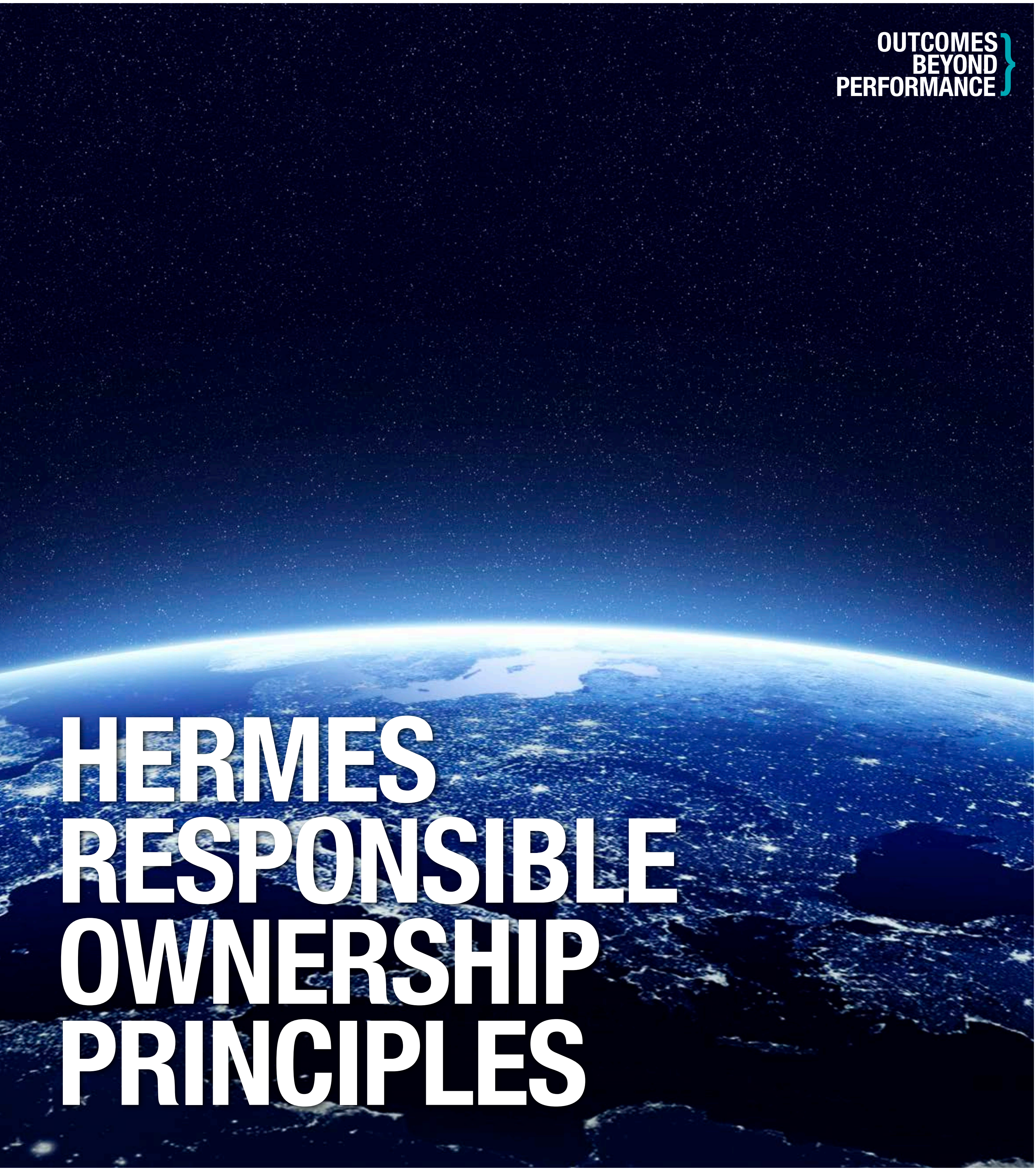
HERMES RESPONSIBLE OWNERSHIP PRINCIPLES



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HERMES
INVESTMENT MANAGEMENT

WHAT SHOULD OWNERS EXPECT OF LISTED COMPANIES, AND WHAT SHOULD LISTED COMPANIES EXPECT FROM THEIR OWNERS?

This document's aim is to create a common understanding between boards, managers and owners of the proper goals of a public company. It sets out a number of expectations which we believe should exist between owners, boards and managers.

Through these expectations, we aim to create a better framework for communication and dialogue between boards and management on the one hand and shareholders on the other. This can contribute to better management of companies and ultimately sustainable creation of wealth for their shareholders.

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INTRODUCTION

Hermes Investment Management is an asset manager with a difference. We believe that, while our primary purpose is to help beneficiaries retire better by providing world class active investment management and stewardship services, our role goes further.

We believe that 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.

In Hermes EOS, we have one of the largest stewardship resources of any fund manager in the world. This team of engagement and voting specialists enables pension funds and other longer-term institutional investors to meet their fiduciary responsibilities and become more active owners of companies. Hermes EOS helps to optimise the capacity of shareholders as responsible owners of the assets in which they invest and to incorporate longer-term sustainability and risk management issues into their ownership policies and practices. Its activities are based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without. Engagements may relate to the financial performance, strategic plans and risk management of companies and/or environmental, social and governance issues.

We do not seek to place new burdens on businesses, as it is not in our interest as investors to do that. This document highlights what many good companies already do. However, we believe that all boards, even those that oversee well-performing companies, benefit from analysing how the companies for which they are agents operate against our ownership principles. We expect one outcome of the updating of this document to be further re-appraisal of how businesses communicate with shareholders.

We realise that responsible behaviour by boards and management also requires investors to be responsible. A company that is demonstrating a clear commitment to delivering long-term sustainable returns to its shareholders should expect ongoing support from them. At Hermes, we aim to give this support by adopting a consistent, constructive approach.

We would be pleased to discuss the Hermes Responsible Ownership Principles with the boards and senior managers of public companies, shareholders and other interested parties, with the aim of creating the greatest possible clarity about our mutual expectations.

Note: We believe that the principles outlined in this document are relevant and applicable to companies with one- and two-tier board systems and, as such, do not explicitly distinguish between different board systems. Where the principles conflict with local legislation or regulation, their spirit should be taken into consideration.

WHAT WE EXPECT OF LISTED COMPANIES

OVERRIDING PRINCIPLE

Companies aim to provide goods and services for customers and society at a competitive quality and price. This can only be achieved sustainably if they create and preserve value over time, not only for their shareholders but also for all stakeholders, society and the environment.

Given this relationship, our overriding expectation is that companies be run not only for shareholders but with a wider purpose that benefits society. In turn, this will support the long-term interests of the beneficiaries of their shareholders, namely the savers and current and future pensioners who rely on sustainable returns in an economy and a society that is capable of providing them and their families with a secure future.

To succeed in the long run, companies will need to effectively manage relationships with stakeholders and have regard for the environment and society as a whole. Companies adhering to our overriding principle will not only create sustainable value for their shareholders but also benefit stakeholders, the wider economy and society.

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OUR PRINCIPLES

TRANSPARENCY AND COMMUNICATION

1 Corporate purpose

- Companies can only provide goods and services sustainably to their customers if they create and preserve value for their shareholders and vice versa.
- Their boards should articulate a corporate purpose that envisages long-term sustained benefits to their customers, acknowledging the needs of other stakeholders.
- Boards should ensure that the culture, strategy and major decisions of companies are guided by the corporate purpose.

In our view, a company's purpose is essential to its success. The best companies are guided by their purposes which set out their role in society and how they will improve the lives of people. We believe that delivering returns sustainably to shareholders is best achieved by companies providing goods and services that their customers want at a competitive quality and price and by providing value to all of their stakeholders, thereby contributing to meeting society's wants and needs. Enduring profitability and shareholder returns can only be achieved as a by-product of sustainable effort to fulfil the corporate purpose. Such a purpose should help the management and boards of companies to organise themselves, in particular their employees, to serve the needs of their customers and to take account of the views and aspirations of their other stakeholders.

A purpose should help companies set their values and guide the expectations of its stakeholders, including its shareholders. We believe that a clear, long-term purpose will help companies attract long-term shareholders.

If companies do not have a well-articulated purpose that provides a guide to their strategy and board, management and people, we encourage them to develop one. We also challenge companies to demonstrate why their purpose is optimal and how it enables them to develop in a sustainable and responsible manner.

We are of the opinion that effective corporate purposes will help companies develop their people, their brand and their human and social capital, as well as help them consider how best to manage their effects on the environment.

We believe that underlying every great company is a purpose that defines its relationship with and contribution to society through a strategy that is derived from its purpose. Above all, it should help to communicate its values to its stakeholders and the expectations that they can have about the company.

2 Disclosure

- Companies should disclose information which allows investors to make informed decisions about the acquisition, ownership obligations and rights and sale of their shares.
- They should clearly communicate their purpose, strategy, objectives, governance, risk management, key personnel, competitive position and operations.
- They should be willing to have an open, ongoing and high-level dialogue with shareholders on these issues.

A company cannot control its share price, which is affected by many external factors. However, it can seek to be clear about its purpose, strategy, objectives, financial disciplines and control and accountability mechanisms. Transparency and communication with shareholders and other stakeholders will create the best chance of a company being evaluated properly. This way it will gain the full benefits of access to a lower cost of capital through public markets, deliver sustained returns and therefore value to its owners. This requires a continual process of providing information and correcting misinformation to ensure the fullest possible understanding of the company by the market.

It is important that companies are honest about their prospects. For those companies with a long investment time frame, such as those involved in drug development or aerospace, there may be considerable delay between an investment and its subsequent return. However, there may be cases where companies simply promise better returns in the future without any strategic or operational plan to achieve that improvement. It is therefore important that companies are able to articulate a credible plan as to how and when sustainable performance and shareholder value will be delivered. Updates to the market should ensure that these plans are clear and honestly described, presenting any financial updates in this context.

We acknowledge that companies are sometimes concerned about providing insights to their competitors through their public disclosures. However, this rationale does not always withstand scrutiny. We would in particular note that it is much harder to implement a strategy than to disclose it. Even if a competitor has this information, it does not mean that it can replicate or improve on another company's performance. We therefore believe that fears of weakening competitive advantage are often overstated.

CORPORATE CULTURE

3 Culture, values and behaviour

- Companies should establish and nourish a strong, ethical culture which focuses staff on their corporate values and purpose.
- Such a culture will ensure that employees act cohesively for the long-term success of the business.
- Boards are responsible for setting expectations on conduct and overseeing the culture and behaviour.

Companies and the businesses they run rely on people and on the decisions taken by individual members of staff. No company of any size should therefore leave decision-making to only a few people. To ensure that individuals to whom authority is devolved take decisions that are aligned with the corporate purpose and sustainable returns, boards and management need to nurture and promulgate a culture which delivers on the purpose, aims and values of the business. This will require significant effort over a sustained period of time. In order to do so, boards must ensure that the company's purpose provides value to society and that behaviour and conduct is assessed against this bedrock and ethical and other values that the board expects. It is often easier to spot a weak or failing culture than one which will foster thriving business success. However, no cultures, including sub-cultures within companies, are fixed and can be improved and the board should aim to do so.

STRATEGY

4 Corporate and business unit strategy

- Based on their purpose, boards should set, implement and review group-wide strategies of their companies, as well as strategies for each business unit.
- These strategies should describe their target markets and competitive advantage in exploiting opportunities to generate sustainable returns above the cost of capital.
- Companies should understand the factors which affect the relevant market and their competitive advantages. They should be able to explain why they are the best parent for each of their businesses.

Long-term shareholder value requires the generation of returns well into the future. To assess a company's prospects, shareholders therefore need to understand the corporate strategy and the strategies of its business units.

Boards should be able to not only discuss the strategy's objectives but also the methods by which each objective is to be achieved.

Critical to this is an understanding of the demands and dynamics of the market and the advantage of the business in terms of, for example, consumer value, cost or access, which allow it to maintain a superior return compared to its competitors.

In assessing competitive advantage, a company should be able to explain what particular strengths or resources it has access to, which allow it to maintain the advantage. For example, a company may have an advantage that derives from human capital, scale, brands, technology or a combination of these and other factors.

Many larger quoted companies participate in a number of different businesses, whether these are defined by market, product or activity.

In each case it is essential that the board can explain convincingly why it is the best parent of any subsidiary company it owns. If a business would generate greater value if it were independent or managed by another company, and there are no clear synergies at the group-wide level, then the board should consider a plan to divest it.

STRATEGY

5 Focus on operating performance and value of investment plans

- Companies should seek to maximise the sustainable operating performance from their existing core business or businesses.
- Growth opportunities should be pursued in a measured way and be built on the core capabilities of the companies.
- They should be in line with the corporate purpose and not unduly divert resources from the existing core business or damage the short- and medium-term financial health of companies. Usually, any material acquisition should be fully and properly integrated before further businesses are acquired.
- Companies should ensure that all investment plans have been critically tested on their ability not only to create long-term shareholder value but also their effect on other stakeholders.
- If a company is considering diversifying or rapidly expanding, especially by acquisition, it should apply significantly higher hurdles to reflect the greater risks. The company should assess the purpose, values and culture of any targets and assure itself that they are compatible with its own.

Companies with strong and effective management will attract investors. Efficient operations go to the core of effective management and no company will succeed in the long run if it neglects the operational performance of each element of its ongoing business. Effective benchmarking will ensure a company obtains and maintains a clear picture of its operational performance in comparison to its competitors and related industries.

It is not enough for a company to be innovative or to have a strong strategy. Even the greatest innovations and the best strategy need to happen within the context of a strong performance of the existing business. If not, they are likely to fail to create the value that they should and destroy value in the core business through a diversion of resources and lack of sufficient attention by management. Yet, too often, the necessary management of operations is neglected in favour of the next big idea or strategic story. The best management teams are not distracted in this way, even if some advisers or investors encourage them to be.

This does not mean that a focus on operations is a static process. Effective management will always consider how it can better align internal structures with customer demand to improve delivery of its core products and services. It is through this ongoing internal process of challenge and improvement that companies deliver excellence to their customers and operational efficiency.

Once there is a position of operational strength, management will have a concrete foundation from which the company can develop. Management is more likely to have shareholder support for that development if it has demonstrated the quality of existing operations. However, even in this case the company should be clear on how it will maintain these advantages and otherwise adapt to changes in the market.

Boards should focus first on deriving the strongest sustainable operating performance from their existing business and assets before considering growth and expansion. We fully support companies that seek to exploit their competitive advantages and grow sustainably, provided this generates a capital surplus.

Organic as well as acquisitive growth involves taking risks, and boards should ensure that risk structures and procedures are put in place to oversee, identify and manage these. In particular, companies should critically test all investment plans to ensure that they will deliver sustained returns to shareholders and are aligned with their purpose. Such tests should include management capacity and other human capital issues, such as the cultural issues around integrating acquired businesses. Experience suggests that companies should ensure that they have thoroughly explored various scenarios when they consider diversifying from their core businesses or when making major acquisitions or when the acquired company's culture is significantly different to reflect the greater risks inherent in these strategies.

In general, we support companies that take well-judged risks and communicate well with their shareholders in order to grow sustainably.

Companies often seem unwilling to take advantage of our support and instead seek to balance risk within their portfolio of businesses. This approach makes little sense to diversified investors who are better placed to manage risk in this way.

FINANCIAL DISCIPLINES, STRUCTURE AND RISK MANAGEMENT

6 Measuring returns and managing risks

- Companies should have systems in place to monitor which activities contribute most to their purpose, thereby optimising returns to shareholders over the long term.
- They also ought to have systems to analyse, measure and manage risks. Boards should have practices in place to oversee risk management.
- Companies should have an efficient capital structure which will minimise the long-term cost of capital.
- They must obey all laws and regulations. Policies and disclosures should make clear how they manage relations with governments, tax authorities, regulators and others.
- Companies ought to demonstrate how their policies and practices seek to preserve and enhance their social licence to operate and not merely do the minimum required to meet their legal advice or their legal and regulatory obligations.

The primary goal of a company should be to maximise long-term sustainable returns to shareholders through the economic, efficient and effective provision of goods or services that customers or society need or want, while also delivering value to its other stakeholders.

We expect companies to have returns on invested capital above the cost of capital across the business cycle. Companies should only return excess cash to shareholders, limiting share buybacks to when shares are undervalued and there are no opportunities for investing with suitable returns in the future of the business.

We may invest in companies that are not currently achieving such returns but our expectation is that companies should have a coherent strategic plan to achieve this goal over time.

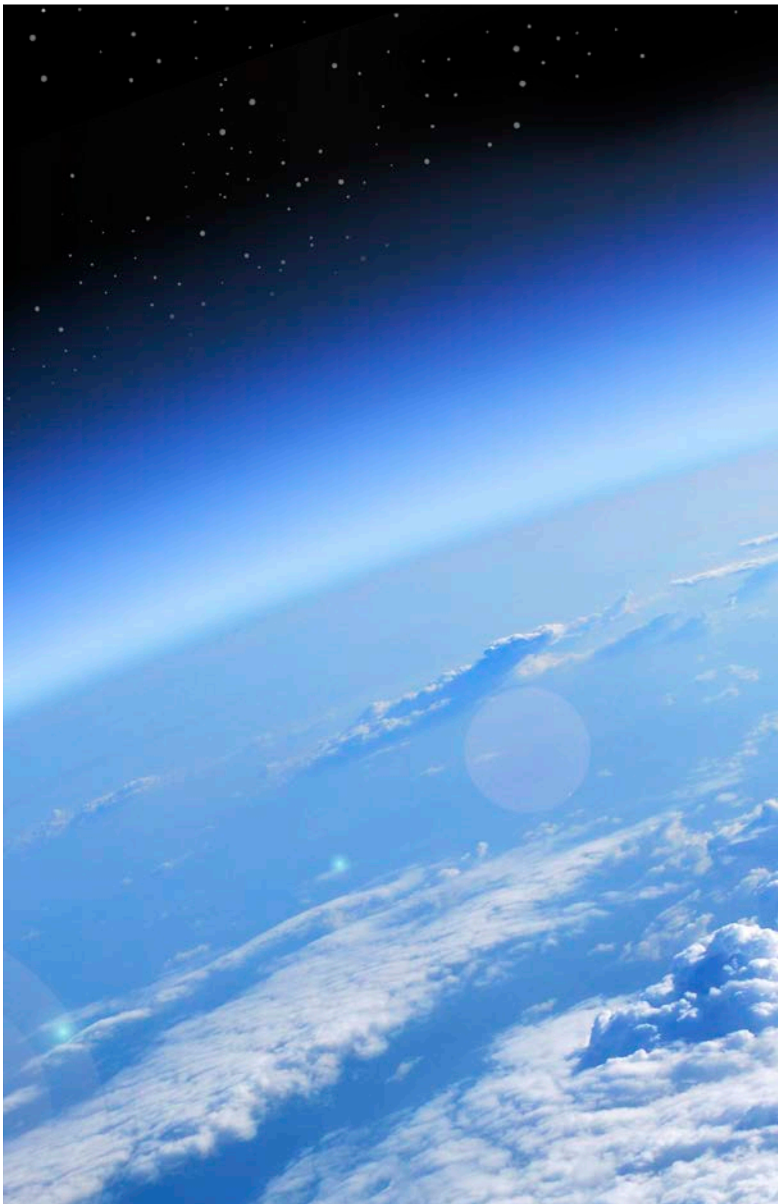
Boards should be encouraged to review investment assumptions and projections not only before but also after any investment is made to track against reality, rather than just comparing the outcome through budgetary processes.

If they do not, managers and investors will have little guide as to which of their decisions have been successful.

Risk management needs to be given a higher profile in companies. The risk management function should be integrated into the overall approach of the company and at its operational level. Risk analysis, measurement and management should be built into all operational activities. The risk control systems and procedures put in place should be regularly reviewed to ensure that they are effective and risks are measured and managed. The risk management function should be overseen by the board.

Companies should seek an appropriate balance of debt and equity. In doing so, they will lower their overall cost of capital, thus helping to improve the returns of shareholders. The appropriate debt/equity ratio is a question for the board and depends on the particular business and situation of the company concerned, as well as the wider economic circumstances. Cash-generative businesses may be able to tolerate greater leverage than more cyclical businesses.

The board should ensure that the company is clear on its business model and that its strategy includes identifying investors that are comfortable with how it manages its balance sheet.



STAKEHOLDERS

7 Relationships with stakeholders, workers and human rights

- To optimise long-term sustainable returns for their shareholders, companies should be managed holistically, taking into account the interests of other stakeholders and wider society.
- Where the interests of stakeholders appear to conflict, the board must give direction to the company's management on how to balance them in line with the company's purpose and values.
- The workforce is a company's most valuable asset and therefore a critical stakeholder. Companies must develop human capital management strategies and objectives that ensure that everyone in their workforce is treated with dignity and respect and should help each person develop their potential.
- Companies should use their influence on their suppliers to encourage and, where possible, ensure similar outcomes. Such human capital strategies will help companies to deliver greater value for their shareholders and for the people that work for them.
- They must ensure that they respect the human rights of those affected by their operations and their value chains. They should develop plans to identify and manage these human rights risks to minimise adverse and encourage positive human rights outcomes.

Well-managed companies cannot ignore the impact of their activities on wider society. However, this does not mean that businesses have limitless social obligations. It is the responsibility of businesses to generate returns for long-term shareholders. We believe that they will only be able to do so in the long term by effectively managing relations with their key stakeholders in line with their social purpose.

Moreover, actions by companies that place a burden on society ultimately increase costs for the ultimate beneficiaries – ordinary people and their savings – of their shareholders in a zero sum game for them. Boards should therefore ensure that companies minimise their externalities and contribute fairly and responsibly to society so that they add value to ordinary savers not just through returns on their savings but through their contribution to society.

We also believe that ethical behaviour by companies is likely to involve some notion of fairness and reciprocity and that managers seek to understand the position of those whom their actions affect and that they deal fairly with them. For this reason we believe that the best way to ensure that shareholders enjoy sustainable returns is by companies treating their customers ethically, fairly and with respect.

We believe that doing well economically in the long term and behaving ethically and responsibly are not mutually exclusive. At the very least, companies should not only obey the law but respect the human rights of those affected by their activities and be open about and prepared to discuss the impact of their activities. We believe that boards should regularly consider whether this is sufficient to manage legal and reputational risk and whether there are greater benefits, including financial, by being a more active and better corporate citizen.

STAKEHOLDERS

8 Management of environmental and social issues

- Companies should manage environmental and social factors and enhance their long-term sustainability.
- They need to demonstrate how they identify and explore related business opportunities and explain the structures and procedures in place to manage related risks.
- Companies should adopt voluntary and support statutory measures which minimise the externalisation of costs to the detriment of society at large.
- They ought to publicly support the ambition and goals of the 2015 Paris Agreement on climate change.

We recognise that a range of environmental and social issues may affect long-term shareholder value and the company's sustainability. We therefore believe companies should effectively identify and explore related opportunities and manage relevant risks. We also expect companies to disclose to shareholders on a regular basis how they do so and provide evidence that this process is effective.

As companies operate in a competitive environment, there may be circumstances where there is a big incentive to externalise costs, in other words to make a profit for the company while high costs are incurred by society at large. We ask companies to welcome frameworks, voluntary where possible, statutory where necessary, which encourage businesses not to externalise costs. As most investors are widely diversified, it makes little sense for them to support the activities of one company which is damaging to overall economic activity. The ultimate beneficiaries of most investments include ordinary people who depend on private pensions and other savings. It therefore makes little sense for institutional investors to support commercial activities which have an equal or greater cost to society. Where companies are aware that these conditions may exist, they should support measures to align shareholder interests with those of society at large.

We see climate change as the largest externality affecting the global economy over the long term. It is therefore necessary for all companies to minimise their own externalities arising from climate change. We believe that, as well as reducing their own fossil fuel consumption, this means helping their customers and suppliers to do likewise and advocating for and supporting public policy and best practice to assist these efforts.

GOVERNANCE

9 Boards, corporate decision-making and accountability

- Companies should be guided by boards with diversity of gender, ethnicity and nationality.
- Directors should have a range of competencies, knowledge and experience to enable them to effectively carry out their duties and responsibilities. These include selecting, guiding, monitoring, challenging and, where necessary, replacing management.
- Thus, they require an ability to step back and act objectively and independently in the long-term interests of the company and its shareholders. The leadership structure of boards should reflect these objectives.
- Ideally, boards should be led by an independent non-executive chair. Where a different approach is preferred, this should be convincingly explained and justified.
- The independent directors should have the formal powers and necessary characteristics to challenge, when necessary, management and the interests of large or controlling shareholders.
- Companies must establish and maintain an appropriate culture and expectations for behaviour by everyone at the company, not least by demonstrating the right tone from the top and seeking to have this cascaded throughout the organisation.
- Boards should assume responsibility for remuneration policies and oversee the risk management function.
- Companies should allow shareholders to participate in an appropriate forum to make decisions about fundamental changes to the business, for example, material changes to the shares in issue or the share structure, significant acquisitions and disposals, governance structures and procedures.
- Shareholders should have effective powers to hold their boards and – at least indirectly – senior management to account.

GOVERNANCE

Shareholders should have the right to participate in and to be sufficiently informed about decisions concerning significant changes, such as amendments to constitutional documents, authorisation of additional shares, major acquisitions or disposals and closure of businesses. Companies should ensure shareholder participation in key corporate governance decisions, such as the nomination, election and removal of directors and external auditors. Shareholders should also be given the opportunity to express their views on remuneration policies for top managers and board members. Where regulation does not provide these rights, companies should consider providing them.

To ensure a proper degree of accountability, we strongly believe that all directors should stand for re-election, subject to continued satisfactory performance, on a regular basis. The frequency of re-election should support the accountability of directors and also take into consideration the stability of the board. In this context, other accountability mechanisms, such as an annual vote on the discharge of directors and the seriousness with which the board approaches engagement with shareholders should be taken into account. At least some, and if required by local regulation or best practice all, of the directors should be submitted for re-election every year.

Shareholders should be entitled to vote on the election and re-election of each director separately. Elections should normally occur on the same date and be for the same tenure.

Shareholders holding a significant percentage of shares should have the right to propose nominees for election to the board and request extraordinary general meetings to raise and discuss important issues, such as fundamental changes to the business.

Safeguards should be in place to prevent abuse of these important rights, which already exist in many markets but are generally only used in exceptional circumstances where engagement with the board has failed. Companies governed by legal systems that do not allow the removal of directors by a majority of shareholders should consider providing such a right by an amendment of their constitutional documents.

Boards should ensure that they comprise members with a relevant and diverse range of competencies, knowledge, backgrounds, experience and qualities. These include leadership skills, including mentoring, to move the company forward, a facility with group dynamics, technical expertise to make informed decisions, sufficient independence and courage to challenge executive management and to hold it to account. We expect boards to ensure that a significant number of their members are likely to be able to exercise independent judgment. Diversity, in all its dimensions, should help broaden the perspectives of the board and help improve its decision-making. We emphasise that it is balance and quality that matters most. Regular renewal of directors is essential to bring new ideas and attributes to the boardroom as the business evolves.

Non-executive directors should have the resources to enable them to fulfil their duties and responsibilities properly. Above all, boards need to ensure that non-executive members receive all the necessary information in a timely manner and that they have unfettered access to senior executives and the necessary support, including independent advisers as required.

Boards should establish and maintain a strong, ethical internal culture which focuses its staff on the company's long-term success. Such a culture will ensure that employees act cohesively to fulfil the company's purpose.

Effective risk management policies and practice, including appropriate remuneration, are essential for sustainable success. Thus, we believe that boards rather than committees should assume the ultimate responsibility for remuneration policies and closely oversee the risk management function. The independent directors should, however, review, discuss and decide on remuneration policies as a group or in a majority – independent, dedicated committee. Similarly, risk management needs to have the highest importance.

Boards ought to undertake a formal and rigorous evaluation of their performance and that of individual members on an annual basis. This should help to ensure that their composition is optimal, that they function properly, that each director makes a full and useful contribution and that board leadership is structured and exercised effectively. Companies should disclose the process for these evaluations to demonstrate their rigour.

Companies should also provide information about their director appointment procedure, including the factors considered when searching for candidates and how the search is conducted. Boards should provide sufficient information about their candidates to the company's shareholders well in advance of the shareholder meeting at which elections take place. This should include other existing and former roles, relevant skills and experience and an assessment of the director's independence. Planning the succession of board members, particularly of the chair of the board, any lead or senior independent and the CEO, is especially important to ensure the effectiveness of boards over time. At the very least, companies should provide investors with clear evidence of succession planning.

GOVERNANCE

10 Alignment of interests through remuneration

- Companies should design and implement remuneration policies that align the interests of management with their purpose, thereby helping to provide sustainable value to shareholders over the long term.
- Boards should seek shareholder approval of executive remuneration policies and of any significant changes to them.
- Companies should be mindful of their social licence to operate when developing pay policies, not least when assessing quantum.

Remuneration packages should not pay more than is necessary for executives of the calibre required to run the company successfully in the long term. At the same time, remuneration should be simply structured in a way that aligns senior executives with long-term shareholders. Flawed remuneration policies may encourage executives to take excessive risks, scale back or avoid making necessary longer-term investments in order to prioritise short-term profits. In doing so, they fail to align the interests of management with those of their shareholders and wider society. We therefore look for evidence that remuneration structures reward sustainable returns and incorporate some risk metric and measure of the cost of capital involved. Bonus-malus systems and, where appropriate, the use of downward discretion on variable pay can help to reduce the misalignment between pay received by executives and the experience of long-term shareholders. The greatest alignment with long-term shareholders is executives owning shares for the long-term.

Remuneration policies and the amounts paid to the most senior management should be disclosed annually so that shareholders can assess whether the interests of senior management have been aligned with their own long-term interests and the stated purpose and strategy to achieve it. These reports can provide a useful starting point for constructive dialogue between companies and shareholders. We encourage companies that produce remuneration reports to put them to a vote at the annual general meeting, whether or not this is required under the applicable law. This encourages valuable dialogue and gives shareholders the opportunity to endorse the decisions taken on their behalf with regard to remuneration policies.

We have developed five remuneration principles which read as follows:

1 Remuneration committees should expect executive management to make a material long-term investment in shares of the businesses they manage.

2 Pay should be aligned to long-term success and the desired corporate culture throughout the organisation.

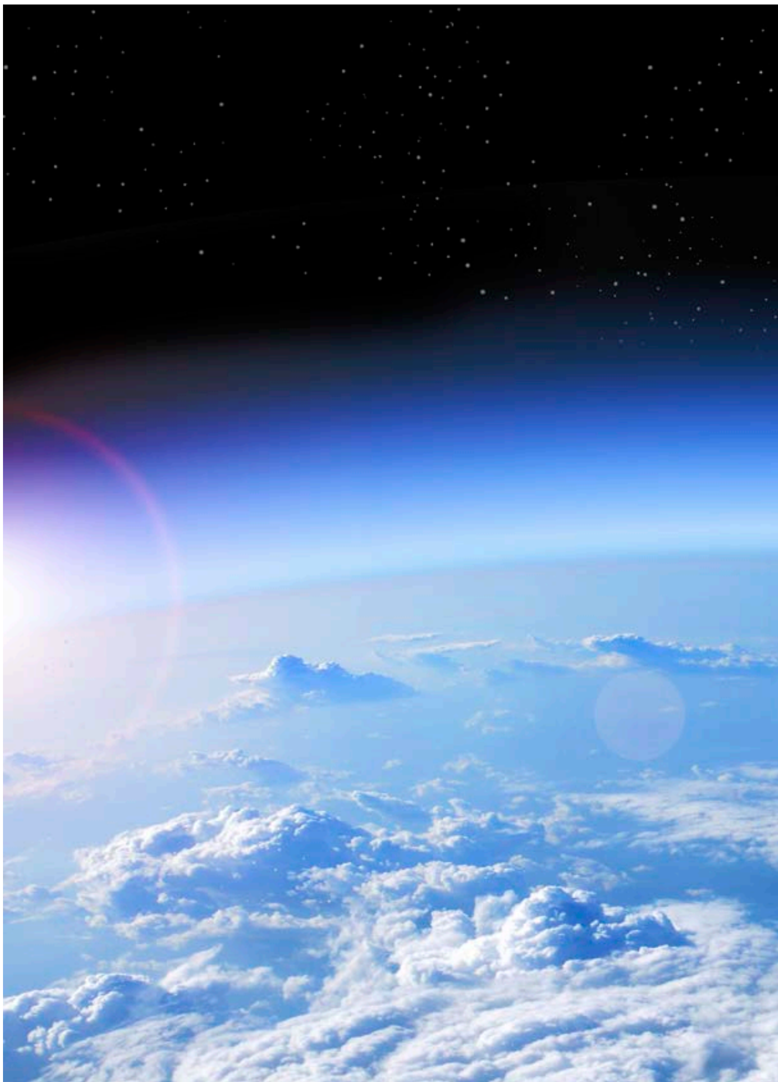
3 Pay schemes should be clear, understandable for both investors and executives and ensure that executive rewards reflect long-term returns to shareholders.

4 Remuneration committees should use the discretion afforded them by shareholder to ensure that awards properly reflect business performance.

5 Companies and investors should have regular discussions on strategy and long-term performance.

We have subsequently expanded our thinking in our Clarifying Expectations document[1].

[1] https://www.hermes-investment.com/wp-content/uploads/2017/09/Remuneration-Principles-Clarifying-Expectations.pdf



WHAT LISTED COMPANIES CAN EXPECT FROM US

We have long been a proponent of responsible ownership, which we define as taking an active interest in the long-term performance of the companies in which we and our clients invest. We refer to responsible ownership as stewardship.

Companies that have a clear purpose and are run by managers and directors who deliver sustained benefits to their customers and have the best long-term interests of shareholders in mind, while acknowledging the needs of its other stakeholders, can be confident of our continuing support. We begin to engage or intensify our engagement when situations arise where investor involvement could lead to better company performance.

It means working with boards, management teams and other shareholders and stakeholders to bring about changes in strategy, financial structure, operations, risk management and/or environmental, social or governance matters that will, over time, lead to superior long-term performance by the company. Importantly, the focus on long-term and sustainable returns ensures a consistent approach to all our engagements.

This approach is consistent with the recommendations of the International Corporate Governance Network's Global Stewardship Principles, which are available at **www.icgn.org** and the UK's Stewardship Code, which is available at **www.frc.org.uk.**

1 Communication

The Hermes Responsible Ownership Principles set out our expectations and form the basis of our engagements with companies on a wide range of issues, as described in the first part of the document. We also think that it is important that they explain what companies can expect from us and set out what we regard as responsible ownership.

Most importantly, companies can expect a consistent approach based on the overriding requirement that companies are run in the long-term interest of shareholders by providing sustained benefits to their customers. Having said this, while we conduct our engagements with companies in accordance with the Hermes Responsible Ownership Principles, we apply them pragmatically and with thought. We can be flexible when companies provide convincing explanations for their chosen approach.

We send our policy documents to companies with which we engage and publish them on our website: www.hermes-investment.com.

We review our principles and policies periodically to ensure that our approach continues to be consistent with the objective of encouraging practices that enhance long-term shareholder returns. We also participate in national and international forums that seek to promote shareholder interests and improve best practice in corporate governance.

2 A consistent approach

We aim to maintain a consistent approach in our dealings with investee companies. When we are seeking changes at a company, we will consistently advocate these unless a company's circumstances change or it otherwise demonstrates that the change is no longer required.

As far as possible, we will make the same people available to meet the investee company on each occasion. We will keep records of all meetings so that, where this is not possible, our representatives voice a consistent view.

3 A thorough understanding of markets and companies around the world

Integrated analysis, investment and engagement

We apply an integrated approach to analysing companies. This enables us to identify those which are failing to perform, whether in terms of financial returns, risk management or stakeholder relationships which may stifle opportunities or destroy value and reduce returns over the long term. It is those companies which will receive our greatest attention and are likely to be the ones with which we engage most intensively.

When undertaking an engagement, we assess the company's historical financial performance, the degree to which it is meeting its purpose and strategic objectives and managing its risks and opportunities, including its stakeholder relationships. We also examine the logic of the component businesses and financing structures. This helps us identify the causes of the company's underperformance and the changes necessary to remedy them. Furthermore, it enables us to estimate the fundamental value of the company which might be realised once the changes are made. We also review and assess the quality of the company's governance. In addition, we may try to identify other shareholders with whom we might work. From this analysis, we take a view on the potential for us to be a catalyst for change. Our analysis is based on information produced by the company, supplemented by research from a wide range of sources and our own staff. We put considerable effort into understanding the reasons for a company not fulfilling its potential and the course of action for the board and management team to improve matters.

To be effective as responsible shareholders, we need to have constructive, informed discussions with boards and management teams based on a thorough understanding of the company's past and potential. We need also to build trust and respect between Hermes and the management teams and boards of the companies we engage with.

We believe in the delegated nature of corporate management and do not want to micro-manage companies. We see our role as providing the board and management with a shareholder's perspective and working with and supporting them to address weaknesses that are detrimental to the company's long-term performance. Meeting senior management and board members is also a critical part of our developing mutual understanding before and during an engagement programme.

A multi-disciplinary, multi-national team

Effective engagement requires a range of skills, many of which are not traditionally found in fund management houses. Our stewardship team includes multi-faceted skills and experience, such as industry executives, senior strategists, corporate governance and climate change experts, accountants, ex-fund managers, and lawyers.

They have the necessary skills, insights and experience to contribute to discussions on a wide variety of structural, governance, stakeholder, strategic, risk and financial matters. Moreover, as we operate across markets on a global basis, the team is multi-national and multi-lingual. This diversity assists our understanding of the financial, legal and, above all, cultural environment in which the companies we engage with operate.

4 A long-term perspective when exercising ownership rights

We seek to address strategic, operational, financial and structural governance weaknesses with long-term solutions. Any change we encourage the board or management to make through the exercise of voting rights or engagement will be with the intent of improving a company's long-term performance, in line with the interests of all long-term shareholders and acknowledgment of the legitimate issues of stakeholders.

Voting

We consider the vote as part of the asset a shareholder owns. Hermes will therefore lodge proxies at shareholder meetings in accordance with the Hermes Responsible Ownership Principles, our country policies and voting guidelines, unless our contact with the company or interpretation of its disclosures suggests that voting differently would better support the achievement of our engagement objectives and/or the long-term performance of the company. We also make voting recommendations in a similar fashion on behalf of many of our stewardship clients in line with their voting policies.

Where we vote or recommend voting against or abstaining on management resolutions or support shareholder resolutions opposed by management, we normally contact companies, either within our engagement programme or in which our clients have a significant stake, before the meeting. This helps us to take a fully informed view and can lead us to change our intended vote or voting recommendation. If we oppose management recommendations on any matter, we will inform these companies of our reasons for doing so.

Takeover situations and proxy contests

We prefer change from within companies and thus will normally support incumbent management in hostile takeover situations. However, such support is conditional on our confidence in the target company and that its board and management is acting in the interests of long-term shareholders.

Where confidence has been lost in a board and/or management team or where there are clearly synergistic or strategic benefits to be realised through a take-over or a proxy contest, we will consider supporting a bid or a dissident shareholder.

5 A constructive, confidential dialogue with boards and senior management

We prefer not to take a public route when seeking change at companies. In our experience, working constructively with boards and management in private is most effective in achieving positive change. However, on some occasions, when we think it is helpful, we may use the media and other public forums to drive change.

If we speak to the media, our comments should come as no surprise to the company because we have either already made the same points to the company or our position on major issues is already well-known through these and our other principles and policies.

Senior Hermes executives monitor our engagement activities to ensure the consistency and integrity of our engagements and their adherence to these Principles and our approach.

Furthermore, our clients receive regular reports on our governance and engagement activities and have the opportunity to question the stewardship team on its plans and performance against the objectives it has set on their behalf.

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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, real estate debt and direct lending

Multi asset
Multi asset inflation

Stewardship
Active engagement, advocacy, intelligent voting and sustainable development

Offices

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Why Hermes EOS?

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