



OUTCOMES
BEYOND
PERFORMANCE

PUBLIC ENGAGEMENT REPORT

Greening our world: how investors are
tackling climate change

Q4 2018

This report contains a summary of the stewardship activities undertaken by Hermes EOS on behalf of its clients. It covers significant themes that have informed some of our intensive engagements with companies in Q4 2018.

The report also provides information on voting recommendations and the steps we have taken to promote global best practices, improvements in public policy and collaborative work with other long-term shareholders.

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This report has been written and edited by Claire Milhenc, Communications & Content Manager, Hermes EOS.

Engagement by region

Over the last quarter we engaged with 282 companies on 697 environmental, social, governance and business strategy issues and objectives. Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously.

Global

We engaged with **282** companies over the last quarter.



- Environmental **24.5%**
- Social and ethical **22.2%**
- Governance **28.7%**
- Strategy, risk and communication **24.5%**

Australia and New Zealand

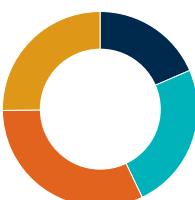
We engaged with **two** companies over the last quarter.



- Environmental **33.3%**
- Social and ethical **33.3%**
- Governance **33.3%**

Developed Asia

We engaged with **51** companies over the last quarter.



- Environmental **18.5%**
- Social and ethical **24.4%**
- Governance **31.9%**
- Strategy, risk and communication **25.2%**

Emerging and Frontier Markets

We engaged with **24** companies over the last quarter.



- Environmental **22.0%**
- Social and ethical **22.0%**
- Governance **22.0%**
- Strategy, risk and communication **33.9%**

Europe

We engaged with **62** companies over the last quarter.



- Environmental **22.8%**
- Social and ethical **20.1%**
- Governance **29.5%**
- Strategy, risk and communication **27.5%**

North America

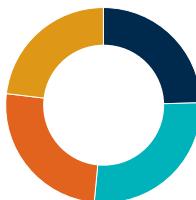
We engaged with **88** companies over the last quarter.



- Environmental **30.0%**
- Social and ethical **19.4%**
- Governance **30.0%**
- Strategy, risk and communication **20.7%**

United Kingdom

We engaged with **55** companies over the last quarter.



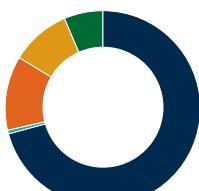
- Environmental **24.6%**
- Social and ethical **26.9%**
- Governance **25.4%**
- Strategy, risk and communication **23.1%**

Engagement by theme

A summary of the 697 issues and objectives on which we engaged with companies over the last quarter is shown below.

Environmental

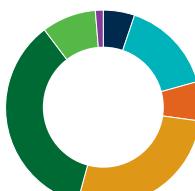
Environmental topics featured in **24.5%** of our engagements over the last quarter.



- Climate change **70.8%**
- Forestry and land use **0.6%**
- Pollution and waste management **12.3%**
- Supply chain management **9.9%**
- Water **6.4%**

Social and ethical

Social topics featured in **22.2%** of our engagements over the last quarter.



- Bribery and corruption **5.2%**
- Conduct and culture **15.5%**
- Diversity **6.5%**
- Human capital management **27.1%**
- Human rights **35.5%**
- Labour rights **9.0%**
- Tax **1.3%**

Governance

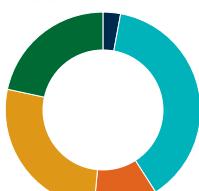
Governance topics featured in **28.7%** of our engagements over the last quarter.



- Board diversity, skills and experience **28.0%**
- Board independence **17.0%**
- Executive remuneration **29.5%**
- Shareholder protection and rights **16.5%**
- Succession planning **9.0%**

Strategy, risk and communication

Strategy and risk topics featured in **24.5%** of our engagements over the last quarter.



- Audit and accounting **2.9%**
- Business strategy **38.0%**
- Cyber security **10.5%**
- Integrated reporting and other disclosure **26.9%**
- Risk management **21.6%**

Taking action on climate change

Just over one year on from the launch of Climate Action 100+ at the One Planet Summit in Paris, what have investors achieved?

Deadly wildfires in California, a record-setting heatwave in Europe, and hurricanes tearing up the U.S. east coast – in 2018, the devastating impact of climate change became impossible to ignore.

In October, the United Nations' Intergovernmental Panel on Climate Change (IPCC) issued a clarion call for action, warning there were just 12 years left to keep global warming to a maximum of 1.5°C. This would mean cutting carbon pollution from 2010 levels by 45% by 2030, requiring rapid transitions in all walks of life from energy and industry, to transport and cities.

Such a challenge can seem overwhelming for us as individuals, but by banding together, investors can be a powerful force for change. To this end, Hermes was among some 310 investors with over \$32 trillion under management who signed up to the Climate Action 100+ initiative, a five-year plan to help achieve the goals of the Paris Agreement.

As signatories, investors agree to engage with more than 100 of the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures, and improve governance on climate change risks and opportunities.

The initial list of 100 companies, drawn up in December 2017, targets the systemically most important emitters – together accounting for around 85% of annual greenhouse gas emissions from fossil fuel combustion. Warming of 2°C is expected to result in additional climate-related damages of \$8.1–\$11.6 trillion globally before 2050 – a significant risk to investor portfolios.

In July 2018 an additional 60 companies, known as the "+" list, was added. This is comprised of companies that have a significant opportunity to drive the clean energy transition or may be exposed to climate-related financial risks that are not captured solely by emissions data.

Setting the scene

Climate Action 100+ is a major global initiative that aims to help limit global warming to less than 2°C by engaging with over 100 of the world's biggest greenhouse gas emitters. Global carbon emissions jumped to a record high of 37.1 billion tonnes in 2018, according to a Global Carbon Project report, driven by rising coal use and road traffic volumes. UN scientists warn that to limit global warming to the Paris Agreement goal of 1.5°C, greenhouse gas emissions need to fall by 45% by 2030. Current commitments put the world on track for around 3°C of global warming, posing significant risks for society and the economy.

Hermes EOS is leading or co-leading the engagement on 27 companies, including oil majors ConocoPhillips and Chevron, miner Anglo American and electronics manufacturer Hon Hai Precision Industry, which makes components for Apple. We are also collaborating with other investors on another 14 companies.

As a lead or co-lead investor, we are one of the main points of contact between the company and the initiative, co-ordinating meetings, providing updates and ensuring the engagement progresses.

Under the CA100+ initiative, the engagement agenda has three areas of focus. Firstly, it aims to secure commitments from companies that they will implement a strong governance framework setting out the board's accountability and oversight of climate change risk.

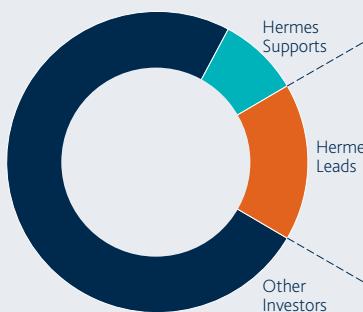
Secondly, companies must take action to reduce greenhouse gas emissions and align their business models to the goals of the Paris Agreement. Thirdly, they must provide better disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), so investors can better understand the inherent risks that climate change poses to their portfolios.

Raising awareness

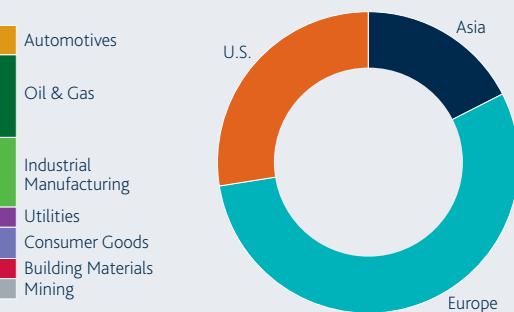
In 2018, the main aim was to raise awareness of the initiative and signal to companies its urgency. That meant sending letters to the companies for which we act as lead or co-lead to explain the objectives, and speaking at company AGMs, including those of BP, Centrica, Volkswagen, Anglo American, Royal Dutch Shell, Siemens and Hon Hai.

CA100+ is already bearing fruit, with some key milestones achieved at Anglo American in response to questions raised at the AGM by CA100+ investors led by Hermes EOS. The company committed to publishing a robust analysis of its resilience to low carbon scenarios and

Breakdown of companies in CA100+



Hermes Regional Breakdown





a consistency review of its lobbying activities, both by the next AGM. The latter will assess whether Anglo American's membership of certain trade associations, which lobby against carbon pricing, is consistent with the company's own policy on climate change. The company also set greenhouse gas reduction targets for 2030, confirming at the AGM that these are stretching and science-based, and is establishing the technologies and approaches to start operating a carbon neutral mine by 2030.

Following pressure from the CA100+ leads, oil major Royal Dutch Shell said it would set carbon emissions targets for the next three-to-five year period, in addition to its long-term ambitions to reduce its carbon intensity. Also, subject to a shareholder vote in 2020, it will link these targets with the long-term incentive plans of senior executives, the first energy company to do so. As a supporting CA100+ investor, Hermes EOS called on the company to set short-to-medium-term targets in a statement at the company's 2018 AGM in the Netherlands.

Shipping giant AP Moller Maersk, another CA100+ company where we are co-leading the engagement, has promised to cut its carbon emissions to zero by 2050, demonstrating that even in industries where the solutions are not yet available to replace fossil fuels, companies can set ambitious, long-term targets.

Shareholder resolutions

In 2019, activity will step up, with Hermes EOS co-chairing a sub-group on shareholder resolutions in Europe. These are important tools for engagers, particularly where change is needed urgently but progress has been slow. The good progress made at Anglo American followed the successful filing of a shareholder resolution at the company in 2016. Often, the mere possibility of a shareholder resolution can help bring about change, as was the case at Royal Dutch Shell in 2018, where it helped to trigger its announcement that it would set carbon intensity targets.

Case study – Chevron by Tim Goodman from Hermes EOS



As a lead engager with Chevron for Climate Action 100+, we are building on the foundations of our previous engagement with this US oil giant. In 2016 we co-filed a shareholder proposal calling for Chevron to report on its management of climate change risks, including the impact of a 2°C global warming scenario on its business model. The proposal received the backing of 41% of shareholders.

In response, the company published its first climate change report ahead of its 2017 annual shareholders' meeting, while its 2018 report improved significantly on this. We encouraged Chevron to join the Oil and Gas Climate Initiative (OGCI), which it has done, meaning

it is now bound by the OGCI's methane reduction commitments. It had previously resisted setting targets in this area.

Under the auspices of CA100+, we met with members of Chevron's senior management team to discuss their latest climate change report in some detail, and have asked if CA100+ can make a statement at the company's 2019 shareholders' meeting.

Chevron has been expanding its team to engage with investors on climate change and other ESG matters, and has become more amenable to frank discussion. It has indicated that it will publish another climate report in the second quarter of 2019, which we hope will demonstrate further advances.

Case study – Sinopec by Christine Chow from Hermes EOS



China Petroleum & Chemical Corporation, also known as Sinopec, is a major Chinese oil and gas company included in Climate Action 100+. We have engaged with the company on climate change since 2014 as it is one of the world's largest emitters of greenhouse gas emissions. In the last 18 months we have focused on the company's disclosure of its environmental performance, a crucial step in the development of a strategy for the transition to a low-carbon environment.

Sinopec has set up several internal task forces to assess its climate change-related risks and has made changes to the criteria and processes for its investment in new projects, such as the inclusion of a stress test of the financial impact of low-carbon scenarios. This has led to the rejection of some projects.

It has set a methane-specific reduction target, although this is not disclosed. On the positive side, following our recommendation that board secretariat representatives attend CDP training, and the provision of additional materials on TCFD, Sinopec disclosed its absolute level of carbon emissions by business divisions for the first time, in the second quarter of 2018, in line with the CDP's framework.

We are encouraging Sinopec to improve the consistency of its disclosure on greenhouse gas emissions, to further refine its climate change risks and opportunities assessment framework, and to adopt science-based targets as per the TCFD recommendations.

Currently, resolutions are under consideration at several European companies concerning the alignment of their capital expenditure to the goals of the Paris Agreement. Another potential focus for shareholder resolutions, following their success at mining companies in 2018, is to ensure companies' public policy positions are aligned with those of their trade organisations, a hot topic because of the power wielded by industry bodies in policymaking.

However, it is important to recognise that engagement can be challenging, and getting support from company boards takes time. Some auto manufacturers have been defensive or reluctant to engage with investors on the business model implications of the transition to a low carbon world. Several have adopted a 'wait and see' attitude, rather than being proactive in trying to change consumer behaviour. Faced with the need to radically rethink their operations and product offering, some companies prefer to pass the buck, blaming governments for failing to roll out electric vehicle charging points quickly enough, or sluggish consumer demand.

CA100+ is also tackling the demand side of the fossil fuel equation via power generators, grid operators and distributors. As co-lead for the European utilities sector, Hermes EOS has helped to establish a five-year strategy that outlines investor expectations for the sector as well as the potential tools for engagement with 11 companies.

As part of this sector strategy, a letter was sent to European utility companies calling on them to set out their transition plans consistent with the goal of a 1.5°C future, including the compatibility of their capital expenditure plans. The letter, which was also published in the Financial Times, followed hard on the heels of the UN climate talks in Poland in December and was backed by investors collectively representing \$11.5 trillion.

The utilities companies were asked to set out explicit timelines and commitments for the elimination of coal use in EU and OECD countries by no later than 2030, defining how they would manage near-future write-downs from fossil fuel infrastructure. We also asked companies to support the development of climate policy aligned with the Paris Agreement and to ensure that their trade associations were aligned with this objective. Laggards or non-responsive companies can expect investors to employ bolder tactics in coming years if they continue to be misaligned with global decarbonisation goals.

Eurelectric, a sector association representing the electricity industry at a European level, responded via a letter to the Financial Times in December. This stated that it was firmly committed to leading the energy transition, with the aspiration of achieving full carbon neutrality well before the middle of the century. "We look forward to working more closely with investors to deliver on the Paris agreement and accelerate the energy transition," it added.

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A bitter pill – tackling America's opioid crisis

The economic cost of the US opioid epidemic runs into billions of dollars and has sparked hundreds of lawsuits, while overdose deaths keep climbing, reflecting wider societal harm. What can investors do to hold companies to account and help wean the US off its fatal addiction?

Ever since Thomas De Quincey penned his 19th century classic Confessions of an English Opium-Eater, the dangers of using drugs derived from the humble poppy have been well known. When opioids are easily available, users tend to take increasing quantities to achieve the same effect – sometimes with fatal results.

According to data from the US Centers for Disease Control and Prevention (CDC), overdoses involving opioids killed more than 42,000 people in 2016, five times higher than in 1999, with 40 percent of the deaths from prescription opioids.

That has social and economic costs – labour participation rates in the US are falling, while the total cost of the US epidemic was put at \$504 billion for 2015, according to data from the White House's Council of Economic Advisors, equivalent to 2.8 percent of GDP that year.

What has fuelled this epidemic? The problem is complex, with multiple contributing factors. In the US, inadequate health insurance may not cover a long course of physiotherapy to address the root cause of chronic pain, while prescription painkillers offer a cheap alternative. Pharmaceutical companies are allowed to market their products directly to doctors, and have been challenged for failing to warn physicians about the potential dangers of using opioid painkillers. Finally, in a market-based system, doctors may be wrongly incentivised to agree to patient demands for repeat prescriptions, or to select one option over another due to a drug company's marketing tactics.

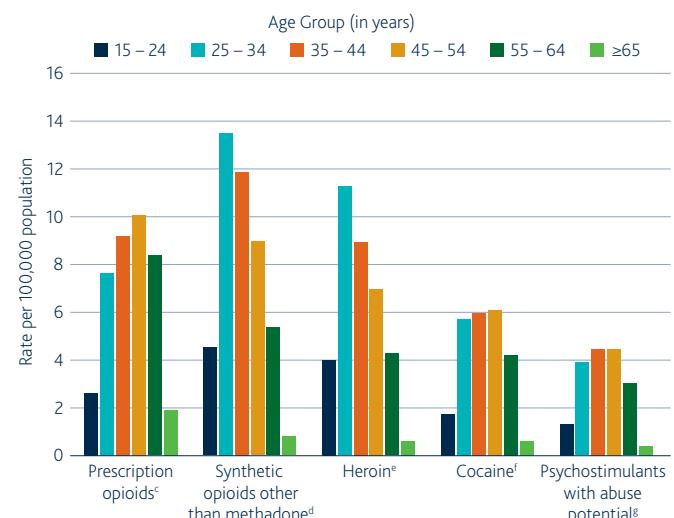
Opioids are highly addictive even when patients use them as directed, and with doctors prescribing pills for extended periods, it's easy to see how a nation became hooked. In addition, synthetic opioid fentanyl is 100 times more potent than morphine, so the risk of accidental overdose is higher.

The US government has tried to alleviate the crisis by passing the Support for Patients and Communities Act, which aims to boost research on non-addictive painkillers and improve access to addiction treatment for Medicaid patients. But critics say the legislation falls short of what is needed to tackle an epidemic that has multiple complex causes requiring systemic solutions.

Setting the scene

The deaths of musicians Prince and Tom Petty in 2017 shone a spotlight on what has become a public health emergency in the US – opioid overdose fatalities now exceed those from guns and motor vehicles. According to data from the US Centers for Disease Control and Prevention, there were more than 72,000 drug overdose deaths in 2017, with the biggest increase related to the synthetic opioid fentanyl or fentanyl analogues. That compares with some 40,100 traffic-related fatalities and 15,650 fatal shootings, excluding suicides. Now drug manufacturers, distributors and pharmacy chains are facing litigation and increased regulatory scrutiny as authorities attempt to claw back the cost of dealing with the epidemic. Over 1,000 lawsuits have been consolidated into the Ohio Multidistrict litigation, prompting comparisons with the multi-million dollar class action suits against Big Tobacco in the 1990s.

Rates^a of drug overdose deaths^b by drug or drug class and age category — United States 2016



Source: National Vital Statistics System, Mortality File, CDC WONDER.

a Rate per 100,000 population using the vintage year population of the data year. Because deaths might involve more than one drug, some deaths are included in more than one category. Specification on death certificates of drugs involved with deaths varies over time. In 2016, approximately 15% of drug overdose deaths did not include information on the specific type of drug(s) involved. Some of these deaths may have involved opioids or stimulants.

b Deaths are classified using the International Classification of Diseases, Tenth Revision (ICD-10). Drug overdose deaths are identified using underlying cause-of-death codes X40–X44 (unintentional), X60–X64 (suicide), X85 (homicide), and Y10–Y14 (undetermined).

c Drug overdose deaths, as defined, that involve natural and semi-synthetic opioids (T40.2) or methadone (T40.3).

d Drug overdose deaths, as defined, that involve synthetic opioids other than methadone (T40.4).

e Drug overdose deaths, as defined, that involve heroin (T40.1).

f Drug overdose deaths, as defined, that involve cocaine (T40.5).

g Drug overdose deaths, as defined, that involve psychostimulants with abuse potential (T43.6).



Financial risks

Meanwhile the financial risks to investors are growing, with cities, counties and states across the US filing lawsuits against a swathe of companies they are seeking to hold responsible. These include drug manufacturers who stand accused of downplaying the risk of addiction in their marketing and drug distributors who allegedly failed to address suspicious shipments. According to CDC data, in some states there are more painkiller prescriptions than people. If the drug companies lose, punitive damages could run into the billions, likely clobbering the value of affected stocks.

So what can investors do to mitigate these risks and ensure companies are behaving responsibly? At Hermes EOS we have engaged directly with pharmaceutical companies such as Pfizer and Johnson & Johnson to assess how exposed these companies are to opioid-related risks, and how well they are managing them.

We supported a shareholder resolution at Johnson & Johnson's 2018 shareholder meeting asking that litigation costs are no longer excluded from performance calculations that help determine executive pay. The argument is that company bosses should not be shielded from bearing some of the cost of any legal settlements.

At Pfizer's 2018 AGM, we backed a proposal calling for more transparency over lobbying activities, which attracted support from over 33% of shareholders.

We are also an active participant in the Investors for Opioid Accountability (IOA) coalition, alongside other global asset managers, faith-based investors, big US public pension plans, and labour funds. This calls for enhanced corporate governance to ensure opioid-related risks are better managed (see box).

As part of this initiative, we co-filed a shareholder resolution at a global pharmaceutical retailer and wholesaler asking for transparency around the company's use of clawback of executive pay in cases of misconduct. Following calls with the company, it offered to amend its clawback policy to increase the commitment of disclosure, and the filing was withdrawn.

In 2019 we will continue to engage on the opioid crisis primarily through the IOA, and may set specific objectives if this uncovers issues at a company in our engagement programme. Our engagement plan for 2019-2021 includes an objective for a commitment to implement ethical marketing practices that adhere to the WHO Ethical Criteria for Medicinal Drug Promotion, including strong governance of risks relating to opioids.

Effective engagement through the IOA

Established in July 2017, the Investors for Opioid Accountability (IOA) coalition now has 53 members with some \$3.4 trillion under management. Co-led by Mercy Investment Services and the UAW Retiree Medical Benefits Trust, the IOA calls on manufacturers, distributors and retail pharmacies to adopt or strengthen their corporate governance practices to improve board independence, accountability and oversight related to opioid risks.

To this end, the IOA asks independent board directors to investigate each company's governance practices going back to the height of the opioid epidemic in 2012, looking at oversight, compensation incentives for sales and marketing personnel, compliance structures for internal controls and so on, then to produce a report identifying potential risks and the measures taken to mitigate these risks going forward.

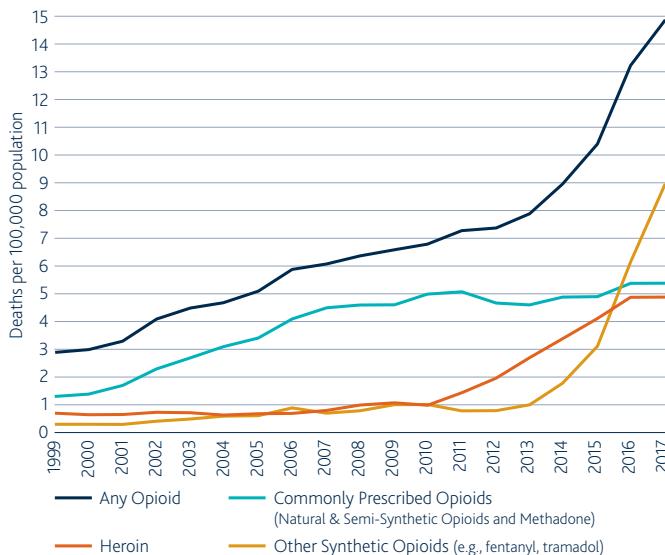
Four companies have issued these reports to date: distributors McKesson and Cardinal Health; and pharmaceutical companies Depomed, renamed Assertio Therapeutics, and Endo.

The IOA also sends detailed letters to companies setting out the governance changes it considers appropriate for each, such as the clawback of executive pay in the light of any misconduct, better transparency on political lobbying, and ending the exclusion of opioid legal costs from executive pay calculations.

It has filed over 40 shareholder resolutions to date, securing significant commitments from companies. For example, boards at Cardinal Health, Irish pharmaceutical company Mallinckrodt and Endo, among others, have agreed to put misconduct clawbacks in place.

More shareholder resolutions are on the slate for 2019, including one calling for a board risk report at Walgreens Boots Alliance. The IOA also plans to return to some of the companies that proved non-responsive in 2018, while reaching out to others such as Israeli company Teva Pharmaceutical Industries.

Overdose death rates involving opioids, by type, United States, 2000-2017



Source: CDC/NCHS, National Vital Statistics System, Mortality, CDC WONDER, Atlanta, GA: US Department of Health and Human Services, CDC; 2018. <https://wonder.cdc.gov/>

There are some encouraging signs that US doctors are becoming more cautious when prescribing opioids for chronic pain, with CDC data showing a more than 19% reduction in the annual prescribing rate from 2006 to 2017. However, the amount of opioids in morphine milligram equivalents prescribed per person is still around three times higher than it was in 1999.

In Western Europe, although opioid prescription rates are rising, public health systems and centralised buying ensure a different dynamic between supplier and patient, and doctors are less likely to prescribe opioids for lengthy periods.

The bigger concern is what happens in less transparent or less well-regulated markets, such as the sub-Saharan African region. Alive to this risk, a sub-committee within the IOA, comprised of global asset managers including Hermes, is currently looking at the spread of opioids outside the US to identify potential flashpoints, and engagement strategies for IOA members.

Case study – The drug distributor, by Tim Goodman from Hermes EOS



In the US, drug-makers sell their products to wholesalers, which in turn distribute them to pharmacies. The opioid epidemic has subjected their internal controls and practices to intense scrutiny.

One company, which has been at the centre of this firestorm, paid a \$150 million civil penalty in 2017 to settle allegations from the US Justice Department that it failed to report suspiciously large orders of prescription opioids from its customers. It still faces hundreds of civil suits in relation to its drug distribution practices.

Matters came to a head when the company suffered a serious shareholder revolt at its 2017 annual shareholders' meeting, where the International Brotherhood of Teamsters spearheaded a vote-no campaign, which we supported, against the executive pay plan. The company made adjustments to its remuneration policies from 2018 onwards. We also backed another shareholder proposal seeking the appointment of an independent chair, which won strong support but was not carried. In the third quarter of 2017, however, the company said it would split the chief executive officer (CEO) and chair positions when the incumbent CEO retired.

In June 2018 Hermes EOS met with the company's corporate secretary to express our continuing concerns, arguing the distributor should acknowledge it could do more in response to the opioid crisis, and that this might mean wide-ranging reform to its practices. At another meeting in October we emphasised that the company needed to look at its corporate culture and business ethics, not just its internal controls and legal compliance.

We also questioned whether the company's CEO and chair, who had been at the helm for 17 years, was the right person to lead the company in the wake of the opioid scandal. At the start of November, the distributor announced he would step down in 2019, and that the board would be chaired by an independent director instead.

This year we will ask the new leadership team to set out how the company will ensure it ends any bad practice in relation to the distribution of opioids, and will seek a meeting with the independent chair.

The company says it is committed to maintaining and enhancing its programmes to detect and prevent opioid diversion within the pharmaceutical supply chain, but also stresses this is a multi-faceted crisis that must be addressed through a collaborative approach.

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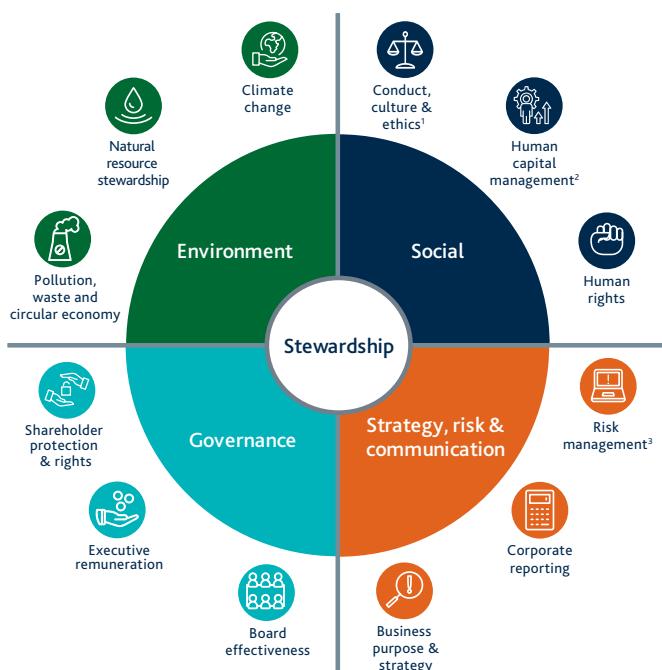
Planning for all our tomorrows

How do we decide which themes to focus on when we engage with companies, and ensure our efforts have the maximum impact?

Single-use plastic, gender pay gaps, cyber-attacks, carbon emissions – companies and their shareholders face a myriad of environmental, social and governance challenges and competing demands on their time. So how do we decide which issues should be at the top of the agenda?

At Hermes EOS we operate a shared service model, undertaking structured engagement on behalf of a club of like-minded clients. This means we consult our clients about their stewardship priorities when we review our engagement plan. The plan helps us stay on track and ensures our efforts are focused where they can have the most impact. We plan over a three-year time horizon, as this is roughly how long it takes for companies to implement change. But we refresh the plan every year to ensure it stays up to date, allowing us to incorporate emerging themes.

Engagement themes for 2019-21



¹ Includes tax and bribery & corruption.

² Includes diversity & inclusion.

³ Includes cyber security.

Setting the scene

Our engagement plan is at the heart of what we do – it identifies the key themes that matter for our clients, whether that be climate change, human rights or business ethics. It also sets out the sector priorities for engagement, which helps guide our conversations with companies and public policy makers, building on client feedback, changes in the market and new regulatory environments. This plan then enables our engagers to develop tailored engagement at each company to ensure our efforts are directed towards the outcomes that deliver the most value for clients.

The review process

Our engagement plan identifies the most material issues on which we need to engage with companies on behalf of our clients, and also on public policy and market best practice issues. It is built on the foundation of many years of deep engagement at senior executive and board level with most of the world's largest companies. This has helped us to develop a picture of the most material issues of concern to long-term investors across different themes, sectors and geographies.

However, it is vital that we keep this plan fresh and update it with new issues as the global economy develops and other societal and environmental challenges emerge. For this reason, we start our annual review of the plan early in the year, considering important strategic issues such as how many companies to engage with on a proactive basis and the best engagement approaches to use to achieve the greatest impact. This year, we developed further our 'theory of change' process for engagement, which focuses on the most feasible routes to achieving the maximum long-term impact.

What do we mean by impact? Our work is focused either on reducing the harms caused by companies, or considers how companies can contribute positively to society by solving problems caused elsewhere – such as a renewable energy provider displacing coal, or an electric vehicle manufacturer offering cleaner cars. In coming years we will explore ways to shift further towards such positive outcomes as these have the potential to align positive societal benefits with company growth. In turn, this can deliver increased long-term value to investors.

We also further analysed how the United Nations' Sustainable Development Goals (SDGs) influence our work. Although many companies were already aware of the need to reduce environmental and social harms, the high profile and importance of the goals in many markets catalysed businesses to rethink their purpose and social opportunity beyond their direct operations. This presents an opportunity to expand and intensify our discussions with companies, for example on the benefits to business and wider society of providing decent work (SDG 8) and improving gender equality (SDG 5).

Finally, we looked carefully at our approach to public policy engagement work. Engagement with legislators, regulators and industry bodies helps shape the environment in which companies operate, setting minimum standards or best practice guidelines. Raising the bar here can have a broader impact than engaging with a company one-on-one. This means we have decided to take a more targeted approach to achieving change in some key areas, such as improving the sustainability guidelines set by the mining industry association.

Choosing the themes

In addition, we conduct a horizon-scanning exercise, to identify any gaps in the plan, testing ourselves against emerging stewardship themes. This year we tested a long list of new areas for feasibility, impact and additionality to our current engagement plan. This exercise substantially endorsed the approach of our current plan. However, we decided to explore some new areas for higher levels of engagement intensity this year. These include the following:



Circular economy solutions: with a focus on plastics, to be included in our work on our Pollution, Waste and Circular Economy theme



Sustainable protein sources: including the role that meat production plays in anti-microbial resistance, to be included in our work on Natural Resource Stewardship



Statements of company business purpose: ensuring that all companies have a business purpose that takes account of the impact on relevant stakeholders, as part of our Business Purpose and Strategy theme



Artificial intelligence, automation and data risk management: to be included as part of our Risk Management theme.

Finally, following discussion with our clients, we established the following as high priority topics for engagement, focusing on the following long-term outcomes:



Climate change – outcomes include a reduction of global emissions in line with the goals of the Paris Agreement; and companies deploying strategies to create long-term value for investors and their ultimate beneficiaries, while helping to deliver the energy transition towards a low carbon society.



Human capital management – outcomes include all companies having engaged, healthy, skilled and effective workers, representative of the diversity of wider society, so as to achieve the best levels of productivity with available technologies.



Human rights – outcomes include achieving fulfilment of basic human rights through the provision of essential goods and services, and companies that respect all human rights relevant to their operations, products and supply chains.



Corporate governance – outcomes include ensuring strongly-functioning boards composed of independent individuals representing the diversity of key stakeholders, and the alignment of executive remuneration with the creation of long-term value while paying no more than is necessary.

Putting the plan into action

Our engagement plan might appear to some readers to be a 'top-down' thematic plan to encourage change at companies. However, as explained earlier, the plan has been primarily developed through the accumulated experience of thousands of meetings with companies over the last decade and more, to identify the most material issues. We organise our engagement across a matrix of 10 industry sector teams and six regional teams. This enables our engagers to then share their experiences of the best way to achieve effective engagement. We carefully research the key sustainability issues at each company in our engagement programme to develop a unique, tailored plan of engagement. We believe this combination of thematic, sector and geographic planning, applied to individual companies, enables us to achieve the highest impact on behalf of clients.

This careful planning allowed us to hit the ground running in January and we are already proactively engaging on our themes at the 350-plus companies that form part of our engagement programme. However, we expect to engage with hundreds more companies during the year as fresh issues arise – in 2018 we engaged with a record 746 companies in total. 2019 looks like it will have no shortage of engagement issues, as the world's population and economy continues to grow, pushing the boundaries of environmental sustainability. Meanwhile, a more connected world underpinned by smart phone technology and social media is accelerating the push towards more socially cohesive and sustainable solutions. This keeps us on our toes as we continue to explore new frontiers for engagement in our continuously evolving engagement plan.

For further information, please contact:



Bruce Duguid

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Engagement on strategy

Business strategy and structural governance issues are at the heart of many of our most successful engagements.

Overview

Our approach to engagement is holistic and wide ranging. Discussions cover many key areas, including business strategy and risk management, which encapsulates environmental, social and ethical risks. Structural governance issues are a priority too. We challenge and support management accordingly on its running of the company and approach to ensuring the company's long-term future. In many cases, there is minimal external pressure on the business to change. Much of our work, therefore, is focused on encouraging management to make necessary improvements. The majority of our successes stem from our ability to see things from the perspective of the business we are engaging with. Presenting environmental, social and governance issues as risks to the company's strategic positioning puts things solidly into context for management. The issues may, of course, also present opportunities. For instance, businesses may benefit from fresh thinking at board level. Similarly, a change of chief executive can be the catalyst for enhanced business performance and the creation of long-term value for shareholders.

Examples of recent engagements

Political donations and lobbying expenditure

Lead engager: Tim Youmans

We had a positive meeting with a senior representative at the headquarters of a North American telecoms company. We discussed the board's poor oversight of lobbying and political donations. The chief executive officer (CEO) has taken personal responsibility for the company making large lobbying payments to the US President's former personal attorney, who was recently charged and given a prison sentence. The CEO made many personal appearances before groups of employees to hold himself accountable for this reputational damage to the company. In response to this scandal, the company has committed to becoming a model of best practice in the disclosure of lobbying payments and political contributions. The senior representative showed some resistance to the inclusion of material ESG factors in the company's annual regulatory filings, and wanted to limit any sustainability discussions to no more than a few pages. We said that four issues in the upper right of the company's own materiality matrix in its most recent sustainability report were "data privacy, network security, network reliability and talent upskilling." He said that given this information, the company may now consider allocating more space to material ESG factors in the company's annual filings.

Business strategy

Lead engager: Sachi Suzuki

In an engagement with an Asian car manufacturer, the chief executive officer (CEO) was unable to articulate a clear plan in relation to a potential tariff increase in the US, the company's largest market. The company is planning to increase the proportion of cars that it produces in the US to about 60%, but this would not completely counter the effect of higher import taxes. It mentioned building a new plant and increasing the capacity of its existing US factory but both will take a few years to complete. Despite the rise in car-sharing, the company plans to maintain its focus on individual ownership as it believes customers choose its cars because of the brand, not as a means of mobility. We noted that the company seems to be lagging behind in the development of sustainable vehicles, perhaps because of its large exposure to the US market. It has no sales target for sustainable vehicles, although it has launched hybrid cars in Japan and China. It is

also about to do so in Europe, where it plans to withdraw from the conventional vehicles market due to the strict emissions regulations. Welcoming various changes including board refreshment this year, we noted a lack of board diversity. As the company finds it difficult to find female candidates externally who have manufacturing experience, we suggested looking at younger candidates to increase the pool of female candidates and add age diversity.

PRI and TCFD progress

Lead engager: Christine Chow

An Asian life insurance company told us it has committed to becoming a Principles for Responsible Investment (PRI) signatory in 2019, and that it had signed up to reporting according to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We discussed collaborative opportunities on climate change and diversity and encouraged the company to consider applying a business process framework to improve clarity when highlighting its material ESG issues. We further encouraged setting specific targets and ambitions in a number of key sustainability areas; enhancing details in disclosure; and related actions on data governance and cybersecurity. We shared our learnings from information security events at other companies, highlighting that an incident management process may be scrutinised when it comes to real threats. We recommended additional scenario planning around customers' protection, which requires prompt and definitive management decisions. We shared data governance research papers to support the company in strengthening risk management in this area. Next, we will meet with the person in charge of stewardship and ESG integration to share our experience on best practice.

Integration of an acquisition

Lead engager: Lisa Lange

We had an informative call with the head of corporate health, safety and sustainability at a European company. This focused on how the recent acquisition of an agrochemical business would impact supplier management, safety, product stewardship, sustainability targets and reporting. The company said that it sees no inconsistencies with the newly-acquired company's sustainability approach, only that it has a separate rather than integrated report. The company stressed that certain pesticides, which have been controversial in the US and Europe, are safe if used in line with clear instructions. The company is currently

working on sustainability targets for the new joint entity with the ambition that greenhouse gas emission reductions targets are aligned with the science-based approach. We will continue our discussions on these issues, and will take up the company's offer to have further dialogue around governance, anti-microbial resistance and tax.

Social licence to operate

Lead engager: Tim Youmans

We had a positive meeting with the independent chair of a North American bank. We were impressed with the chair's articulation of how the board's consideration of the company's wider responsibilities to its stakeholders was core to the company's social licence to operate. We asked the chair to reconcile this with the bank's status as one of the biggest financiers of oil sands companies in Canada. The chair said that the company's role is to be a catalyst on the side of mitigating climate change, and that the board supports management's efforts to finance a just transition to a low carbon future. However, the chair added, given the company's current role as large financier of fossil fuels, the company has to do better.

Board composition

Lead engager: Masaru Arai

At a meeting with an Asian retailer at its headquarters, we discussed the composition of the company's board. Two new directors, who were elected at the November annual shareholders' meeting, are related to the founder and chief executive officer (CEO). The company said they would work as executives to gain business experience of the group before they play their role as shareholders, but it is not intended for either of them to become company CEO. We confirmed that the CEO is aware of the need to appoint female directors and that the company would like to find a suitable candidate, but this is currently proving

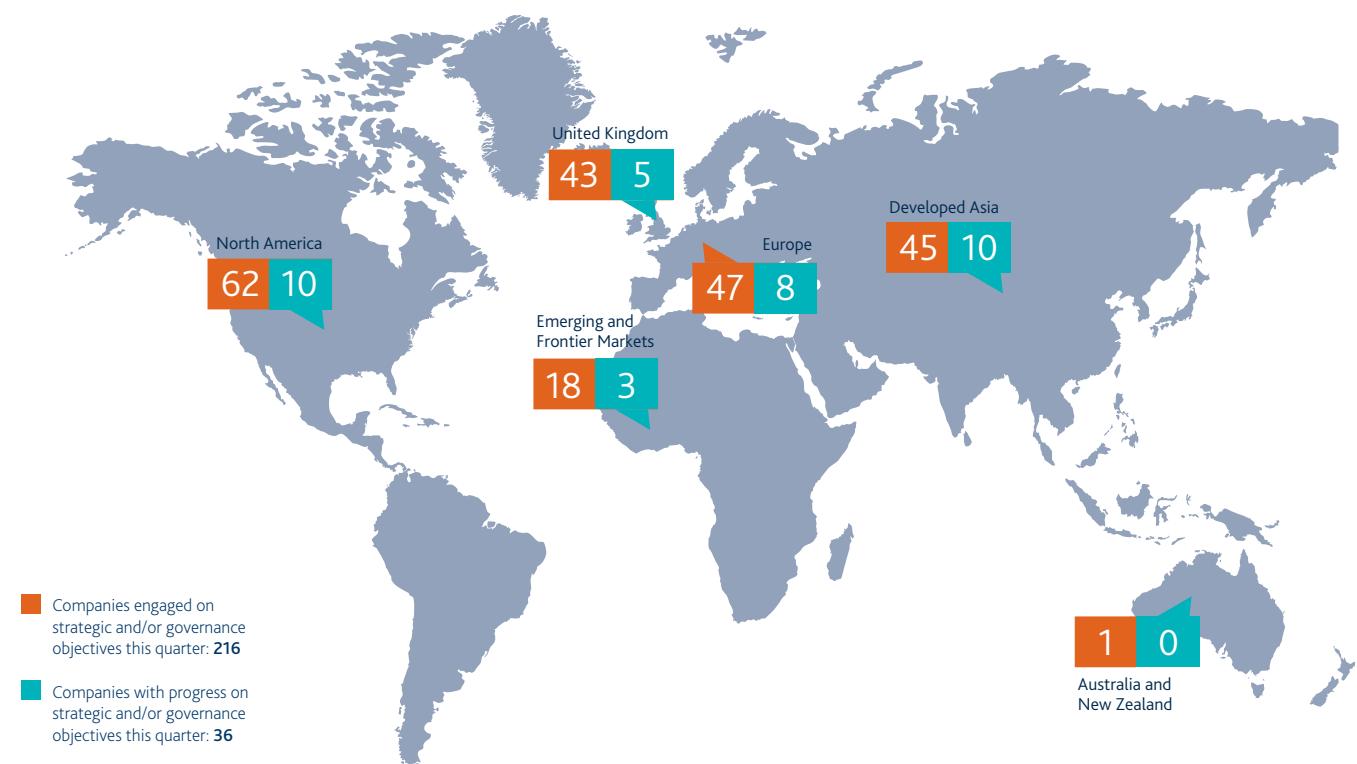
difficult. Candidates for the independent director role are also difficult to find as they need to have sufficient experience as a top executive of a large company. The company said there were several senior female directors in its group companies, especially in the overseas offices. Separately, we were pleased to learn that the company set up an ESG project in early 2018 to identify the material issues that the company is facing, and it has made substantial progress on its ESG-related activities and in its disclosure.

Remuneration policy and human capital management

Lead engager: Natacha Dimitrijevic

In a meeting with the lead director of a European energy management company, we welcomed the board's thinking on the simplification and structure of the remuneration policy. We were pleased that all the concerns we had raised were considered. We supported the financial focus on organic growth, profitability and rigorous sustainability metrics, as well as the suppression of poorly-defined personal objectives. We agreed to give more input once the indicators for the long-term plan are further defined. On human capital management, we commended the tone from the top and the meaningful tools and policies, as well as the clear link to remuneration for management. We pointed to the poor results on the pay gap at the company's UK subsidiary and suggested a similar group-wide exercise to measure progress. The company said that the key challenge it faces is hiring female engineers. We gained extensive reassurance on cybersecurity thanks to a detailed description of the work done across the firm and by the board, and a candid take on the complexity of the issue. We pressed for improved disclosure and a board incident response process. We agreed to continue the conversation.

Engagements on strategy and/or governance



Public policy and best practice

Hermes EOS contributes to the development of policy and best practice on corporate governance, sustainability and shareholder rights to protect and enhance the value of the shareholdings of its clients over the long term.

Overview

We participate in debates on public policy matters to protect and enhance value for our clients by improving shareholder rights and boosting protection for minority shareholders. This work extends across company law, which in many markets sets a basic foundation for shareholder rights; securities laws, which frame the operation of the markets and ensure that value creation is reflected for shareholders; and codes of best practice for governance and the management of key risks, as well as disclosure. In addition to this work on a country specific basis, we address regulations with a global remit. Investment institutions are typically absent from public policy debates, even though they can have a profound impact on shareholder value. Hermes EOS seeks to fill this gap. By playing a full role in shaping these standards, we can ensure that they work in the interests of shareholders instead of being moulded to the narrow interests of other market participants whose interests may be markedly different – particularly companies, lawyers and accounting firms, which tend to be more active than investors in these debates.

Highlights

International Integrated Reporting Council (IIRC)

Lead engager: Hans-Christoph Hirt

We participated in a dinner with the chief executive officer of the IIRC, non-executive directors and other investors, and expressed our support for integrated reporting. But we also voiced concerns about the quality of many of the existing so-called integrated reports issued by companies. Very often we find such reports rather unwieldy and essentially an amalgamation of the traditional annual report with an existing sustainability report. We pushed for more focus on materiality, as determined by the board, when putting the reports together. Our thoughts resonated with many of the other participants and the IIRC will take away the feedback for consideration when it determines its future priorities.

Associação de Investidores no Mercado de Capitais

Lead engager: Jaime Gornsztejn

In a regular AMEC (Associação de Investidores no Mercado de Capitais) stewardship working group call, we presented our revised corporate governance principles for the Brazilian market. AMEC asked us to present the corporate governance principles document that was sent to the chairs of Brazilian companies in the country's main stock exchange index. We highlighted our expectations for board composition, diversity, independence and the importance of engagement between boards and investors. We also explained our remuneration principles based on long-term shareholdings by executives. The association encouraged other members to start engaging with companies in preparation for the 2019 voting season in Q1/Q2.

Financial Reporting Council

Lead engager: Hans-Christoph Hirt

We welcomed a delegation from the Financial Reporting Council (FRC) and expressed our thoughts on a draft consultation paper on the development of the UK Stewardship Code. We had provided some input to the process as part of our detailed response to the Corporate Governance Code consultation in Q1. We welcomed the news that the FRC plans to consult on many of the points we had suggested in our submission. For example, it is proposing to introduce wording on the purpose of asset owners and asset managers, and to focus on the

outcomes of stewardship activities. We encouraged more thought around the governance of investors; the role of investors regarding audit; more specific reporting about stewardship activities; escalation mechanisms other than AGMs; stewardship outside the UK; and different asset classes. Our remarks and ideas were welcomed by the FRC, which will now undertake further pre-consultation discussions in London before issuing a formal consultation in Q1 2019. Given the leadership role of the FRC for stewardship regulation around the world, we will remain closely involved to provide input throughout the process, culminating in a formal consultation response.

Government of Israel and Israeli Securities Authority

Lead engager: Christine Chow

As part of an investor group hosted by a US class litigation lawyer, we met the chair of the Israeli Securities Authority (ISA), the government minister of economy and industry, the deputy minister of finance and two members of the Israeli parliament. We voiced our concerns about the ISA considering policies that would allow a 'light' version of a dual-class share structure. The ISA's chair believed that imposing a sunset clause would address investor concerns. We cited an example from Brazil where a sunset provision was revoked at the time it was supposed to kick in, and argued that more in-depth considerations were required to protect minority shareholders. With the minister of economy and industry we pushed for companies to disclose how they have complied with the UN Guiding Principles for Business and Human Rights. The minister acknowledged that ESG issues are a growing concern for global investors and said that the government is designing an online tool to help companies improve the transparency of their operations, and we offered our help and guidance.

China-UK Green Finance Taskforce

Lead engagers: Janet Wong and Christine Chow

At the third meeting of the China-UK Green Finance Taskforce held in London in November, seven green investment principles (GIP) for China's Belt and Road Initiative were announced, with the aim of driving deal flow to infrastructure assets in immature markets. These new principles are: embedding sustainability into corporate governance; understanding ESG risks; disclosing environmental information; enhanced communication with stakeholders; using green

finance instruments; adopting a green supply chain; and building capacity through collective action. We commended the coverage of green supply chain management, but were cautious about its effectiveness, as this will depend on implementation guidelines to be announced in 2019. Next year, the taskforce will focus on establishing a new UK-China Green Finance Centre, implementing the GIPs, setting up a new secretariat to expand membership, developing joint venture green funds to invest in green Belt and Road projects, and developing green asset-backed securities.

Other work this quarter included

UK parliamentary committee

- Following a written submission in May 2018, we were invited to give oral evidence to the UK parliament's Business, Energy and Industrial Strategy Committee to inform its inquiry into **fair pay**, specifically executive pay. We reiterated our support for simpler pay structures that incentivise long-term strategic value. We noted that many pay schemes remain excessively complex, resulting in pay awards that are difficult to justify. Topics raised by the committee included the effectiveness of engagement, and pay ratios between chief executive officers and the average worker. We followed up with a letter outlining our views on where further regulatory or legislative intervention could be beneficial. We stated our preference for restricted shares schemes but noted that prescribing specific structures for remuneration could be problematic. We suggested that the Committee may consider recommending firmer guidelines on executive shareholdings, remuneration committee communication and total pay caps.

Financial Services Agency, Japan

- We provided comments on a public consultation by Japan's Financial Services Agency regarding proposed **changes to disclosure rules**. We firmly welcomed the proposal to enhance corporate disclosure on executive remuneration. We also supported the proposed increase in the number of strategic shareholdings that companies are required to disclose from the current 30 to 60, as well as the requirement for companies to explain how they verify the rationale for holding these. In order to tackle the problem of cross-shareholdings more systematically, we requested that the number of major shareholders that companies are required to disclose increases from 10 to 30, and that they should disclose the names of the ultimate owners and not just the custodians.

US Securities and Exchange Commission

- We wrote to the US Securities and Exchange Commission (SEC) concerning the **proxy adviser industry**. We cautioned that the changes it was considering were likely to cause unintended consequences that could harm the governance of issuers and ultimately the value of ordinary savers' investments. We also argued that the SEC was seeking to be more interventionist than other markets despite the US's reputation for free markets.

Government of Alberta, Canada

- At a meeting with representatives of the government of Alberta, Canada at our offices in London, we discussed the effect of climate change on the economy of Alberta. We explained that as the world transitions to low carbon energy, Alberta will experience severe problems if it does not **diversify its economy from fossil fuels**. We argued that carbon capture, use and storage, unless subsidised, was increasingly not an option for the oil and gas industry as it will make fossil fuels even less competitive than renewable alternatives. We also noted that the Albertan taxpayer is likely to have to pay the industry's decommissioning costs. We explained that it is in our clients' economic interests that the battle against climate change

succeeds and urged the province and its oil and gas industry to make serious plans for the possibility of an energy transition in line with the Paris Agreement. We agreed to keep in touch.

Securities and Futures Commission, Hong Kong

- We met with the Hong Kong Securities and Futures Commission (SFC) and commended the progressiveness of the **SFC's strategic framework paper for Green Finance** launched in September 2018. Key areas relate to companies' disclosure, as well as collaboration with asset managers and owners. We explained the Task Force on Climate-related Financial Disclosures' framework, and shared company examples, highlighting that the existing disclosure on climate change is insufficient. We emphasised that green finance must take a globally consistent approach, and particular attention must be paid to brown financing, such as lending to coal power plants. We subsequently provided information on the EU Shareholder Rights Directive. We also met with the Hong Kong Stock Exchange, and participated in further discussions relating to the regulator's alignment of the green finance agenda.

Die Frauenquote seminar, Germany

- During a panel discussion on **gender diversity** at a seminar in Frankfurt, we explained our global voting and engagement approach and shared our concerns about the lack of progress at management board level in Germany. While the legal 30% gender quota for supervisory boards now ensures there is an appropriate gender balance, the regulatory regime for the management board and senior executive roles has failed to deliver any real progress. Many listed companies do not have any female management board members and disappointingly, have set themselves a 0% quota target. As we believe that gender diversity at all levels of companies will add value to investments, we explained we are considering how to focus the attention of German boards on the important issue of management board diversity. We are contemplating a revision of our German Corporate Governance Principles and, as shareholders do not elect the management board, may decide to use voting rights on other AGM matters to encourage more progress.

Comisión Nacional del Mercado de Valores, Spain

- We met with the Comisión Nacional del Mercado de Valores (CNMV), the Spanish government agency responsible for regulating the securities market, to discuss Spain's transposition of the amended **Shareholder Rights Directive** (SRD). An initial public consultation was issued in Spain, which ran until 12 July 2018. We understand that the SRD is currently low on the agenda for the new government. It was proposed that we also meet with the Treasury, which is leading the drafting of the transposition text. We provided our view on why the SRD is an opportunity for the country, companies and investors, and what needs to be specified in the text to make it effective.

Roundtable on business and human rights

- We attended a roundtable in Geneva in November hosted by the Principles for Responsible Investment, the Investor Alliance for Human Rights and the World Business Council for Sustainable Development on the back of the UN Forum on Business and Human Rights. Despite the fact that companies have a growing awareness of these issues, a recent report from the UN Working Group on Business and Human Rights found that a majority of companies do not demonstrate practices that meet the requirements set by the existing frameworks. We shared our views on how investors can drive and leverage **human rights due diligence practices**.

Hermes EOS makes voting recommendations at general meetings wherever practicable. We take a graduated approach and base our recommendations on annual report disclosures, discussions with the company and independent analyses. At larger companies and those where clients have significant interest, we seek to have dialogue before recommending a vote against or abstention on any resolution.

In most cases of a vote against at a company in which our clients have a significant holding or interest, we follow up with a letter explaining the concerns of our clients. We maintain records of voting and contact with companies, and we include the company in our main engagement programme if we believe further intervention is merited.



Hermes EOS makes voting recommendations at companies all over the world, wherever its clients own shares.

Voting overview

Over the last quarter we made voting recommendations at 1,191 meetings (8,359 resolutions). At 578 of those meetings, we recommended opposing one or more resolutions.

We recommended voting with management by exception at one meeting and abstaining at nine. We supported management on all resolutions at the remaining 603 meetings.

Global

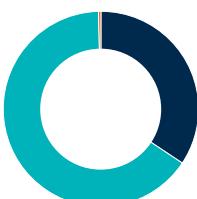
We made voting recommendations at **1,191** meetings (**8,359** resolutions) over the last quarter.



- Total meetings in favour **50.6%**
- Meetings against (or against AND abstain) **48.5%**
- Meetings abstained **0.8%**
- Meetings with management by exception **0.1%**

Australia and New Zealand

We made voting recommendations at **230** meetings (**1,229** resolutions) over the last quarter.



- Total meetings in favour **34.3%**
- Meetings against (or against AND abstain) **65.2%**
- Meetings abstained **0.4%**

Developed Asia

We made voting recommendations at **88** meetings (**555** resolutions) over the last quarter.



- Total meetings in favour **47.7%**
- Meetings against (or against AND abstain) **52.3%**

Emerging and Frontier Markets

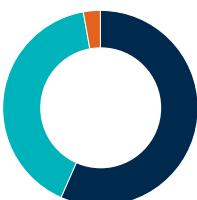
We made voting recommendations at **500** meetings (**3,437** resolutions) over the last quarter.



- Total meetings in favour **59.8%**
- Meetings against (or against AND abstain) **39.8%**
- Meetings abstained **0.2%**
- Meetings with management by exception **0.2%**

Europe

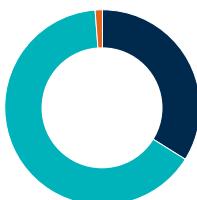
We made voting recommendations at **106** meetings (**751** resolutions) over the last quarter.



- Total meetings in favour **56.6%**
- Meetings against (or against AND abstain) **40.6%**
- Meetings abstained **2.8%**

North America

We made voting recommendations at **168** meetings (**1,324** resolutions) over the last quarter.



- Total meetings in favour **33.9%**
- Meetings against (or against AND abstain) **64.9%**
- Meetings abstained **1.2%**

United Kingdom

We made voting recommendations at **99** meetings (**1,063** resolutions) over the last quarter.



- Total meetings in favour **66.7%**
- Meetings against (or against AND abstain) **31.3%**
- Meetings abstained **2.0%**

The themes of the resolutions on which we recommended voting against management or abstaining are shown below.

Global

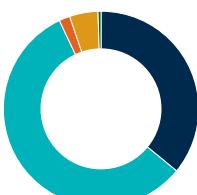
We recommended voting against or abstaining on **1,427** resolutions over the last quarter.



Board structure	33.1%
Remuneration	36.7%
Shareholder resolution	4.1%
Capital structure and dividends	9.5%
Amendment of articles	5.7%
Audit and accounts	4.4%
Investment/M&A	0.3%
Poison pill/Anti-takeover device	0.3%
Other	5.9%

Australia and New Zealand

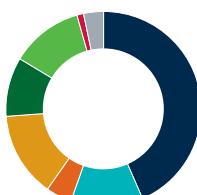
We recommended voting against or abstaining on **384** resolutions over the last quarter.



Board structure	35.9%
Remuneration	57.0%
Shareholder resolution	1.8%
Capital structure and dividends	4.7%
Amendment of articles	0.5%

Developed Asia

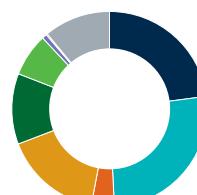
We recommended voting against or abstaining on **92** resolutions over the last quarter.



Board structure	43.5%
Remuneration	12.0%
Shareholder resolution	4.3%
Capital structure and dividends	14.1%
Amendment of articles	9.8%
Audit and accounts	12.0%
Poison pill/Anti-takeover device	1.1%
Other	3.3%

Emerging and Frontier Markets

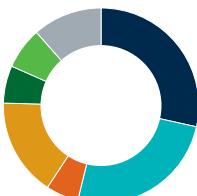
We recommended voting against or abstaining on **520** resolutions over the last quarter.



Board structure	22.9%
Remuneration	26.3%
Shareholder resolution	3.8%
Capital structure and dividends	16.2%
Amendment of articles	11.7%
Audit and accounts	7.1%
Investment/M&A	0.8%
Poison pill/Anti-takeover device	0.2%
Other	11.0%

Europe

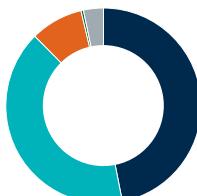
We recommended voting against or abstaining on **130** resolutions over the last quarter.



Board structure	28.5%
Remuneration	25.4%
Shareholder resolution	5.4%
Capital structure and dividends	16.2%
Amendment of articles	6.2%
Audit and accounts	6.9%
Other	11.5%

North America

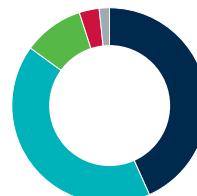
We recommended voting against or abstaining on **241** resolutions over the last quarter.



Board structure	46.9%
Remuneration	40.7%
Shareholder resolution	8.7%
Amendment of articles	0.4%
Other	3.3%

United Kingdom

We recommended voting against or abstaining on **60** resolutions over the last quarter.



Board structure	43.3%
Remuneration	41.7%
Audit and accounts	10.0%
Poison pill/Anti-takeover device	3.3%
Other	1.7%

What is Hermes EOS?

Hermes EOS helps long-term institutional investors around the world to meet their fiduciary responsibilities and become active owners of public companies. Our team of engagement and voting specialists monitors the investments of our clients in companies and intervenes where necessary with the aim of improving their performance and sustainability. Our 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.

Pooling the resources of other like-minded funds creates a strong and representative shareholder voice and makes our company engagements more effective. We currently have £389.4/€433.9/\$496 billion* in assets under advice.

Hermes has one of the largest stewardship resources of any fund manager in the world. Our 33-person team includes industry executives, senior strategists, corporate governance and climate change experts, accountants, ex-fund managers, former bankers and lawyers.

The depth and breadth of this resource reflects our philosophy that stewardship activities require an integrated and skilled approach.

Intervention at senior management and board director level should be carried out by individuals with the right skills, experience and credibility. Making realistic and realisable demands of companies, informed by significant hands-on experience of business management and strategy-setting is critical to the success of our engagements.

We have extensive experience of implementing the Principles for Responsible Investment (PRI) and various stewardship codes. Our former CEO led the committee that drew up the original principles, and we are engaged in a variety of workstreams through the PRI Collaboration Platform. This insight enables us to help signatories in meeting the challenges of effective PRI implementation.

How does Hermes EOS work?

Our company, public policy and best practice engagement programmes aim to enhance and protect the value of the investments of our clients and safeguard their reputation. We measure and monitor progress on all engagements, setting clear objectives and specific milestones for our most intensive engagements. In selecting companies for engagement, we take account of their environmental, social and governance risks, their ability to create long-term shareholder value and the prospects for engagement success.

The Hermes Responsible Ownership Principles¹¹ set out our fundamental expectations of companies in which our clients invest. These cover business strategy, communications, financial structure, governance and management of environmental and social risks. The engagement programme we have agreed with our clients, as well as the Principles and their regional iterations, guide our intervention with companies throughout the world. Our approach is pragmatic, as well as company- and market-specific, taking into account the circumstances of each company.

We escalate the intensity of our engagement with companies over time, depending on the nature of the challenges they face and the attitude of the board towards our dialogue. Some engagements involve one or two meetings over a period of months, others are more complex and entail multiple meetings with different board members over several years.

At any one time around 400 companies are included in our core engagement programme. All of our engagements are undertaken subject to a rigorous initial assessment and ongoing review process to ensure that we focus our efforts where they can add most value for our clients.

While we can be robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines through campaigns which could undermine the trust that would otherwise exist between a company and its owners. We are honest and open with companies about the nature of our discussions and aim to keep these private. Not only has this proven to be the most effective way to bring about change, it also acts as a protection to our clients so that their positions will not be misrepresented in the media.

For these reasons, this public report contains few specific details of our interactions with companies. Instead, it explains some of the most important issues relevant to responsible owners and outlines our activities in these areas.

We would be delighted to discuss Hermes EOS with you in greater detail.

For further information, please contact:

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* as of 31 December 2018

¹¹ <https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2018/03/final-responsible-ownership-principles-2018.pdf>

Hermes EOS team

Engagement

 <p>Dr Hans-Christoph Hirt Executive Director, Head of Hermes EOS</p>	 <p>Dr Emma Berntman Sectors: Consumer & Retail, Pharmaceuticals & Healthcare</p>	 <p>Roland Bosch Sector lead: Financial Services</p>
 <p>Dr Christine Chow Sector lead: Technology</p>	 <p>George Clark Voting and Engagement Support</p>	 <p>Natacha Dimitrijevic Sectors: Financial Services, Oil & Gas, Pharmaceuticals & Healthcare</p>
 <p>Bruce Duguid Director, Head of Stewardship, Hermes EOS</p>	 <p>Katherine Frame Sectors: Consumer & Retail, Pharmaceuticals & Healthcare, Technology</p>	 <p>Claire Gavini Sectors: Consumer & Retail</p>
 <p>Tim Goodman Sector lead: Oil & Gas</p>	 <p>Jaime Gornsztejn Sector lead: Industrials & Capital Goods</p>	 <p>Aaron Hay Sector lead: Chemicals</p>
 <p>Bram Houtenbos Voting and Engagement Support</p>	 <p>Andy Jones Sector lead: Mining</p>	 <p>Lisa Lange Sectors: Automotive, Financial Services, Technology</p>
 <p>Pauline Lecoursonnois Sectors: Consumer & Retail, Industrials & Capital Goods</p>	 <p>Kimberley Lewis Sector lead: Pharmaceuticals & Healthcare</p>	 <p>Sonya Linkhtman Sectors: Consumer & Retail, Industrials & Capital Goods, Pharmaceuticals & Healthcare</p>
 <p>Claire Milhinch Communications & Content</p>	 <p>James O'Halloran Director of Business Management, Hermes EOS</p>	 <p>Hannah Shoesmith Sectors: Consumer & Retail, Financial Services, Technology</p>
 <p>Nick Spooner Sector lead: Utilities</p>	 <p>Sachi Suzuki Sector lead: Automotive</p>	 <p>Amy Wilson Sector lead: Consumer & Retail</p>
 <p>Janet Wong Sectors: Technology and Financial Services</p>	 <p>Tim Youmans Sectors: Financial Services, Industrials & Capital Goods, Technology</p>	

Client Service and Business Development

 <p>Amy D'Eugenio Director, Head of Client Service and Business Development, Hermes EOS</p>	 <p>Alan Fitzpatrick Client Service</p>	 <p>Rochelle Giungi Client Service and Business Development</p>
 <p>Charlotte Judge Communications & Marketing</p>	 <p>Alice Musto Client Service</p>	

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