OUTCOMES BEYOND PERFORMANCE

CORPORATE GOVERNANCE PRINCIPLES

Mainland China and Hong Kong

Hermes EOS
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For professional investors only

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HERMES INVESTMENT MANAGEMENT

COMPANY PURPOSE

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 their important stakeholders, society and the environment. Our expectation, therefore, is that companies should be run not only for shareholders, but should also have a wider purpose that benefits society. In turn, this supports the needs of savers and pensioners, who rely on sustainable returns from their investments, to provide them and their families with a secure future.

RESPONSIBLE OWNERSHIP

Hermes EOS believes, as a representative of responsible, long-term shareholders, that the interests of management and the board should be aligned to those of our clients. Further information is available in the Hermes Responsible Ownership Principles.[1]

All parties should seek to improve the company's long-term performance sustainably, and thereby enhance its value, for the benefit of its long-term owners, while respecting the interests of other stakeholders. We strive to foster collaborative and constructive discussions with the companies in which our clients invest, to ensure achievement of these goals – and if necessary, we propose changes that we believe would be helpful.

In our engagement work, we take into account the inter-connectedness of the legal and governance systems of mainland China and Hong Kong and how they influence corporate behaviour. Appendix 1 provides a summary of the two systems.

STRENGTHENING GOOD ENVIRONMENTAL, SOCIAL AND GOVERNANCE PROCESSES IN MAINLAND CHINA AND HONG KONG

We welcome China Securities Regulatory Commission's revised Code of Corporate Governance for Listed Companies.[2] It builds on the 2002 version and takes into account the revised OECD/G20 Principles of Corporate Governance (2015), which strengthens ESG requirements, promotes cash dividend distribution and promotes board diversity.

We welcome the Environmental, Social and Governance (ESG) Strategy paper from Hong Kong's Financial Services Development Council (FSDC).[3] In particular, we support the recommendation to strengthen the emphasis on ESG through upgrading the Principles of Responsible Ownership[4] to at least 'comply or explain', and the call for Hong Kong's public funds to support ESG. This has laid the foundation work for the future introduction of stewardship principles in Mainland China.

Engagement between companies and investors is an important part of stewardship. To be effective, we believe stewardship must be viewed by companies and investors as an ongoing relationship rather than just a procedure to be followed. It should involve dialogue between directors and investors on strategy, risk management and other material issues affecting the long-term health of the company, and how a company's specific governance arrangements and practices are tailored to best meet its needs.

We also welcome the amendments to the Corporate Governance Code and related listing rules in Hong Kong (the amended Code), which came into effect on 1 January 2019, as well as the associated Guidance for Boards and Directors (the Guidance).[5] We encourage companies either to comply with the Code or to fully explain their reasons for non-compliance. We also recommend that companies assess any recurring explanations to identify whether they continue to be fit for purpose. In addition, we discourage companies from using 'boilerplate' explanations, or viewing explanations as a 'tick-box exercise'. Instead, we encourage companies to use disclosure to create internal debate about the effectiveness of their governance arrangements and to provide meaningful explanations of how their board ensures the highest possible levels of governance. We expect clear and thorough explanations that reflect the changing circumstances faced by the company over the reporting period, especially when it comes to explaining board structures and composition that deviate from best practice.

To align with the amended Code and the Guidance, we expect companies to:

- Disclose the policy on how they identify board director candidates. We expect the board to demonstrate that it has considered a broad range of candidates who are outside the board's usual circle of contacts.
- Have a nomination committee with clear responsibility for evaluating the performance of the board.[6] The responsible directors should also conduct an annual assessment of the diversity profile of the company they serve, including gender balance of the directors and senior management, and their direct reports, and progress towards achieving the diversity objectives set. For companies without a nomination committee, we will consider voting against the chair of the board.
- Have a diversity policy with measurable objectives, rather than one which just states the aspiration to have a diverse board with different skills and expertise. Companies should be able to demonstrate progress towards these objectives and communicate this through disclosure and engagement with shareholders and their representatives.
- Prepare a skills matrix of the current and desired skills, experience and other attributes that the board requires.
- Publish a nomination procedure that sets out the process by which directors are appointed.

[1] Hermes Responsible Ownership Principles https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2018/03/final-responsible-ownership-principles-2018.pdf

[2] CSRC's new CG code. Published on 30 September 2018. http://www.csrc.gov.cn/zjhpublic/zjh/201809/P020180930584077967335.pdf

[3] Environmental, Social and Governance (ESG) Strategy for Hong Kong, FSDC Paper 36. Published on 20 November 2018 http://www.fsdc.org.hk/sites/default/files/ESG%20paper%20%28Eng%29_Final.pdf

[4] Hong Kong Principles of Responsible Ownership http://www.sfc.hk/web/EN/rules-and-standards/principles-of-responsible-ownership.html

[5] Corporate Governance Code https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Listed-Issuers/Corporate-Governance-Practices/guide_board_dir.pdf?la=en

[6] Code reference B1.9

REPORTING

We encourage companies to consider adopting the International Integrated Reporting Council (IIRC) framework to produce an integrated report, which is also in compliance with Hong Kong's ESG reporting guidelines.

Following the introduction of Voluntary CSR reporting requirements in 2006, many mainland China-listed companies now report annually on their CSR activities. However, CSR in this market is often linked to philanthropic activities or donations, which are neither strategic, nor linked to core business activities. Companies should therefore not treat their CSR reports, which are compliant in Mainland China, as equivalent to a Hong Kong ESG report that links ESG issues to potentially material financial impacts in core business activities. We expect all sustainability reporting to be linked to company strategy and explain how the company's sustainability and philanthropic activities are linked to its long-term success.

Whether it is financial, CSR or ESG, or integrated reporting, the objective of all reports should be to enable investors to conduct global peer and historical comparisons, with consistency of data and presentation. We recommend that companies already producing CSR reports in Chinese should consider producing English versions for international investors. The two versions should be made publicly available at the same time, in the interests of fair disclosure.

ROLE OF THE STATE

China is undergoing mixed ownership reform, attracting private sector capital, diversifying and internationalising the shareholding structure of state-owned enterprises (SOEs). For this process to proceed smoothly, we recommend the following changes: enhanced transparency of board member and senior executive appointments; independent third party board evaluation; improvements to investor access to board members; and better protection of minority shareholders.

We place great importance on observing state policy expectations and objectives in our engagement activities. We welcome relevant ESG initiatives, for example related to climate change, environmental protection and improvements in health and safety systems, and the introduction of codes of ethics and anti-bribery and corruption policies.

COMMUNIST PARTY COMMITTEE

SOEs are required by China company law to establish a Party Committee/organisation to facilitate Party activities and the implementation of government policies. On 24 August 2015, the CPC Central Committee and State Council published the "Guiding Opinions on Deepening SOE Reform". This reaffirmed the political importance of Part organisations and referenced the simultaneous positions that cadres could hold as members of the Party committee, board of directors or supervisory board, and senior management. The Guiding Opinions also suggested that by 2020 "the legitimate standing of the Party committee of SOEs in corporate governance will become more stable. We will only support amendments to the Article of Incorporation (AOI)s that assure protection of the board's and management's authorities, while legitimising the presence of the Party Committee within the company's corporate governance structure.

FAMILY OWNERSHIP

The Hong Kong Stock Exchange Listing Rules require a minimum free float of 25% for most issuers. Founders or their families often retain their control of listed companies. A good number of these families or entrepreneurs are advocates of sustainable and responsible companies. Through common interests on issues such as employee relations and environmental sustainability, we aim to engage with family members who are board members or executives of companies to understand how they see the alignment of the future of the company with their family interests.

WEIGHTED VOTING RIGHTS (WVRs)

WVRs (also known as multiple-class share structures or dual class shares, commonly referred to as DCS in Hong Kong) tend to disenfranchise minority shareholders and often increase the power of one or a small group of shareholders for a disproportionate economic stake. We encourage issuers with multiple-class share structures to adopt the concept of one-share-one-vote. We are unlikely to support the issuance of shares with reduced or no voting rights, or capital raising and share buyback exercises that discriminate against minority shareholders.

We may recommend voting against the nominee committee chair or lead director to express our concerns about this structure. If there are no such committees or individuals, we may not support the re-election of the chair.

INDEPENDENT BOARD LEADERSHIP

We expect companies to appoint an independent chair, either executive or non-executive. We recommend that companies appoint a lead independent director if the chair is not independent; if the company is family owned or state controlled; or where the roles of chair and chief executive are combined.

Minority shareholder access to board members, other than at AGMs, is a necessary feature of companies with good governance standards. The main roles and responsibilities of a lead independent director are as follows:

- Leading the group of independent directors and functioning as a link between them and the executive directors
- Consolidating the views of other board directors and acting as the main, constructive 'counter-weight' to the chair, executives and major shareholders on the board
- Chairing meetings of independent non-executive directors
- Playing a key role in board evaluation and shareholder engagement
- Representing the interests and views of minority shareholders at board meetings
- Ensuring that all directors are sufficiently well-informed to perform their duties
- Managing government investigations (if any) as a non-executive but informed director of the company

Given the track record of related party transactions and investigations into bribery and corruption, a suitably qualified lead independent director can introduce transparency and rigour to the governance process of companies, and help set the expected cultural and behavioural tone from the top. They can also help introduce or maintain effective anti-bribery and corruption systems and controls.

BOARD COMPOSITION AND FUNCTIONALITY

The listing rules in mainland China and Hong Kong require that at least one third of the board should be independent. We recommend that companies consider whether their directors have the knowledge, expertise and cultural understanding to effectively challenge executive decisions, with the objective of creating a more effective board.

We expect companies in mainland China and Hong Kong to have nomination committees that are majority independent. In particular, the chair of the company should not be a member of the audit, nomination or remuneration committees. This is in line with the Code of Corporate Governance for Listed Companies in China and the provisions of the Code on Corporate Governance Practices in Hong Kong. We expect the highest level of independent representation on the boards and committees of all listed companies, including listed subsidiaries or companies with controlling shareholders, to ensure an appropriate level of accountability to minority shareholders among the directors.

We advocate independent board evaluations. The board should adopt the best practice of conducting such an evaluation at least every three years with a skilled and independent facilitator.

With regard to board refreshment, the company should provide the rationale for nominating candidates, taking into account concerns that investors might reasonably have. These might include independence and tenure, particularly when directors have been on the board for more than nine years; if they have been on the board with a group of directors for a long time; or if a director's capacity to fulfil his or her obligations may be perceived to be declining.

As a broad guideline, we tend to regard a director as overcommitted if he or she has more than five directorships. We also consider a chair to be overcommitted if he or she has another role as chair and any other directorships or more than three other directorships. We do not expect an executive director to have more than one non-executive role.

MAINLAND CHINA

An independent director should serve on the board of no more than five listed companies[7].We expect the director and the company to provide, for example in relevant documentation related to elections and re-elections, evidence that the director has enough time and energy to effectively perform their duty as an independent director. We also expect attendance records to be made available; if attendance falls short of 75% of board or committee meetings during the year, an adequate explanation and plan with remedial action should be disclosed.

HONG KONG

The same principles apply to directors' appointments in Hong Kong, although we take account of explanations from companies with shareholder representatives, or where the company is part of a complex group of companies, and can clearly articulate the benefits of having directors sit on multiple boards within the group.

GENDER DIVERSITY

We perform our assessment of diversity at both board and management levels to ensure that the leadership team has a suitable combination of talents. We expect boards to have at least one female director by 2019 and be comprised of at least 20% women by 2020. We may recommend a vote against the chair of the nomination committee (or if the company does not have a nomination committee, we may recommend a vote against the chair of the board), if the company fails to demonstrate to us that a credible plan has been put in place to meet these expectations.

As a signatory of the Hong Kong Board Diversity Initiative[8] and as a member of the 30% Club, we support the 30% Club Hong Kong campaign to increase the percentage of women directors on company boards to 20% by 2020, working towards a long-term goal of 30% for all companies in the Hang Seng Index.

EXECUTIVE REMUNERATION

We are increasingly concerned that executive remuneration structures and practices around the world are not fit for purpose, neither serving long-term investors nor, in many cases, aligning properly with the core long-term objectives of companies.

Therefore we continue to hold many discussions on reforming pay with remuneration committee members, executives, human resource professionals, remuneration consultants and other investors around the world. We are often encouraged by their response to our views. However, pay practice within companies rarely reflects our discussions on our pay principles[9]. Our current thinking on executive pay can be summarised as follows:

[7] OECD-China Policy Dialogue on Corporate Governance: Self-assessment by the CSRC (2011), page 78 https://www.oecd.org/corporate/ca/corporategovernanceprinciples/48444985.pdf
[8] https://www.boarddiversityhk.org/commitment
[9] https://www.hermes-investment.com/wp-content/uploads/2017/09/Remuneration-Principles-Clarifying-Expectations.pdf

Simplicity: pay schemes should be clear and understandable for investors as well as executives. Pay structures should be much simpler and less leveraged than they are at present, for example taking the form of a single incentive scheme and lower variable and total possible pay.

Shareholding: the executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success. Significant shareholding requirements for directors should remain in place for a specific period of time following departure from the company, with no share sales allowed for at least one year.

Alignment and quantum: pay should be aligned to the long-term success of the company and the desired corporate culture, and is likely to be best achieved through long-term share ownership. Pay is often too high and pay schemes often seem to pay out significant sums which conflict with many shareholders' and other stakeholders' views of performance. Boards should be able to justify to investors, the workforce and the public the rationale for the CEO's and the most senior management's pay, taking account of the pay of the wider workforce. If they are not able to do so, directors should use their discretion to adjust actual or potential pay downwards. The rules of pay schemes should support this. Remuneration reports must explain how alignment with long-term shareholders is achieved.

Accountability: remuneration committees should use discretion to ensure that pay properly reflects business performance. Pay should reflect outcomes for long-term investors and take account of any decrease in the value of, or drop in the reputation of the company. Remuneration committees should take a more robust view on pay, using their judgement and being accountable for their decisions. They should avoid paying more than is necessary and not place too much reliance on existing practice and benchmarking which help to perpetuate many of the problems that we seek to address. The potential outcomes of a pay policy should be rigorously scenario tested with a cap on the total possible pay published in advance, to help reduce the risk of unintended consequences.

Stewardship: companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration. Executives should be encouraged to achieve strategic goals, rather than focus attention on total shareholder return or stock price appreciation. They should take account of the company's effect on key stakeholders.

We expect senior executives to willingly embrace these principles and, if they do not, for boards to consider the implications. Remuneration committees must take responsibility for the design, disclosure and dialogue on executive pay and we will hold them accountable for this.

REMUNERATION – MAINLAND CHINA

Executive pay in Chinese SOEs is significantly lower than in their global peers. We advocate that the total remuneration package of executives should reflect their contributions, abilities and responsibilities; pay and accountability should be closely aligned.

Mainland Chinese companies have only started introducing incentive schemes for their senior management. Hermes EOS has long held the view that the best means of aligning the interests of executives and shareholders is through significant share ownership maintained over long periods. We encourage companies to consider establishing a clear and simple executive pay scheme with key performance indicators (KPIs) that primarily reflect strategic goals, together with operational and personal objectives. A comprehensive remuneration plan should include all key staff and be focused on the long-term success of the company. It should require senior executives to be long-term owners with significant amounts of remuneration in the form of equity.

REMUNERATION – HONG KONG

Similar to mainland Chinese companies, we expect Hong Kong companies to establish a simple remuneration plan with improved disclosure on performance-linked pay and assessment criteria. Companies should note that we are more likely to support schemes with a good level of disclosure on performance criteria, with clear targets. We expect the disclosure of board director fees and given the current levels of pay, encourage companies to consider the benchmarking of directors' pay with peers. Again, we expect senior executives to be long-term owners with significant amounts of remuneration in the form of equity.

RELATED PARTY TRANSACTIONS

RPTs are an important issue, particularly for minority shareholders, and require significant consideration. We expect companies to provide disclosure of RPTs before the minimum required notice period ahead of a vote on them, to ensure that any questions from shareholders can be adequately answered. While companies provide information on the nature and rationale of RPTs, we recommend further disclosure on how the transactions are continuously monitored over the approval period, the response to any breaches and the process of reporting, should any irregularities be discovered.

RELATED PARTY TRANSACTIONS – MAINLAND CHINA

We expect RPTs, especially finance related transactions, to include detailed disclosure on the rationale of the use of a connected party, the terms of agreement, and the audit and assurance mechanisms put in place to ensure that the transactions are conducted in a fair and transparent manner over the agreement period, not only during the initial phase. We expect a thorough review mechanism to be in place should any irregular activities be noted by the auditor. We may also seek further information from the companies ahead of AGMs for more information on finance-related transactions. When AGMs involve shareholder approvals of such transactions, companies should dedicate sufficient time and resources to communicate with shareholders ahead of the meeting date. We generally do not support financial guarantees provided to related entities if they are not majority-owned by the company and there is strong evidence that such a guarantee is necessary for the business to continue to operate.

RELATED PARTY TRANSACTIONS – HONG KONG

RPTs are often referred to as continuing connected transactions (CCTs). CCTs involve the provision of goods, services or financial assistance, which are/is carried out on a continuing or recurring basis and expected to extend over a period of time. Due to the nature of CCTs, the pricing policies, settlement methods and other terms of the transactions may be different from those with independent third parties. We expect companies that have CCTs to have an RPT policy, and that such continued or one-off transactions be independently verified to show demonstrable benefits to the company. When asked, companies should be able to convince investors of their ability to monitor the proper implementation of such policies.

We normally recommend voting against financing arrangements, especially if such arrangements include a deposit facility by the connected party or parties of the company. However, we will consider supporting such an arrangement if a company can provide expected outcomes of any financial guarantees or if it can convince us that the services provided are unique in nature and are not available from another third party.

NON-AUDIT FEES

We normally recommend voting against the auditor if the non-audit fee exceeds 50% of the total fee payable to the external auditor. Companies should be able to articulate in engagement how they categorise audit and non-audit related fees, and be consistent over time.

SHARE ISSUANCE

Hong Kong Stock Exchange Listing Rules allow companies to seek authority to issue up to 20% issued share capital other than as a rights issue under the general issuance mandate. These shares may also be issued at a discount of up to 20% of the market price. Companies may repurchase up to 10% of issued share capital per year and often seek authority to reissue all repurchased shares under the share reissuance mandate.

While we respect the flexibility that companies require in managing their share capital, they rarely fully use the general share issuance allocation that they seek for shareholder approvals at AGMs. We therefore strongly advise a self-imposed target for general share issuance, including reissuance of shares, of 5% as best practice, and no more than 10% of the shares in issue. These should be issued at no more than a small discount, with 10% as the absolute maximum discount. In addition, we recommend that the company clearly discloses the rationale for the placement and the number and percentages of issued shares issued in earlier placings; whether the funds from those placings have been used as intended; the discount at which the shares were issued; and details of the actual placements, including criteria for selecting these, in the proxy materials to keep shareholders adequately informed.

PRE-EMPTION RIGHTS

Our support for waiving pre-emption rights about 10% will depend on a case-by-case assessment of the particular circumstances of a company. We are more likely to support smaller listed companies in an industry that is experiencing an accelerated pace of development and dynamic change.

CLIMATE CHANGE

Climate change is a systemic risk to the value of the portfolios of our clients because of its economic and geopolitical consequences. We therefore support the goal of the 2015 Paris Agreement, which 195 parties signed up to, to limit global warming as a result of climate change, to well below two degrees Celsius. This historic commitment was helped by the intervention of companies globally, which publicly encouraged political action in the run-up to the Agreement.

Due to the systemic risk to the global economy, we expect every company to publicly support the Paris Agreement and to make this commitment a central tenet of its public policy and sustainability activity. In particular for companies whose value chain relies on significant energy usage or is exposed to the effects of climate change, the board should ensure that support for the Paris Agreement underpins the company's strategy. Every board should ensure that it has climate change on its board meeting schedules at least annually, and that it and senior management engage with experts who can advise them on the strategic risks and opportunities that climate change represents, and challenge the company's approach, if necessary.

We understand that companies may have different views on climate change from organisations of which they are members or from other organisations which they may be able to influence. Every board should make sure that the company uses all available avenues to influence these third parties, to encourage effective action on climate change in line with the Paris Agreement. Where a company and one of these third parties disagree on climate change, the company should explain publicly the action it has taken to argue for effective advocacy or action on climate change by that third party. It should also explain its reasons for continued participation in, funding or membership of the organisation despite its disagreement.

TASK-FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

As a representative of long term shareholders, we welcome the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. This is explicitly supported by the Hong Kong Securities and Futures Commission's (SFC's) Strategic Framework for Green Finance[10]. We also welcome the draft of Green Investment Guidance (in Chinese)[11] by the Asset Management Association of China (AMAC), and look forward to continuing our engagement with stakeholders on this topic, especially in areas where they are relevant to companies. Companies should conduct scenario analysis to assess future transition and physical risks, which will be

[10] Strategic Framework for Green Finance by the HK SFC. Published on 21 September 2018 https://www.sfc.hk/web/EN/files/ER/PDF/SFCs%20Strategic%20Framework%20for%20Green%20Finance%20-%20Final%20Report%20 (21%20Sept%202018....pdf

[11] Green Investment Guidelines (Draft), by Asset Management Association of China, published on 10 November 2018 https://mp.weixin.qq.com/s/2iJD55hq1e5D-cDDr0szHQ

brought about by climate change. As part of this scenario analysis, they should also identify and discuss their strategic options for a net zero emission world. In addition, we expect companies, especially those in sectors where climate risks are most material, to demonstrate clearly that they are managing both their current and possible future risks effectively. Furthermore, we expect companies to report on the opportunities presented by climate change. For instance, companies in the financial sector should report how they will help to finance the energy transition.

UN SUSTAINABLE DEVELOPMENT GOALS

We expect companies to assess the relevance of each UN Sustainable Development Goal (SDG) to their business and to consider how best to incorporate those which may be material into their business models and strategies. We urge companies to report on how they are responding to their SDGs and encourage them to participate with civil society on how best to support them.

ENVIRONMENTAL MATTERS

Companies should be aware of and have appraised the risks and opportunities arising from the environmental impact of their own activities and those of others, and be supportive of public policy efforts to help manage the key environmental impacts of their business.

This should include specific policies and actions in the following areas:

- Climate change: including the impact of the company's own greenhouse gas emissions and those related to its supply chain, products and services, suitably harnessing green finance related initiatives provided by the relevant laws, regulations and policies.
- Water-related risks: including the impact of water use in areas that are water-stressed, as well as access to clean water and the risks from intense weather events, such as flooding.
- Environmental pollution and waste management: including pollution of air, water and soil and the opportunities to improve waste management and resource efficiency by reducing demand, reusing products, recycling materials or otherwise recovering value prior to safe disposal as a last resort.
- Natural resource efficiency: including the adoption of and application of reuse, recycle and reduce principles, and application of a circular economy concept to suitable businesses.
- Land use: including appropriate use of agricultural land, policies against deforestation, actions against illegal logging and forestry footprint disclosure where practical.

SOCIAL MATTERS

Social licences to operate are increasingly affected by the reputation of companies, including their performance on human rights. We support the UN Guiding Principles on Business and Human Rights and the UN Global Compact. We expect companies to use the UN Guiding Principles Reporting Framework to disclose how they manage human rights issues that are salient to their business.

Companies should ensure that to the extent relevant to their business and operations, including their suppliers and potential uses of their products, they are aware of and take effective measures in the following areas:

Human and labour rights

- Compliance with all legal requirements and the duty to respect all internationally recognised human and labour rights.
- Human rights due diligence assessments, especially if the company operates in areas with indigenous communities or in disputed regions.
- Monitoring and avoidance of human trafficking, and child and forced labour along the entire supply chain. Companies with a global turnover of more than £36 million and any operations in the UK are required to produce a statement about their business in line with the UK Modern Slavery Act.[12]

Conduct and culture

- Development and maintenance of the highest standards of conduct towards all stakeholders, including employees, customers, suppliers, government, regulators and the wider public across all markets, together with a culture that ensures the highest standards of integrity and a respect for others, both within and external to the company.
- Human capital management: employees are a company's most valuable asset. Businesses should therefore develop human capital management strategies and accompanying objectives that seek to maximise employee potential in order to maximise long-term value, through a positively engaged, committed and talented workforce. We encourage companies to provide qualitative contextual information describing their approach, as well as annual disclosure of the KPIs they use to manage their human capital. These should include the company's total number of employees, annual turnover and total recordable incident and lost time injury frequency rates.

ETHICAL LEADERSHIP

We expect companies to have best practice anti-corruption and anti-bribery policies and processes in place and robust compliance mechanisms to enforce them. However, these are not enough on their own. We expect the board to oversee the anti-bribery and corruption controls and – just as importantly – to set the tone from the top, to encourage the highest ethical standards, to drive the expectations and values of the organisation. This is to ensure that the culture is one in which corruption cannot thrive, and that the necessary organisational measures exist to provide the best possible defence against corruption. We therefore seek to engage with companies where we judge the culture and values to be lacking or the effective oversight, management of, or reporting on anti-bribery and corruption to be insufficient.

[12] 2015 UK Modern Slavery Act http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted

DATA PRIVACY

We expect companies to establish and publish a data privacy policy that complies with associated rules and regulations, including but not limited to the EU General Data Protection Regulation (GDPR), which applies to global companies if EU subjects seek explanation from companies on how their personal data has been used. Companies should put in place process and escalation procedures to monitor the violation of data privacy policy. We seek evidence of ongoing effort to establish a culture of data protection, covering personal, customer and third party data.

CYBER SECURITY

All companies face cyber security risks. We encourage companies to establish board expertise and oversight on matters related to information security, with a thorough understanding of the company's digital footprint. At least annually, the board should conduct a comprehensive review cyber security performance. Regular updates from staff and external advisers, and feedback on infrastructure security should also be provided to the board. There should be timely hardware and software updates to minimise the risk of virus attacks. When attacks do take place, there should be a comprehensive business continuity plan to address weaknesses identified for improvement. Companies should also proactively communicate to shareholders evidence of ongoing effort to establish a culture of cyber security awareness amongst all staff, including contractors.

TAX

We expect companies to comply with all tax laws and regulations in all countries of operation. Companies should recognise the importance of taxation to the funding of good public services on which they and their stakeholders rely, and their commitment to pay their fair contribution. They should ensure that their tax policies and practices do not damage their social licence to operate in all jurisdictions in which they have a presence; and disclose the taxes paid by or collected by them in each country.

Appendix 1: Corporate governance overview of mainland China and Hong Kong

	Mainland China	Hong Kong
Regulator	China Securities Regulatory Commission (CSRC)	Securities and Futures Commission (SFC)
Framework	German civil code	English common law and 'comply or explain'
Control system of listed companies	Two-tier: management and supervisory board	One tier
Board of directors	Three year term Can serve consecutive terms	Three year term Can serve consecutive terms
Supervisory board	At least three members, with no less than one third representing employees	Not applicable
Independent directors	At least one third independent	At least one third independent
Audit committee	Majority independent. Committee chair should be independent with accounting experience.	Composed entirely of non-executive directors and chair must be independent; at least one director has professional qualifications or related experience
Remuneration committee	Majority indepedent.	Required, majority independent
Nomination committee	Committee Chair must be independent	Voluntary, majority independent
Sustainability requirements	Corporate Social Responsibility (CSR) reporting	ESG reporting, from voluntary to 'comply or explain'
Shareholder proposals	At least 3% voting rights	At least 2.5% voting rights

HERMES
INVESTMENT MANAGEMENT

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, small and mid-cap and impact

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

Stewardship
Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | New York | Singapore | Denmark

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.

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