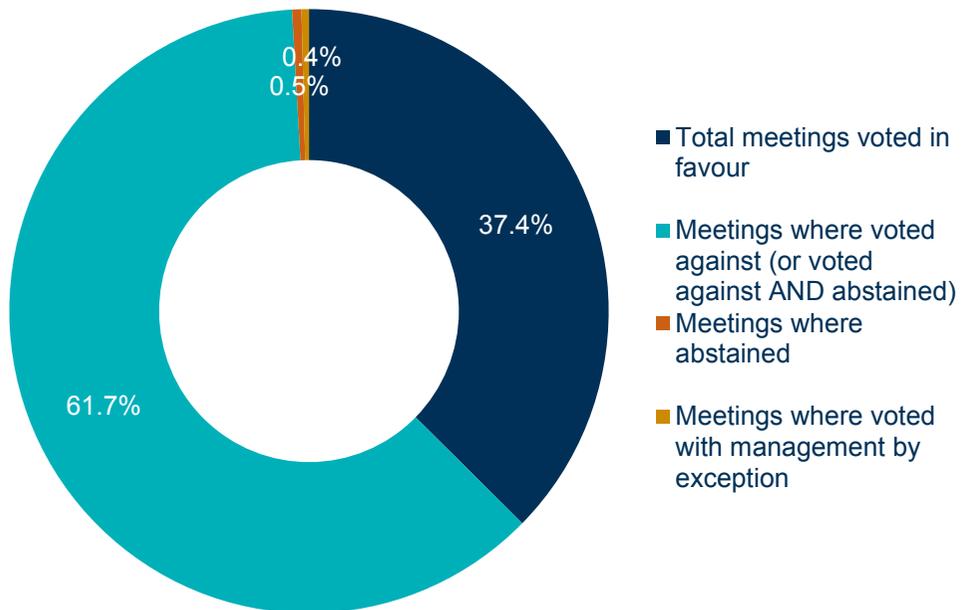


Voting activity for 2018

01/01/2018 – 31/10/2018

Voting recommendations



- ▶ Globally, in 2018 we have voted at **9,168** meetings
- ▶ Over **97,000** resolutions

- ▶ **32%** divergence in voting recommendations from ISS

✓ Value to clients

- ▶ Engagement-led and includes communication with management
- ▶ Ensure engagement and voting activities are aligned
- ▶ Partnership with ISS for best in class voting execution platform
- ▶ Remove overheads to administer internally
- ▶ Client always has final say on vote execution

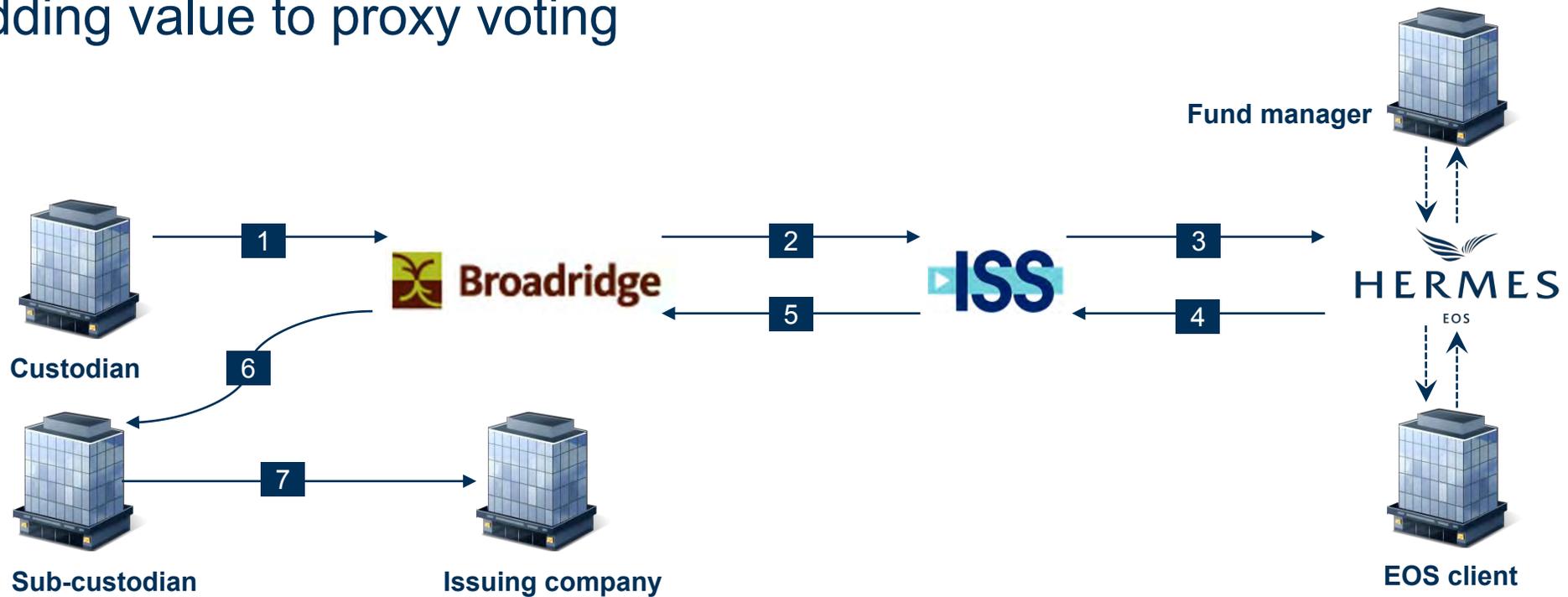
The voting process



The relationship Hermes EOS has with the company and engagement momentum can determine the best approach to voting.

Voting Process

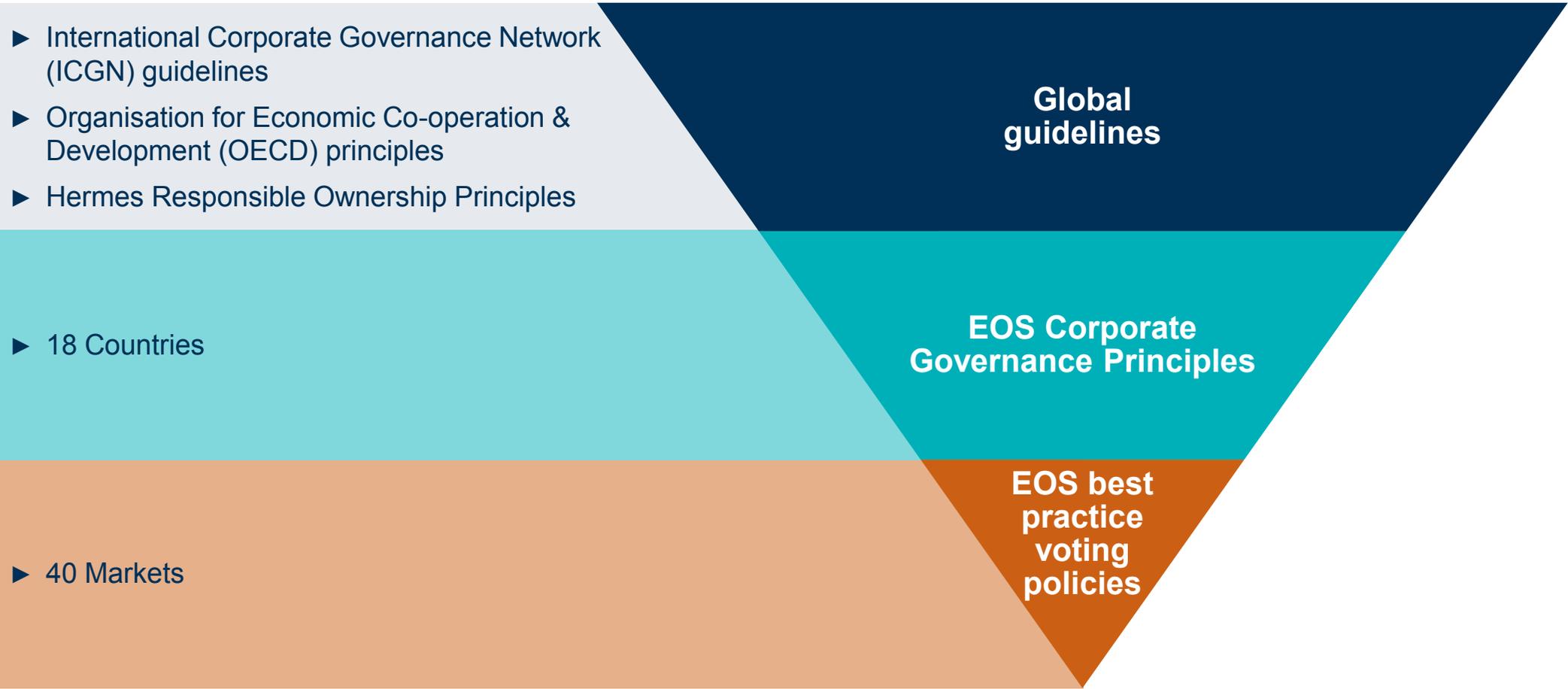
Adding value to proxy voting



Value to clients:

- ✓ Global best practice with tailoring to regional markets
- ✓ Engagement hand-in-hand with voting to best support meaningful change
- ✓ Professional and timely reporting and alerting
- ✓ Added-value activities around the vote: Attending meetings, filing shareholder proposals
- ✓ As much or as little involvement in the voting process as you see fit

Voting policy hierarchy



Public policy and market best practice

In 2017 we recorded 210 public policy interactions.

 <h2>Corporate Governance</h2> <ul style="list-style-type: none"> ▶ Working group on Japan of the International Corporate Governance Network ▶ CEO Investor Forum in US ▶ Responded to consultation of Afep-Medef on the revision of French corporate governance code 	 <h2>Environment</h2> <ul style="list-style-type: none"> ▶ Provided investor perspective to CDP training seminar in China ▶ Signatory of letter to G7 and G20 requesting continued commitment from governments to 2015 Paris Agreement 	 <h2>Sector and Issue coverage</h2> <ul style="list-style-type: none"> ▶ Banks: Board structure, culture change, compensation, risk, company structure ▶ Extractives: stranded assets, carbon emissions, health and safety ▶ Retail: Supply chain, labour rights, indigenous population 	 <h2>Social</h2> <ul style="list-style-type: none"> ▶ Round table on UK living wage ▶ Met with UK All-Party Parliamentary Corporate Responsibility Group to discuss bribery and corruption. ▶ Co-signed petition to US SEC to change disclosure rules on human capital management 	 <h2>Stewardship</h2> <ul style="list-style-type: none"> ▶ Response to consultation FRC UK Stewardship Code ▶ Explained investor stewardship to non-executive directors and investors - Germany ▶ Hosted roundtable on implementation of stewardship codes in Asia
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Global stewardship principles



PRI – The Six Principles

1. We will incorporate ESG issues into investment analysis and decision making
2. We will be active owners and incorporate ESG issues into our policies & practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the principles
6. We will each report on our activities and progress towards implementing the principles

Can Hermes EOS assist?



ICGN – Global Stewardship Principles

1. Internal governance: Foundations of effective governance
2. Developing and implementing stewardship policies
3. Monitoring and assessing investee companies
4. Engaging companies and investor collaborations
5. Exercising voting rights
6. Promoting long-term value creation and integration of ESG factors
7. Enhancing transparency, disclosure and reporting

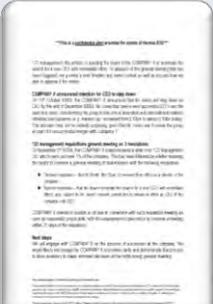
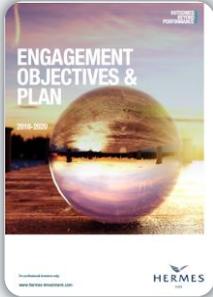
Can Hermes EOS assist?



Value to clients: Assistance in PRI annual voting and engagement related reporting

Reporting suite

Comprehensive year-round reporting

FREQUENT	QUARTERLY			ANNUAL	AD-HOC
<p>Daily voting report</p> 	<p>Public Report</p> 	<p>Highlights Report</p> 	<p>Public Policy</p> 	<p>Annual Report</p> 	<p>Client Alerts</p> 
<p>Monthly engagement and voting news</p>	<p>Voting Disclosure</p>	<p>Voting and engagement statistics</p>	<p>Voting and engagement statistics</p>	<p>Engagement Plan</p>	<p>Public case studies and blogs</p>
					

Differentiated offering

Extensive range of value-added services

INTERACTIVE TOUCH POINTS

- ▶ **Client Advisory Board** – Provides guidance on matters such as HEOS' coverage of sectors, themes and markets and its engagement approach
- ▶ **Client Advisory Council** – Twice yearly
- ▶ **EOSi Highlights Calls** – Bi-monthly
- ▶ **Events** connected with conferences
- ▶ **Client round tables**
- ▶ **Debates on topical issues:** e.g. Engagement –vs – Divestment
- ▶ **Annual presentations** to investment committees or senior level stakeholders

ENGAGEMENT INCLUSION

- ▶ **Engagement trips:** In 2017, we held client trips to Brazil and Germany
- ▶ **Engagement meetings:** Attendance as appropriate
- ▶ **Engagement programme:** Opportunity to contribute
- ▶ **Public policy initiatives:** Opportunity to join public policy initiatives

CONTINUED SUPPORT

- ▶ **PRI signatory support:** Annual survey support
- ▶ **Training:** Series of training videos
- ▶ **Table of engagements** available to download
- ▶ **Case studies:** Public case studies
- ▶ **Blogs** on topical issues
- ▶ **Client alerts** – often in response to media attention
- ▶ **Twitter updates**

ENGAGEMENT IN ACTION

Case studies

Case study: Anglo American

Background	Engagement Summary	Results and next steps
<ul style="list-style-type: none"> ▶ Anglo American is a large, diversified mining company listed on the London Stock Exchange and in Johannesburg, founded in South Africa. ▶ It has become the largest producer of platinum and a major producer of diamonds, copper, nickel, iron ore and metallurgical and thermal coal. ▶ The company is energy-intensive with an annual carbon footprint of approximately 20 million tonnes of CO₂. ▶ With its exposure to coal mining, investors have concerns about the associated climate change risks. 	<ul style="list-style-type: none"> ▶ In 2013 we co-signed a letter from investors requesting information on the risk management of the climate change issues to help inform the long term investment case. ▶ In 2016 we filed a shareholder resolution asking for enhanced disclosure of the company's approach to climate change risk. ▶ With the help of the Aiming for A coalition of investors we gathered investor support, resulting in support of over 5% of shareholders and which passed with 96% approval. ▶ We spoke at the company's AGMs in 2016, 2017 and 2018 AGMs to requesting action on climate change, including: <ul style="list-style-type: none"> - Ambitious long-term energy efficiency and greenhouse gas reduction targets - A technology pathway towards net-zero mining - Portfolio resilience stress tests against low carbon scenarios 	<ul style="list-style-type: none"> ▶ In 2017 the company articulated a research and development pathway towards low carbon mining. In 2018 it committed to start operations on a carbon neutral mine by 2030. ▶ In 2018 the company launched a strengthened approach to climate change including a longer-range climate target to reduce net GHG emissions by 30% by 2030 based on 2016 levels, in line with a science-based methodology. ▶ The company has committed to publish an analysis of the resilience of its principal commodities to low-carbon scenarios, although this is still outstanding.

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Case study: Vinci

Human rights

Background

- ▶ According to the International Labour Organisation (ILO)¹, construction is one of the industries most likely to have forced labour practices.
- ▶ In Qatar, large construction projects were initiated in 2010 ahead of hosting the 2022 FIFA World Cup.
- ▶ In 2014 the ILO filed a complaint concerning Qatar's non-observance of various labour conventions.
- ▶ Vinci, through Qatari Diar VINCI Construction (QDVC) – a joint venture with the real estate arm of Qatar's sovereign wealth fund - was identified as one of the companies exposed to a high risk of complicity with regard to potential labour and human rights abuses.

Engagement Summary

- ▶ In 2014, we wrote to the chair/CEO of VINCI to raise our concerns about the alleged violations of human rights and labour standards with regard to migrant workers in Qatar.
- ▶ We also had a number of meetings with the chair/CEO, the sustainability team, and the director of social innovation and human rights, asking the company to review its policies and improve practices in these areas.
- ▶ We also highlighted the importance for the company to demonstrate leadership within the industry and to improve its communication about how it meets its duty to respect human rights in order to keep its social licence to operate.

Results and next steps

- ▶ 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, leading to the publication of a guide on human rights in 2017.
- ▶ VINCI also signed an agreement² - the first of its kind in Qatar - with QDVC and the union federation BWI covering the human rights of QDVC workers employed in the country and due diligence on its sub-contractors.
- ▶ In November 2017 the ILO closed its complaint against Qatar.
- ▶ The ILO started a three-year cooperation programme with the State of Qatar in April 2018 in order to improve working conditions and labour rights in the country, and QDVC was selected to conduct a year-long pilot project with the ILO on fair recruitment between Bangladesh and Qatar.

¹ https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_575479.pdf For illustrative purposes only.

² [https://www.vinci.com/commun/communiqués.nsf/04438CA8C4A62422C12581DF00384D96/\\$file/accord-cadre-En.pdf](https://www.vinci.com/commun/communiqués.nsf/04438CA8C4A62422C12581DF00384D96/$file/accord-cadre-En.pdf)

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Risk management

Categories of risk

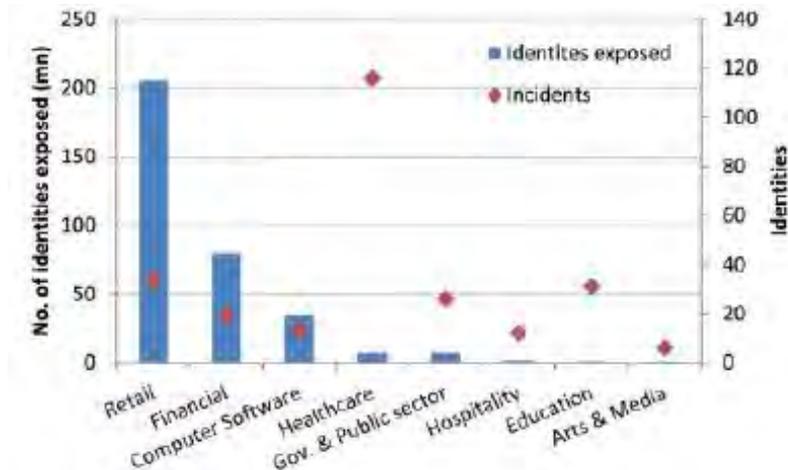
For many companies risk management remains an underdeveloped and siloed capability in the organisation, receiving limited attention from the most senior leaders. High profile business failures have increased the attention paid to risk management.

Strategic Risks	Operational Risks	Financial Risks	Compliance Risks
Competitive environment	Cyber/Information security	Market price risks	Corruption, antitrust violations
Economic, political and geopolitical conditions	Operational failures and quality problems in the value chain	Liquidity and financing risks	Regulatory risks and potential sanctions
Disruptive technologies	Interruption of the supply chain	Credit risks	Environmental, health & safety and other governmental regulations
M&A, investments, strategic alliances/joint ventures		Pension risks	

Cyber security

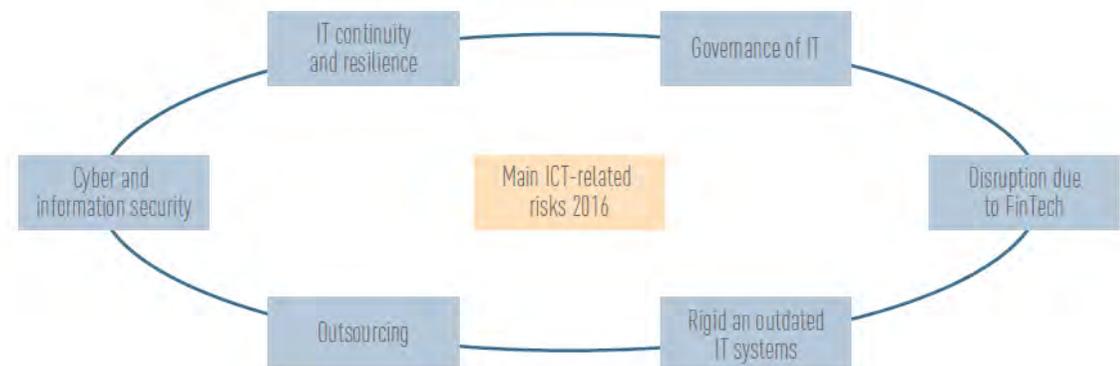
- ▶ Digital technology is at the core of most companies' operations and increasingly plays an important role in how they engage with customers and other stakeholders, giving rise to cyber security risks in various forms.
- ▶ The costs include operational disruption and loss of company funds, as well as exposure to customer attrition, reputational damage, remediation, legal and opportunity costs.

Data breaches & identities exposed by sector



Morgan Stanley – Investor Roadmap on Cyber Security, October 2015

Main ICT-related risks as identified by supervisors



Risk assessment of European Banking System - EBA – December 2016

Cyber security

Governing Cyber Risk

Example engagement topics

Legal compliance	Does the company publicly commit to compliance with all relevant laws, including those related to cyber and data protection?
Policy	Does the company publicly disclose a privacy and/or data protection policy; does the policy explicitly cover its entire operations, including 3rd parties?
Senior Management and Board accountability	<ul style="list-style-type: none">• Does the company identify a named person at senior management or executive level with overall responsibility for information management and cyber security?• Is the board or board committee responsible for cyber security issues?
Board communication	<ul style="list-style-type: none">• Does the company communicate cyber risks to the board (and how, by whom and how often) ;• Does the board receive detailed information about the company's cyber/information security strategy?
Skills and resources	<ul style="list-style-type: none">• Does the company disclose that it has a cyber and/or information security team and/or dedicated budget;• Does the company state that the board engages with relevant industry initiatives on cyber security and/or has access to internal or external expertise on cyber security;• Does the company actively seek such skills when appointing directors
Training	Does the company provide training on information and/or cyber security requirements to all employees?
Assessment	Does the company conduct audits of information and/or cyber security policies and systems?
Process and procedures	Has the company established an incident management plan?

Source: PRI – Stepping up governance on cyber security <https://www.unpri.org/download?ac=5134>

Improving remuneration practices

► RBS

- Replaced its conventional long term incentive plan with a scheme where executives are granted a block of shares which are held for up to seven years before they pay out in full.
- The amount of shares the executives receive is based on a performance assessment over the previous year.
- The new system resulted in a 40% reduction in maximum possible pay out.

► WPP

- Made a number of changes to its pay schemes to simplify and reduce pay levels.
- In 2013, it replaced its highly complex LEAP scheme with a more conventional plan.
- This and other changes led to a meaningful reduction in the overall CEO pay package.

► RELX

- We supported the remuneration policy at the 2017 AGM that included a number of improvements, such as
 - (i) a reduction of the maximum variable pay from 7.5 to 6.5 times salary,
 - (ii) a simplification of the structure with a reduction in the number of schemes from four to two and
 - (iii) a reduction of the level of vesting at threshold for long-term incentives.

Case study: Credit Suisse

Background

- Despite another year of big losses on the back of significant conduct fines, the short-term incentive award for the executive board paid out 80% on average in 2016, because the remuneration committee applied discretion to the calculation of the capital adequacy metrics.
- In 2015 the CEO requested a 40% reduction in his variable pay – also due to the company's performance but this time only the chair decided to waive 50% of his CHF3 million fee.

Engagement Summary

- In a meeting with the company's remuneration committee ahead of the 2017 AGM, we challenged the proposed decision on remuneration, in particular the 2016 short-term variable pay awards of the executive board.
- As a result, we recommended voting against the approval of the remuneration report and the retrospective binding vote to approve the short-term variable pay of the executive board.

Results and next steps

- Shortly after our meeting with the company's remuneration committee, Credit Suisse issued an impromptu public statement.
- The chair and CEO explained that the executives had decided to propose to the board that total variable pay be reduced by 40%.
- The board also decided to maintain total board remuneration at the level of 2016, with no incremental increase in 2017 as earlier proposed to the AGM.
- The company acknowledged our concern that the significant conduct fines had not been appropriately reflected in the originally proposed executive remuneration.

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Case study: GSK

Conduct and culture, board composition and succession, remuneration

Background	Engagement Summary	Results and next steps
<ul style="list-style-type: none"> ▶ GlaxoSmithKline (GSK) is a global healthcare business, with pharmaceutical, vaccines and consumer healthcare divisions. ▶ Top ranked in Access to Medicine index. ▶ 2012 scandal: GSK agreed a \$3 billion settlement – the largest in the industry to date – with the US Department of Justice for its role in promoting drugs for unapproved purposes. ▶ 2014 scandal: Chinese court found GSK guilty of bribing non-government personnel between 2007 and 2013 and was fined nearly \$500 million, with suspended prison sentences for four executives. ▶ Board composition and succession: Lack of emerging markets experience; concern over succession planning ▶ Remuneration concerns: Poor disclosure of targets; Limited share award holding period 	<ul style="list-style-type: none"> ▶ Multiple meetings with chair, board directors and executives over bribery and corruption scandal and company's response <ul style="list-style-type: none"> - Focus on honest appraisal by business and fundamental measures to reduce exposure - Met with chair to understand lessons learned to avoid a repeat of the mis-selling scandal in the US. ▶ Board composition: Discussions with the chair and senior independent director ▶ Remuneration: pressed for reform of policy: <ul style="list-style-type: none"> - Improved disclosure of all targets under the remuneration scheme - 2-year holding period post-vesting on share awards 	<ul style="list-style-type: none"> ▶ Culture and conduct: company announces fundamental reform of its sales business model <ul style="list-style-type: none"> - No more payment for health advocacy - Sales force incentivised based on skills and quality-based metrics rather than raw sales targets - Publication of clinical trials data ▶ Improvements to board composition <ul style="list-style-type: none"> - Respected chair appointed in 2015 - Additional independent non-executive director with emerging markets experience appointed in 2015 - CEO succession announced Q3 2016 ▶ Remuneration policy improved <ul style="list-style-type: none"> - Targets now disclosed at least retrospectively - 2-year holding period introduced

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Case study: Royal Dutch Shell

Improving climate risk disclosure – but not yet published Greenhouse Gas (GHG) reduction target

Engagement Summary

- ▶ 2013 – initial request for carbon asset risk disclosure
- ▶ 2015 – shareholder resolution passed with 98% support
- ▶ Met with company at Board and ExCo level to drive disclosure improvements

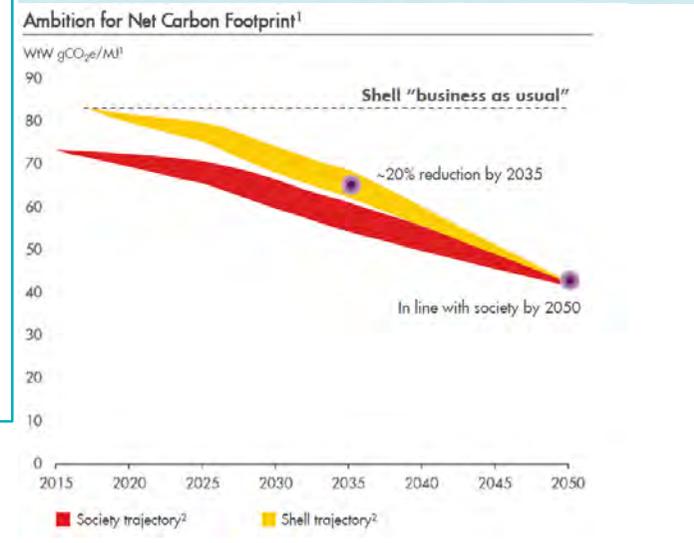
Changes at Company

- ▶ Publicly supported Paris climate negotiations and strengthening of carbon pricing
- ▶ Published position on energy transition and portfolio resilience
- ▶ Endorsed findings of Taskforce on Climate-related Financial Disclosures
- ▶ Set ambition to decarbonise the business in line with societal expectations – Net Zero by 2070
- ▶ Outstanding: public GHG reduction targets (Scope 1,2)

Example Results

SHELL PORTFOLIO RESILIENCE BY STRATEGIC THEME

	Demand shift in existing markets	New markets for low carbon products	Technology innovation	Comments
CONV. OIL	↓	↑	↑	<ul style="list-style-type: none"> Alternative fuels and efficiency may weaken underlying demand In-field innovation can reduce emissions
CONV. GAS	↑	↑	↑	<ul style="list-style-type: none"> Transition from coal to gas in power will support gas demand Potential for increased use of gas and electricity in transportation Decarbonisation through CCS can support long-term demand
INTEGRATED GAS	↑	↑	↑	<ul style="list-style-type: none"> Transition from coal to gas in power will support gas demand Potential for increased use of gas and electricity in transportation CCS technologies can improve CO₂ footprint and support long-term demand



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Case study: Glencore and Rio Tinto

Gender diversity

Background

- ▶ Various studies released showing the value of a diverse workforce.¹
- ▶ UN Sustainable Development Goals further strengthened the case for gender diversity.
- ▶ Hampton-Alexander review in the UK called for women to make up at least 25% of UK FTSE 100 company boards by 2015 and 33% of FTSE 350 boards by 2020.
- ▶ Three male non-executive directors were appointed to the **Rio Tinto** board in early 2017 resulting in only 2 female directors out of 12 on the board.
- ▶ **Glencore** was the last FTSE 100 company to include a female director on its board, first appointing a female director in 2014 with no further progress in 2017.

Engagement Summary

- ▶ In early 2017 we wrote to the chairs of boards of FTSE 350 companies outlining our intention to tighten our voting policy to oppose the chairs of nomination committees of FTSE 100 companies that fall significantly short of the gender diversity targets with no credible plans to achieve them.
- ▶ We raised our concerns over gender diversity with **Rio Tinto** ahead of the AGM, including a call with the chair, making it clear we would oppose his re-election.
- ▶ At **Glencore**, we raised our concerns with the chair and company secretary who acknowledged that the board diversity was not at an acceptable level, yet a male director was appointed ahead of the 2017 AGM.
- ▶ We made clear that we expect to see progress ahead of the next AGM and opposed the election of the chair and the chair of the nominations committee.

Results and next steps

- ▶ In February 2018 **Rio Tinto** announced appointment of a new female non-executive director.
- ▶ Her appointment only took effect after the 2018 AGM but was a step towards 33% female representation so we were able to support the new chair.
- ▶ In December 2017 **Glencore** appointed a second female non-executive director.
- ▶ The company is now in line with the 25% target set for 2015 but we continue to engage with the company on its plan to reach 33% by 2020.

¹ https://www.mckinsey.com/~media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity_full-report.ashx
<https://www.msci.com/documents/10199/04b6f646-d638-4878-9c61-4eb91748a82b>

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**OUTCOMES
BEYOND
PERFORMANCE**

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, unconstrained, real estate debt and direct lending

Multi asset

Multi asset inflation

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

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