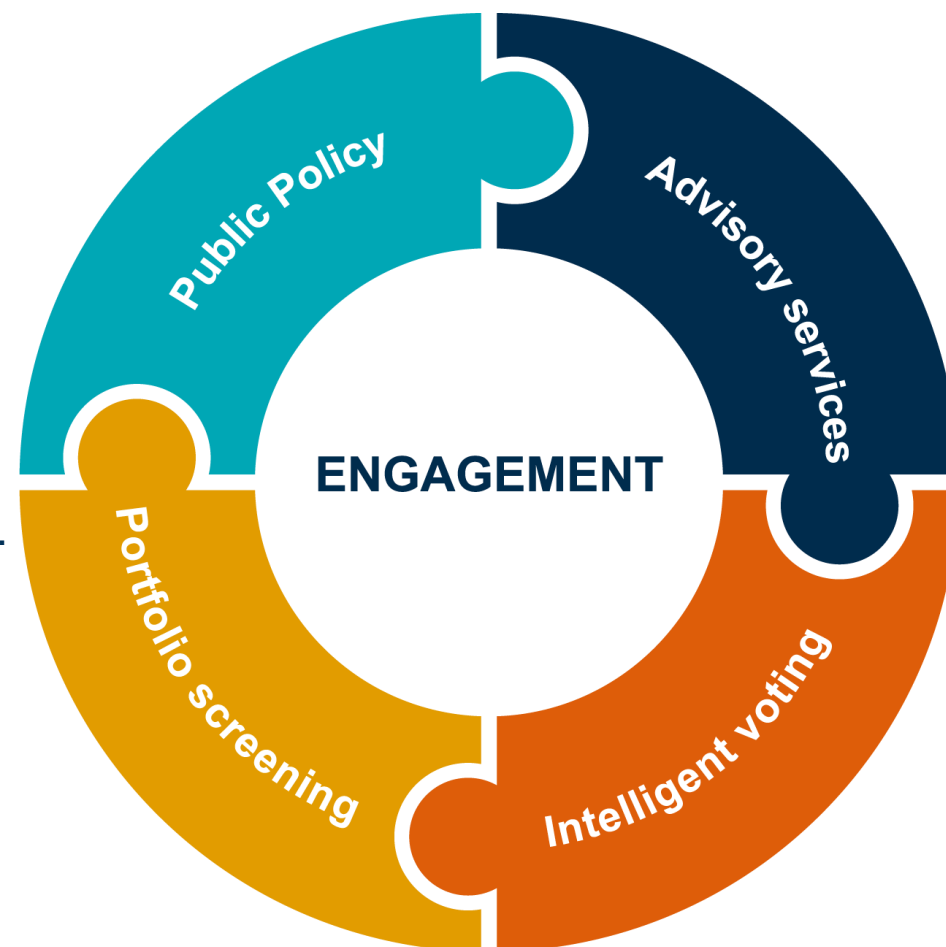
- Improve long-term corporate value for our clients.
- Engage on risk management, governance, sustainability and business practice.

Intelligent voting

- We vote ~10,000 companies per year in line with clients' policies.
- Informed voting, including engagement with companies.

Public policy & industry best practice

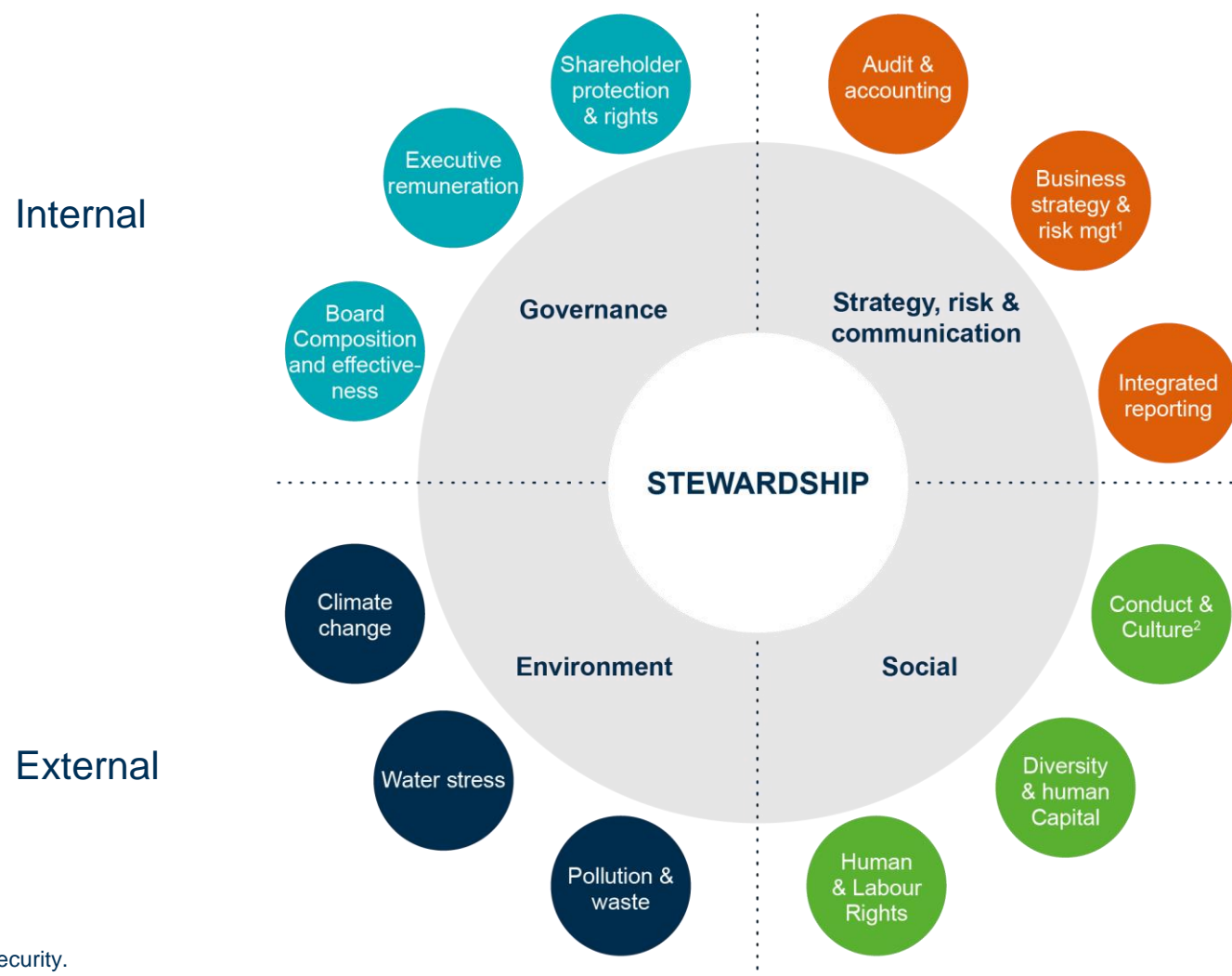
- Work with legislators, regulators and industry bodies to promote stewardship and sustainability.



ENGAGEMENT

THE ENGAGEMENT PLAN

Themes for 2017-2019



¹ Includes Cyber Security.

² Includes Bribery & Corruption; Tax.

THE ENGAGEMENT PLAN

Themes:



What we expect:

- ▶ Development and publication of long-term GHG reduction targets
- ▶ Appraisal of portfolio risk under low-carbon scenarios
- ▶ Clearly articulate public policy on climate change and ensure lobbying is consistent

Approach to engagement:

- ▶ Management of GHG emissions – operational (scope 1 and 2) and supply chain emissions (upstream)
- ▶ Corporate strategic threats and opportunities
- ▶ Physical impact risk management
- ▶ Public policy and market influence
 - Development of best practice disclosure of climate risks e.g. FSB Task force on Climate-related Financial Disclosure
 - Public support of Paris Agreement

Industries of focus 2017 - 2019

- ▶ Utilities
- ▶ Automotive
- ▶ Financial services

THE ENGAGEMENT PLAN

Themes:



Context:

- ▶ Indicates a failure of governance by boards
- ▶ Corruption makes it harder for investee companies to do business
- ▶ Take resources from states, companies and private citizens and weakens the rule of law
- ▶ Hinders development and maintenance of free markets by distorting competition, deterring investment and hindering long-term returns

Approach:

- ▶ Companies
 - Demonstrate they have a world class anti-bribery and corruption programme to ensure necessary systems and controls are in place
 - Company values demonstrate the highest integrity
- ▶ Public policy and market best practice
 - Encourage enactment of strong anti-bribery and corruption legislation
 - Effective enforcement of anti-bribery and corruption laws

Themes:

THE ENGAGEMENT PLAN

Themes:



Board Composition and Effectiveness

Areas of focus:

Composition

- ▶ Appropriate mix of functional skills, sector and geographic experience
- ▶ Diversity in terms of gender, age, nationality and ethnicity
- ▶ Sufficient independence
- ▶ Separate CEO / Chair – if not, robust lead independent director
- ▶ Succession planning
- ▶ Transparent board nominations process

Effectiveness

- ▶ Culture that encourages challenge and collaboration
- ▶ Effective board committees
- ▶ Regular attendance at meetings
- ▶ External board evaluation

Themes:

THE ENGAGEMENT PLAN

Themes:



Executive Remuneration

Regional focus:

- ▶ UK
 - (i) **Simplification** of remuneration schemes; (ii) **reduce variable to fixed pay ratios**; (iii) a focus on strategic goals; (iv) **increased executive shareholdings**.
- ▶ Continental Europe
 - (i) Better use of **discretion by remuneration committees** to improve responsibility and long-term alignment between remuneration and performance; (ii) better **disclosure of the link between remuneration and long-term strategy**.
- ▶ North America
 - (i) Greater **disclosure of variable compensation metrics**; (ii) more market discipline to avoid excessive remuneration packages; (iii) proper discretion applied by remuneration committees.
- ▶ Developed Asia
 - (i) **Clear link between pay and performance**; (ii) disclosure of the nature and level of variable compensation metrics.
- ▶ Emerging Markets
 - (i) Basic **disclosure of quantum and structure** of remuneration.

THE ENGAGEMENT PLAN

UN Sustainable Development Goals

Goal	Short goal description	Climate change	Pollution and Waste Mgt	Water	Bribery and Corruption	Conduct and Culture	Cyber Security	Diversity & HCM	Human Rights	Labour Rights	Supply Chain Mgt
1 	No poverty	(✓)		(✓)					(✓)	(✓)	
2 	Zero hunger	(✓)		(✓)							(✓)
3 	Good health and well-being	(✓)	✓						✓		
4 	Quality education							✓	(✓)		
5 	Gender equality							✓	✓	(✓)	
6 	Clean water and sanitation	(✓)	✓	✓							
7 	Affordable and clean energy	✓	(✓)								
8 	Decent work and economic growth		✓					(✓)	✓	✓	
9 	Industry, innovation and infrastructure	(✓)	(✓)	(✓)			(✓)				
10 	Reduced inequalities							(✓)	(✓)	(✓)	
11 	Sustainable cities and communities	(✓)	✓	(✓)							
12 	Responsible consumption and production	✓	✓	(✓)							
13 	Climate action	✓									
14 	Life below water		✓								(✓)
15 	Life on land	✓		(✓)							(✓)
16 	Peace, justice and strong institutions				✓	✓	(✓)	(✓)	(✓)		
17 	Partnership for the goals	(✓)									

✓ Direct influence (✓) Indirect influence

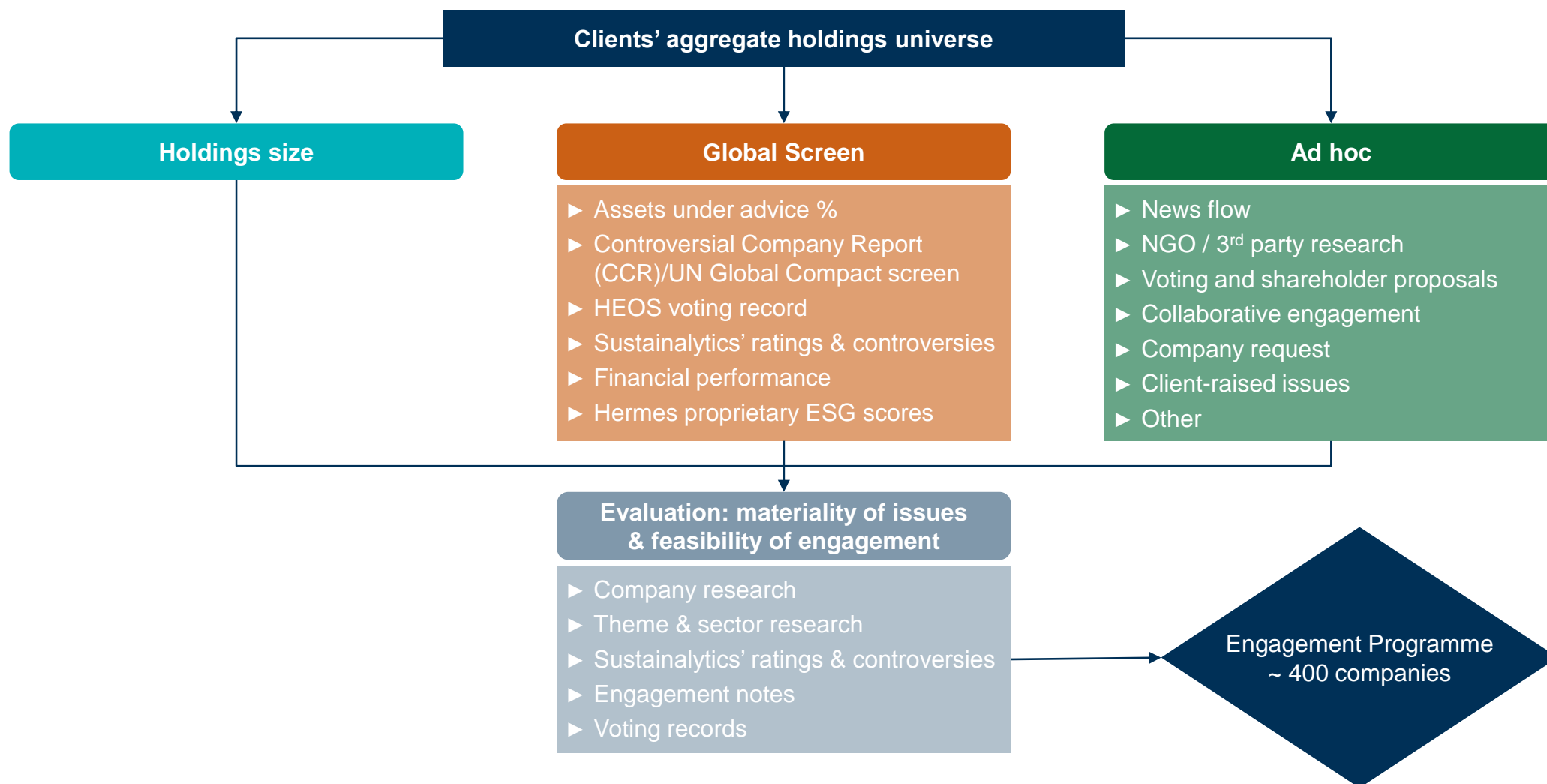
Source: UN Sustainable Development Goals, Hermes EOS analysis

CORPORATE ENGAGEMENT PROCESS



CORPORATE ENGAGEMENT PROCESS

Identification of companies



CORPORATE ENGAGEMENT PROCESS

We currently have approx. 400 companies in our engagement programme based on screening of our client's holdings universe to identify material issues amongst our client's aggregate major holdings.



As at August 2017

CORPORATE ENGAGEMENT PROCESS

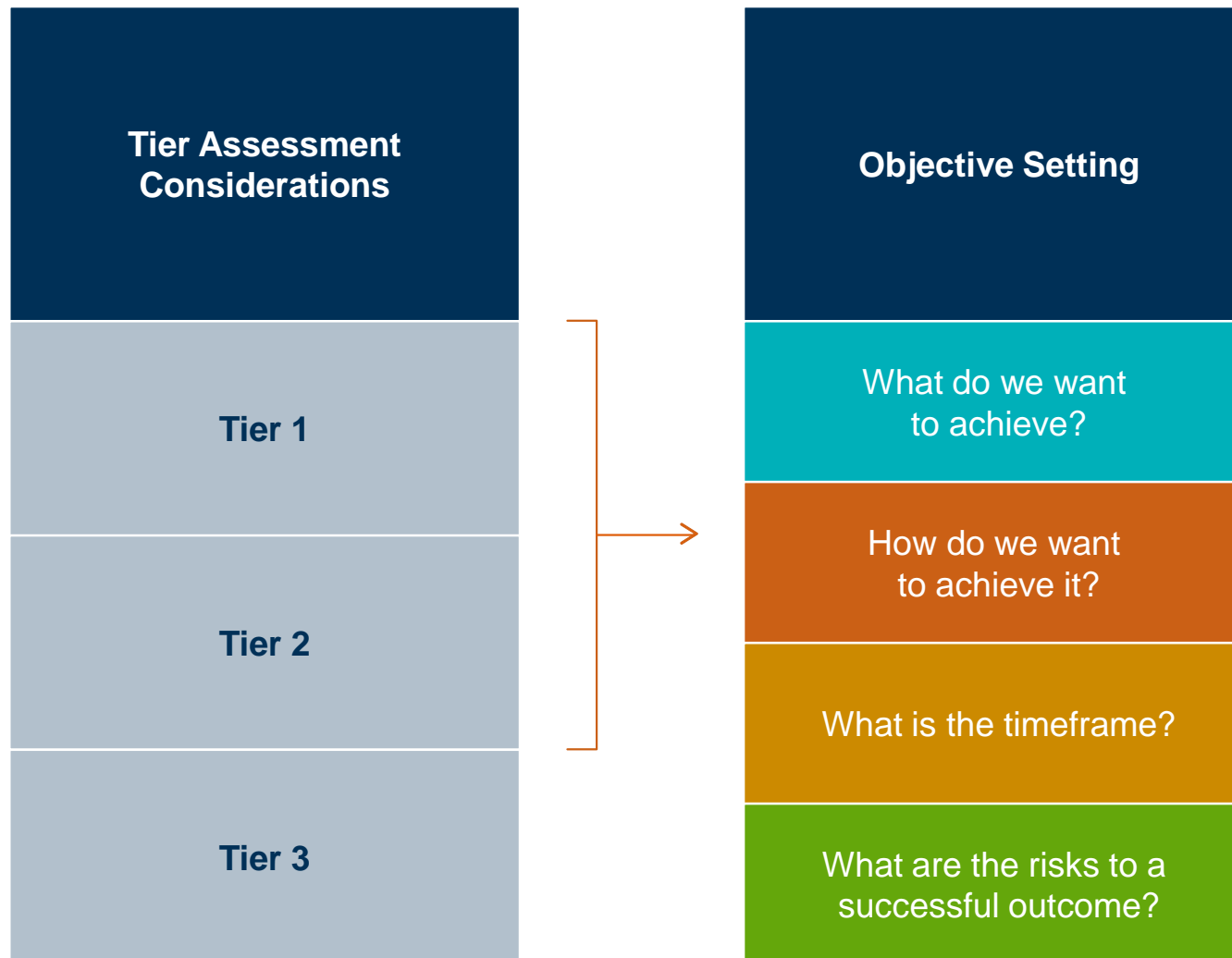


CORPORATE ENGAGEMENT PROCESS



CORPORATE ENGAGEMENT PROCESS

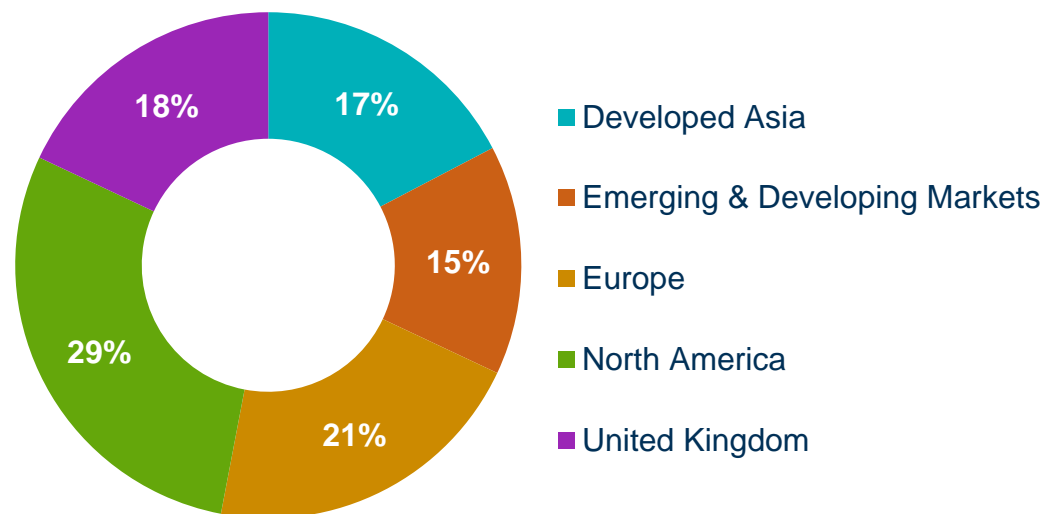
Setting objectives



CORPORATE ENGAGEMENT PROCESS

Engaging with companies

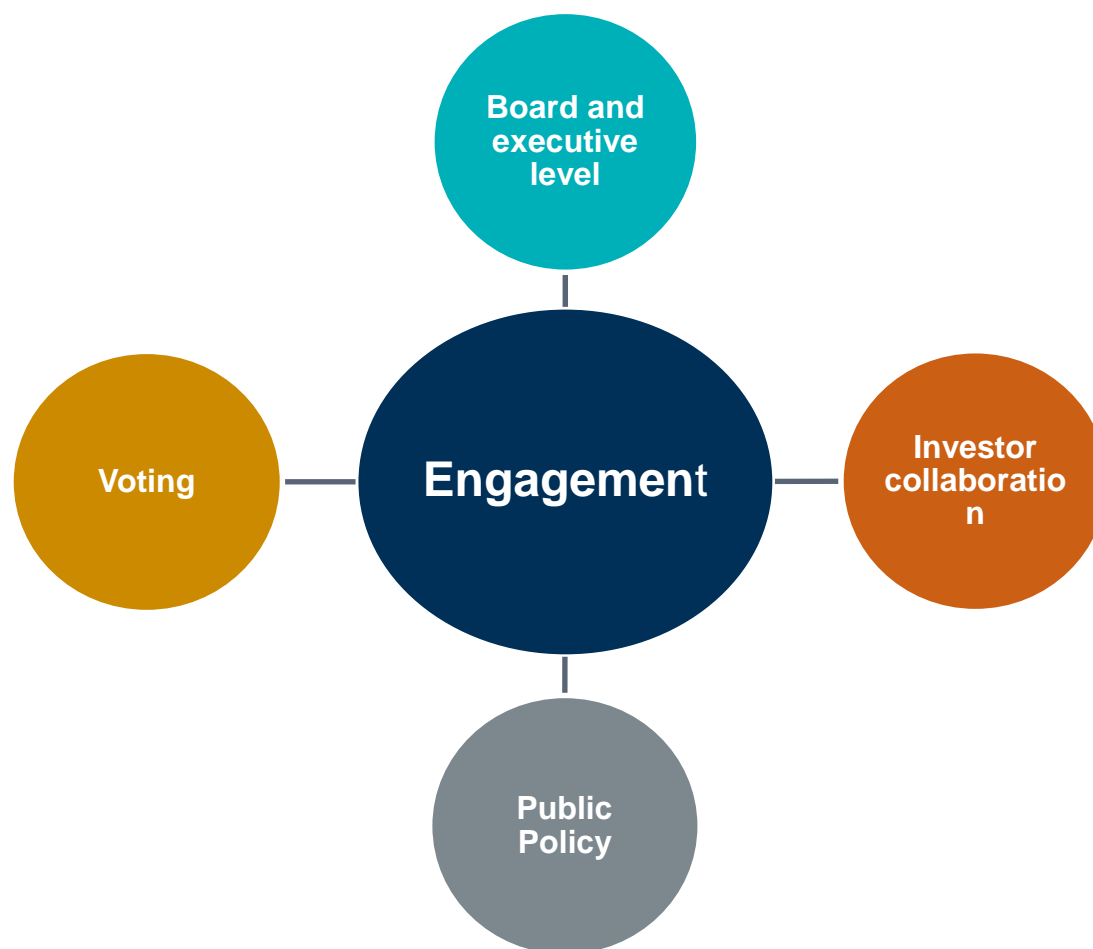
Corporate engagement activity in 2016



- ▶ We engaged with 562 companies on 1,408 engagement objectives and issues
- ▶ Of the 1,408 objectives and issues:
 - 20% were on environment
 - 23% were on social & ethical
 - 40% were on governance
 - 17% were on strategy, risk management & communication
- ▶ We made progress (moved \geq one milestone) with 67% of the companies we engaged with on specific objectives.

CORPORATE ENGAGEMENT PROCESS

Engaging with companies

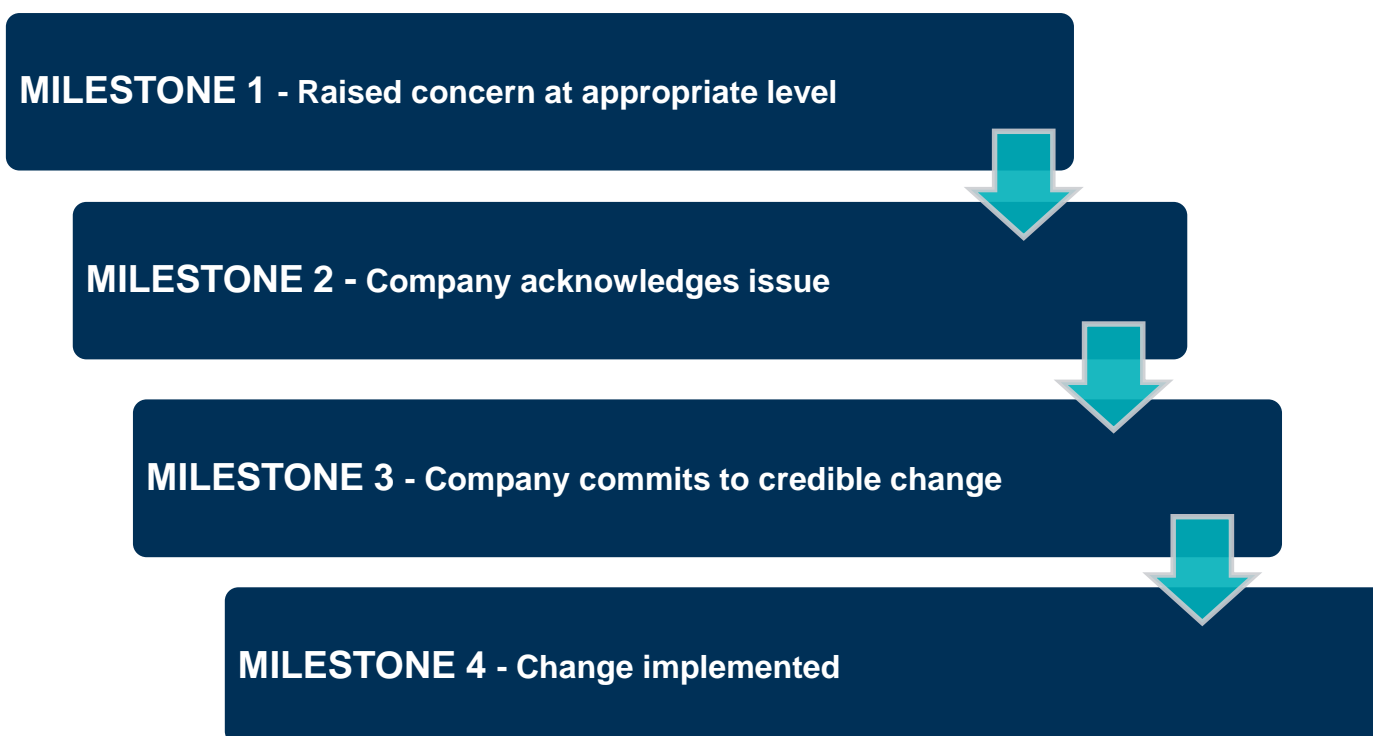


CORPORATE ENGAGEMENT PROCESS



CORPORATE ENGAGEMENT PROCESS

Tracking progress



CORPORATE ENGAGEMENT PROCESS



CORPORATE ENGAGEMENT PROCESS

Oversight of engagement

► Internal:

- Two engagers on Tier 1 and Tier 2 companies
- Engagement clinics led by directors
- Sector, theme and country groups
 - Develop positions on common issues affecting
 - Identify best practice examples
 - Reviewed by directors bi-annually
- ‘War rooms’ for controversial votes / engagement
- Sharing of engagement stories via weekly meetings
- Objective setting / discontinuation requires ‘business case’

► External:

- Attendance at industry events
- Involvement in public policy initiatives
- Collaboration with other investors

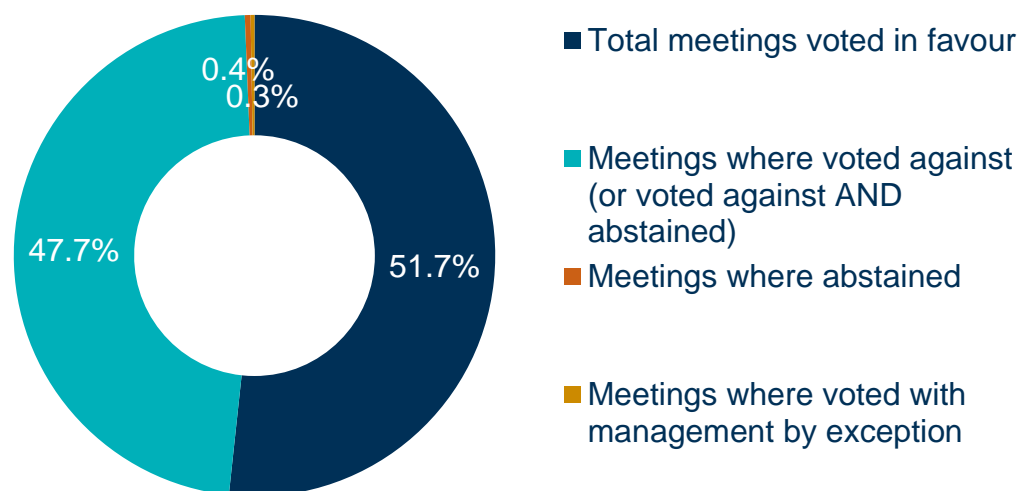
VOTING

VOTING

Voting decisions

Voting activity in 2016

We voted at 9,286 meetings (92,725 resolutions)



- ▶ Voting is engagement-led and includes communication with management
- ▶ Voting covers over 10,000 companies
- ▶ During 2016 we opposed management on 11% of resolutions
- ▶ Includes communication with boards when voting against management
- ▶ Partnership with ISS for best in class voting execution platform

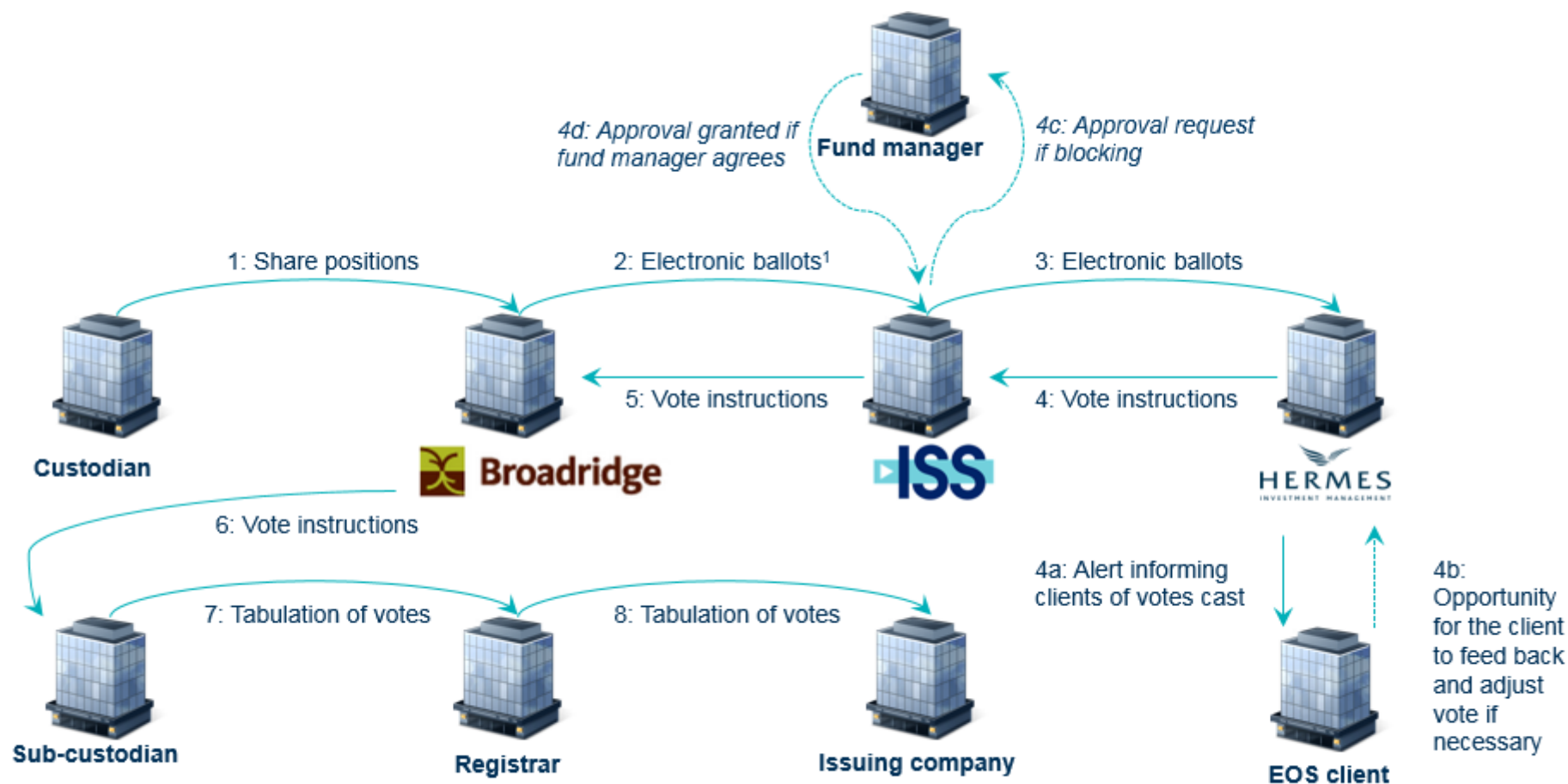
Value to clients

- ▶ Ability to exercise voting rights in holdings in line with own policy without the overheads to administer this internally
- ▶ Intelligent voting service focused on achieving change

Source: Hermes EOS quarterly reports.

VOTING INFRASTRUCTURE

Parties in the voting chain



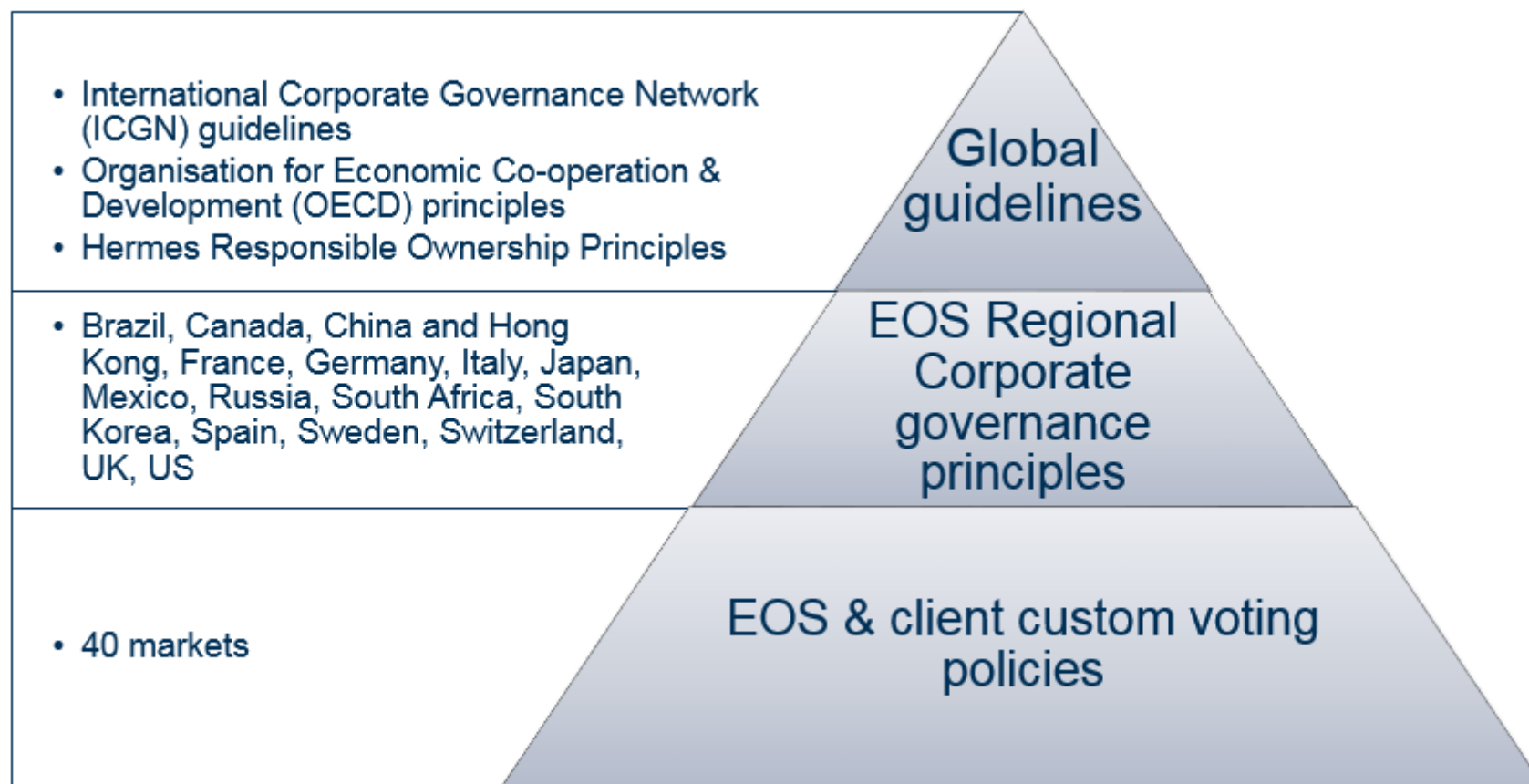
¹ Electronic ballots are generated by Broadridge in the vast majority of cases. In other cases ISS either generates ballots using their Global Proxy Distribution (GPD) service based on share positions sourced from the custodian, or manually based on share positions sourced directly from clients. The approach taken depends on the custodian and their chosen method of supporting proxy voting.

VOTING PROCESS



VOTING PROCESS

Voting policy hierarchy



VOTING PROCESS

Hermes EOS Regional Corporate Governance Principles

Coverage for 16 key markets

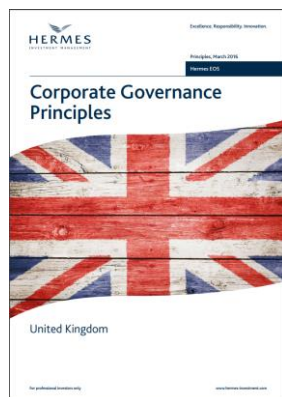


VOTING PROCESS

Hermes EOS Regional Corporate Governance Principles

UK

- ▶ Smaller quoted companies
- ▶ Board composition and diversity
- ▶ Board evaluation and education
- ▶ Succession planning
- ▶ Remuneration policy
- ▶ Remuneration reporting
- ▶ Audit
- ▶ Protection of shareholder rights
- ▶ Premium listings
- ▶ Social and environmental responsibility
- ▶ Transparency and reporting
- ▶ Effective engagement
- ▶ Shareholder resolutions



Germany

- ▶ Shareholder participation in corporate decision-making
- ▶ Supervisory board
 - Composition and duties
 - Shareholder communication with supervisory boards
 - Election/re-election of members
 - Consequences of a substantial vote against discharge
 - Removal of members
 - Chair cooling-off period
 - Composition and establishment of committees
 - Number of supervisory board positions
 - Board evaluations
 - Auditor appointment procedure
- ▶ Management board
 - Appointment periods and severance payments
 - Consequences against a substantial vote against discharge
- ▶ Remuneration
- ▶ Capital issuance requests

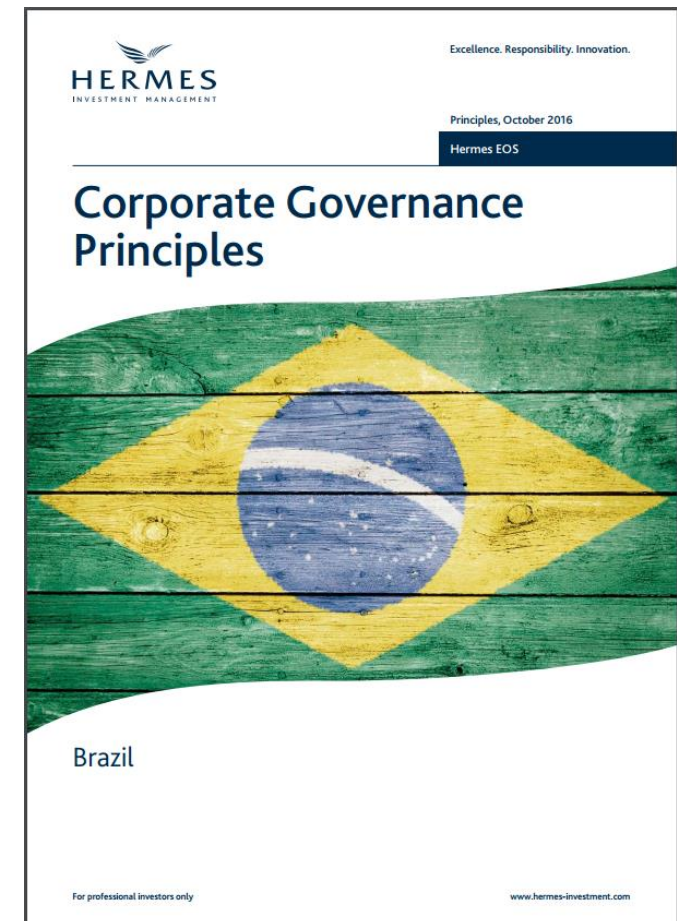


VOTING PROCESS

Hermes EOS Regional Corporate Governance Principles

Brazil

- ▶ Endorse the recommendations of the Brazilian Corporate Governance Code 2016
- ▶ Board composition, diversity and independence
- ▶ Alternate board members
- ▶ Board committees
- ▶ Board and shareholder engagement
- ▶ Evaluation of the board
- ▶ Executive remuneration
- ▶ Equitable treatment of shareholders
- ▶ Transparency and disclosure – meeting notification and proxy documents, related party transactions
- ▶ Environmental and social risk management



REPORTING

REPORTING

Helping clients communicate effectively to beneficiaries

Regular client interaction

- ▶ Weekly news
- ▶ EOSi Highlights (bi-monthly hot topics calls)
- ▶ Client Advisory Council (every 6 months)
- ▶ Advisory Board (every 4 months)
- ▶ Annual presentation to Board of Trustees (if desired)
- ▶ Quarterly progress meetings / call (if desired)
- ▶ Hermes EOS team available for individual requests

Formal reporting

Daily voting report



Quarterly voting and engagement statistics



Dedicated client portal



Weekly voting and engagement news



Quarterly voting disclosure



Quarterly client report



Quarterly public report



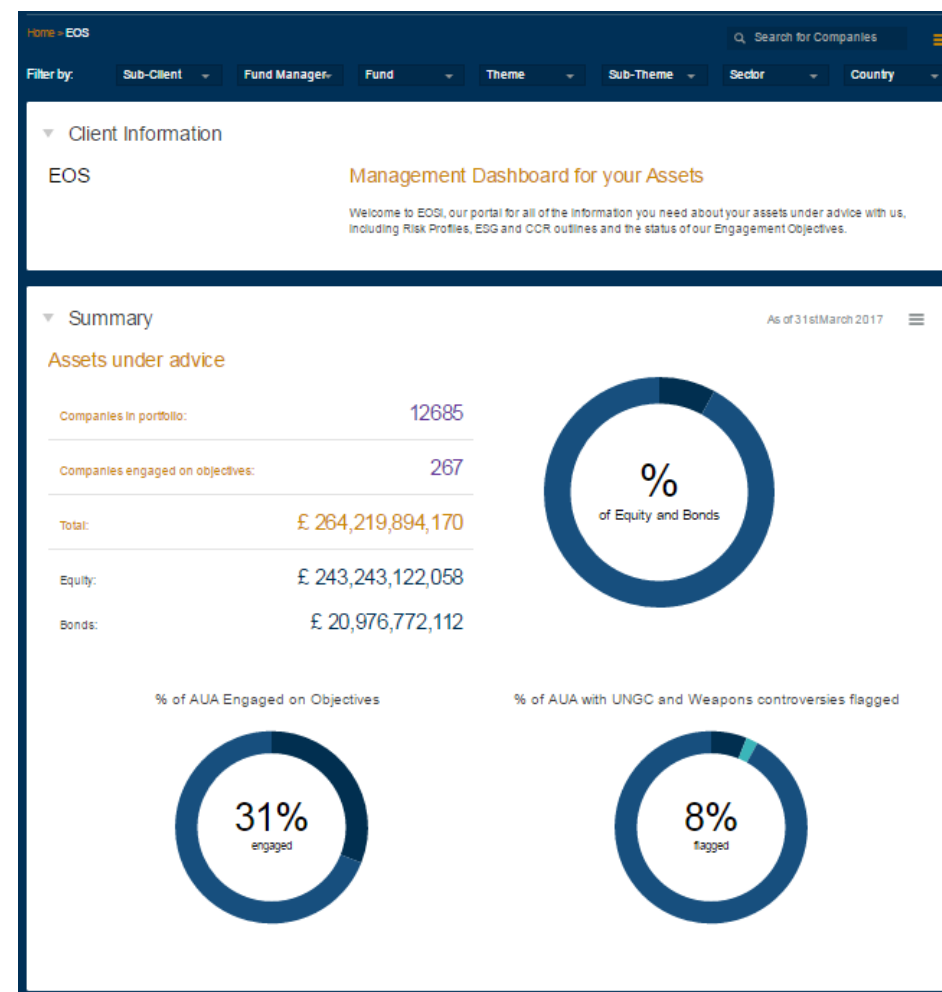
Input to ad-hoc and recurring reports



REPORTING

Dedicated client portal: EOSi

- ▶ Self-service direct access to engagement and voting activities
- ▶ Integration of Controversial Company screening
- ▶ Downloadable portfolio and company reports
- ▶ Create company alerts
- ▶ Client discussion board
- ▶ Access to all client reporting



Source: Hermes. For illustrative purposes only. The above information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

ACADEMIC EVIDENCE

ACADEMIC EVIDENCE

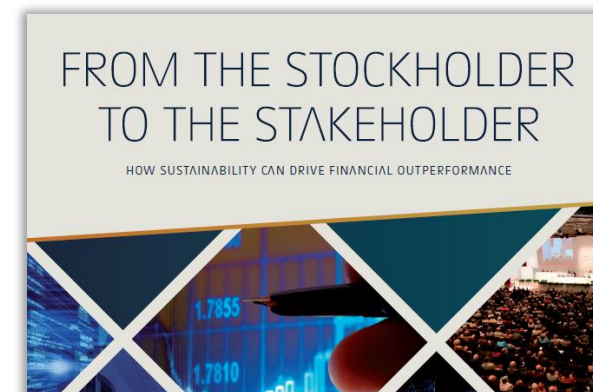
Engagement value has been quantitatively evidenced

► Strong evidence that good ESG practices can lead to better performance

- A comprehensive meta study of over 200 studies¹ demonstrates that 90% of relevant studies support ESG factors associated with lower costs of capital and 80% support ESG factors driving higher stock value
- Hermes' research² shows that well-governed companies have tended to outperform poorly governed companies by an average of over 30 basis points per month
- Hermes' research has also documented that companies with better ESG ratings (as measured by Hermes' proprietary QESG scores) tend to have lower CDS spreads and therefore exhibit less risk

► Evidence of the link between corporate engagement and improved long-term value

- We have set up a research programme with several universities to shed more light on the link between engagement by Hermes EOS, long-term value and company characteristics
- Studies³ on Hermes EOS engagements found that engaged companies tend to perform better and that successful engagement leads to reductions in downside risk
- Ongoing research⁴ into the nature of the link between engagement and performance e.g. emerging evidence that board-level engagement has more impact



(1) Clark, Feiner, and Viehs (2015)



(2) Hermes Global Equities ESG Investing (2016)

(3) Hoepner et al, 2013: ESG Engagement, Risk & Return: An Interim research progress project (2013); Hoepner, A., Oikonomou, I., & X.Y. Zhou (2015): ESG Engagement in Extractive Industries: return and risk. Research Paper. (4) Hoepner et al – work building on paper on extractive industries

QUESTIONS?

IMPORTANT INFORMATION

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Hermes Investment Management

We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

Our investment solutions include:

Private markets

Infrastructure, Private Debt, Private Equity, Commercial and residential real estate

High active share equities

Asia, global emerging markets, Europe, US, global, and small and mid-cap

Credit

Absolute return, global high yield, multi strategy, global investment grade, real estate debt and direct lending

Multi asset

Multi asset inflation

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | New York | Singapore

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