

OUTCOMES
BEYOND
PERFORMANCE

OUR VISION FOR RESPONSIBLE LONG-TERM INVESTING

Hermes Global Emerging Markets
2019

For professional investors only

www.hermes-investment.com


HERMES
INVESTMENT MANAGEMENT

The context

The financial community is moving towards a new approach to investing, one which bridges the perceived gap between improving society and the generation of financial returns. Traditional thematic socially responsible investing is a niche strategy, not robust or broad enough to address today's existential sustainability challenges.

Over the past decade, we have sought to act as responsible investors in emerging-market equities¹, and our goal is to create and manage portfolios of future-proof companies that can tackle sustainability challenges as they arise. We recognise that developing markets have a long way to go in this respect, but as responsible investors, we can contribute to their evolution over time.

Indeed, we do not expect our investee companies to demonstrate developed world-class levels of environmental, social and governance (ESG) practice but are happy to own them as long as the trajectory they are following is taking them in that direction.

Avoiding unsustainable businesses

We avoid unsustainable businesses which are at risk of causing harm to shareholders and communities, destroying shareholder value and the company's reputation, and being held accountable for societal and environmental damage by evolving regulation.

The remaining companies constitute our investable universe; within it, our research process aims to select companies with attractive business models and, if we identify material ESG issues, we seek to improve them through engagement.

As an investment team, we analyse ESG risk quantitatively as part of our fundamental research of companies. We complement this with our own qualitative ESG analysis, including personal interaction with management. To understand a company's ESG trajectory, we believe a quantitative analysis alone is inadequate. It is only through a specific and fundamental understanding of social and environmental challenges in the context of the company's actual business and the beliefs of its board and management can one truly invest responsibly.

Responsive management with vision

These companies' management teams must be willing to confront sustainability challenges with energy and conviction, while not separating this from their responsibility to generate value for shareholders.

We are cognisant that management teams' scope of action is limited. As such, we look for clear evidence of awareness, vision and forward thinking on issues such as climate change, natural resource depletion and employee wellbeing, among other issues. We avoid companies whose management turns a blind eye to sustainability challenges or pays mere lip service to ESG, failing to incorporate concrete action plans into their long-term strategy.

While we prefer engagement to exclusion, we do not own companies whose main business relates to weapons, tobacco, coal mining, coal fired power generation, nuclear energy or pornography. Furthermore, our threshold sustainability standards preclude us from investing in

OUR INVESTMENT PROCESS OVERVIEW

Country & sector overlay

Define and filter
33,000 stock
universe 3,000
stocks



Idea generation
600 stocks



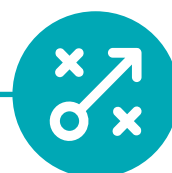
Fundamental
research including
ESG 200 stocks



Portfolio
construction,
engagement and
risk management
35-55 stocks



We are committed
to delivering
investment returns
responsibly



¹ For further information, see our earlier commentaries: "ESG: challenging the dominant investment paradigm," published by Hermes Global Emerging Markets in November 2015 and "Getting engaged: uniting performance with positive change in emerging markets," published by Hermes Global Emerging Markets in November 2017.

companies involved in terrorism financing or other major controversies, or in businesses built on corruption or based in countries that support genocide or forced labour.

We maintain a very low carbon footprint and prioritise engagements with any holdings in the extractive industries or those with higher levels of emissions.



The engagement process

Engagement is also a feature of our investment strategy: in our experience, it has been a powerful way to foster change in emerging-market equities, more direct than exclusion².

Our team, often in tandem with Hermes EOS, Hermes' engagement arm, engages with companies on ESG issues – many of which are relevant to the Sustainable Development Goals (SDGs) – as well as strategic issues. These engagements – which are outcome-based and subject to regular progress reviews – seek positive impact across companies' value chains. Our commitment to engaging with our investee companies affords us opportunities to support the UN agenda, as our assessment of ESG vectors includes many of the SDGs, along with material governance issues. Engagement on the SDGs is a means for investors to help generate a positive impact through their portfolios, encouraging companies to help create a more socially just, economically inclusive and environmentally restorative world.

Engagement is also a powerful tool through which investors can test the quality of management and obtain deeper insight into the corporate culture they have created.

We accept that change takes time. That said, where engagement fails and material issues show little prospect of resolution, the normal course of action will be divestment.



Delivering holistic returns

Today, governments, regulators and clients are demanding that both companies and their owners consider the wider implications of their business activities. And so, the financial community is moving towards an investment approach linking financial performance and positive impact.

As we deepen our practice of responsible investing, we have come to understand that investors need to adopt an approach that embraces a refined economic worldview, which can be widely adopted so as to make enough capital available for significant holistic progress.

Such an approach to responsible investing will allocate capital to responsive management teams and work with companies to generate positive impact across their value chain, in the form of selling products or services that minimize contributions to – or even reverse – climate change, offering employment and opportunities to marginalised citizens, avoiding discrimination, or initiating truly beneficial community improvement programmes, thereby addressing the interests of citizens in addition to those of investors.



² "Getting engaged: uniting performance with positive change in emerging markets," published by Hermes Emerging Markets in November 2017.

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, small and mid-cap and impact

Credit

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

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | Denmark | Dublin | Frankfurt | New York | Singapore

For more information, visit www.hermes-investment.com or connect with us on social media:



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