CORPORATE GOVERNANCE PRINCIPLES

Switzerland

Hermes EOS
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For professional investors only

www.hermes-investment.com

HERMES
INVESTMENT MANAGEMENT

CORPORATE PURPOSE AND HERMES RESPONSIBLE OWNERSHIP PRINCIPLES

As investors we aim to deliver long term value creation for our clients. This can only be achieved sustainably if companies create and preserve value over time, not only for their shareholders, but also for 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.

This document should be read in conjunction with the Hermes Responsible Ownership Principles.[1] They provide our views on corporate purpose and other issues that we believe are important for companies globally.

INTRODUCTION

We support the Swiss Code of Best Practice for Corporate Governance (the Code), which was established by business federation, economiesuisse, and updated in 2016. We also support the SIX Swiss Exchange's Regulation Communiqués with regard to compliance with the Directive on Information Relating to Corporate Governance. We encourage companies either to comply with the Code or explain their reasons for non-compliance. However, the Code does not sufficiently cover all the issues we regard as important. We also note the Swiss Ordinance against Excessive Compensation in Listed Stock Companies (the Ordinance) which came into force on 1 January 2014. In our Swiss Principles, we therefore highlight specific points and set out our preferred approach to particular matters that we trust will assist companies in taking steps to improve corporate governance, and thereby help increase investment and improve sustainable company performance. We also seek to work with companies and regulators to help them to further enhance existing practices. These Principles are intended to assist Swiss companies and their directors in understanding our views on these issues in the spirit of positive dialogue, mutual understanding and, where necessary, change.

SHAREHOLDER RIGHTS

One share, one vote principle

Swiss law allows companies to offer different classes of shares, such as shares without voting rights or profit sharing certificates, and to cap voting rights, thus disregarding shareholders' economic interests. We strongly support the principle of one share, one vote, which ensures proportionality between equity ownership and voting powers, and thus economic risk bearing. As a general rule, we believe equal voting rights should be attached to shares regardless of the total holding or other characteristics of an investor. Similarly we do not support enhanced dividends for long-term shareholders because these practices disadvantage some shareholders, increase investment risk and may reduce management accountability. All limitations to shareholders' rights or interests should be clearly reported. However, we encourage Swiss companies to remove them.

Dilution and pre-emption rights

We believe that pre-emption rights are an important safeguard for shareholders and their interests as part-owners of companies. We will carefully consider the stated reason for a request to waive them and expect a detailed justification of requests in excess of 20% of existing share capital. With regard to capital requests to fund equity-based remuneration, we will consider their potential dilution and the remuneration structure proposed.

TRANSPARENCY AND DISCLOSURE

Meeting notification and proxy documents

For minority shareholders, the annual general meeting is a formal opportunity to obtain information about management's and the board's stewardship of their investments and, if necessary, to request clarification of any decisions taken during the year. The shareholder meeting is therefore an important accountability mechanism, and the communication of detailed information on all agenda items at least 30 days in advance of the meeting is a prerequisite for its effectiveness. All documents should be clearly displayed and accessible on the company's website. We also urge companies to publish the detailed results of the votes at the general meeting on their website without unreasonable delay.

Good quality reporting

Material social, environmental and governance considerations are key components of the assessment of risks and opportunities and should be reported as such. We encourage companies to adopt the International Integrated Reporting Framework.[2]

BOARD OF DIRECTORS

Composition and diversity

We place a strong emphasis on the overall balance in the composition of a board. The board should comprise members with a diverse range of attributes, competencies, knowledge and experience to enable it to discharge its duties and responsibilities effectively. These include leadership skills, decision-making expertise, and the necessary characteristics and independence, to be able to hold executive management to account.

[1] https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2018/03/final-responsible-ownership-principles-2018.pdf
[2] https://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

Boards are most effective when they have access to knowledge and experience from a wide range of backgrounds that are relevant to the company, including with regard to its long-term strategic direction, suppliers, employees, customers and geographic footprint. In addition, a wide variety of viewpoints and perspectives is likely to result in a better quality of debate and therefore decision making. Boards that have too much commonality of background run the risk of groupthink and complacency, both clear signs of governance failure. We believe that boards should take account of diversity in its broadest sense, including gender, nationality and ethnicity, as well as skills, experience and other attributes when considering possible candidates for the board and other senior positions.

We support the regulation requesting women must make up at least 30 percent of board members and at least 20 percent of the management. If they do not have this level of female representation already, we expect them to set a target and a timescale for achieving it. Otherwise, we may vote against the chair or the chair of the nomination committee.

The board should also ensure that a policy of diversity is in implemented throughout the company. Where there is an under-representation of women on the executive board and in senior positions across the organisation, we expect companies to develop a gender diversity targets throughout the organisation. We encourage boards to monitor key indicators to assess the inclusivity of the company's culture and how this is aligned with its values and strategy. Employee surveys, staff turnover, promotion ratios and pay gap by category of employees should be reviewed as part of this.

Independence

While representation of significant shareholders on the board can be justified and useful, we expect there to be a strong core of independent directors to ensure that the interests of minority shareholders are protected, to exercise objective judgement and, if necessary, to act as agents for change. The Code's definition of independence is not specific. We recommend that at least half of the directors on the board should be free of any possible conflict of interests. These possible conflicts include directors with long tenures, those representing some shareholders or those with a material business or personal involvement with the company or other strong connections with directors, such as serving together on the boards of other companies. We expect a biography of all directors, including their areas of expertise and whether and why, particularly when there may be indicators to the contrary, the company considers them independent. We encourage a clear explanation of the circumstances, where there is a limited number of independent directors.

Multiple and cross-directorships

We do not support unjustified cross-directorships. A director needs to dedicate time to the company in order to appropriately fulfil his or her duties. As companies set the maximum number of mandates in their articles of association, we expect an explanation: when a director holds more than four other directorships in listed companies not affiliated to the company, including foreign businesses; when a director with executive responsibilities holds more than one other directorship; or when a director already chairs a board or an audit committee. A director should consult and receive the permission of the board before accepting an additional mandate.

Committees

Committees should be chaired by independent directors and have no executive members. We welcome the recommendations in the Swiss Code on committees, especially those on the skills requirements. Additionally, we encourage companies to ensure that their audit and remuneration committees are fully independent. A majority of the nomination committees should be independent, including independence from affiliated shareholders.

When assessing candidates for the remuneration committee, we also consider the personal track record of directors, in their current capacity and elsewhere.

Chairing of the board

Since the responsibilities and competencies of the chair of the board and the CEO are different, we believe they are most effectively discharged by two persons. The separation of the roles ensures the focus of the CEO on the management of the company, while a separate chair role introduces an additional element of overview and accountability. An independent chair helps to ensure the CEO's accountability for managing the company in the interests of shareowners. In our view, chairs are non-independent and executive when they receive material compensation in exchange for their time commitment to the company. We may therefore vote against the election of the CEO as chair of the board. We do not support the granting of variable compensation to the chair, as it can influence his or her oversight of the executive board.

Lead independent director

We advise the nomination of a lead independent director. The role and prerogatives of the lead independent director should be clearly defined in published rules of the board or in the articles of association. Their key duties should include leading the assessment of the performance of the chair and acting as a direct link to shareholders. Where the chair is non-independent, he or she should be able to convene the board in certain circumstances. For instance, they are accountable for managing conflicts of interest and compliance with good governance.

We support greater transparency on the work of the board and the rules and procedures in place to facilitate its functioning. We also support refreshment of the board as the needs of the company evolve. We welcome the recommendations in the Code regarding the evaluation of the board of directors. We therefore encourage companies to implement a formal process for these evaluations and to communicate on the areas identified for improvement.

Importance of board and shareholder engagement

Communication between boards and serious, committed long-term shareholders on strategy, finance, corporate governance and risk management – including the management of risks and opportunities stemming from environmental and social issues – is essential.

Through this exchange of views, shareholders can better comprehend, and if necessary, attempt to influence the boards of companies in which they invest, developing relationships of trust based on an improved mutual understanding. Our experience has shown that constructive engagement between shareholders and directors in these areas can lead to improvements in the governance, performance and value of companies. Conversely, lack of engagement can lead to increased risk. Chairs, lead independent directors and other non-executive directors, in particular board committee chairs, should make themselves available for meetings and teleconferences with minority shareholders, as an essential part of their responsibilities. Developing relationships of trust with long-term shareholders can be invaluable for boards. We therefore expect boards to welcome more and better quality engagement between long-term investors and directors, and for independent directors to participate in engagement.

REMUNERATION

The purpose of obtaining non-binding approval of the policy from shareholders is to facilitate a dialogue between investors and the company on remuneration and to provide them with an opportunity to formally express their opinion on the design, as well as the implementation, of the remuneration policy. This dialogue will contribute to inform the binding vote on the remuneration of executive directors required by the Ordinance in a constructive manner.

Compensation principles

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[3]. Our current thinking on executive pay can be summarised as follows:

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. Remuneration reports must explain how alignment with long-term shareholders is achieved.

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.

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.

Reporting

Despite legislation designed to improve remuneration reporting, the reports of many companies can be difficult to readily comprehend. We therefore emphasise the need for clarity in the reporting of remuneration policies and their implementation. Companies should define the overall structure of the incentive scheme, including a cap on variable pay relative to total pay. We expect companies to disclose specific metrics and their relative weight and targets either in advance, or for sensitive targets, within one year following the end of the relevant reporting period. In the case that a company deems that this is not appropriate for reasons of commercial confidentiality, we expect a full explanation in respect of each metric for which this is not the case.

The remuneration committee should use its discretion to ensure that awards properly reflect the performance of the business. Where companies fail to address a significant level of shareholder opposition to pay practice, we may register our concerns by voting against the re-election of remuneration committee members.

Say-on-pay

Companies decide which format to apply, whether prospectively, retrospectively or using a mix of structures, when they put the remuneration amount to a vote. We believe that a retrospective vote

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

provides us with a more informed say on the link between pay and performance. We also expect an annual non-binding vote on the remuneration report of companies.

SOCIAL, ETHICAL AND ENVIRONMENTAL RESPONSIBILITY

Companies should effectively manage environmental and social factors that are relevant to their business, with a view to enhancing long-term sustainability. They should also disclose to shareholders on a regular basis how they identify and manage the relevant risks and provide evidence that these structures are effective. In addition, companies should clearly define board and senior management responsibilities for environmental and social issues. We believe that directors of companies are accountable to shareholders for the management of social, ethical and environmental risks and opportunities in the same way that they are accountable for the company's financial performance.

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.

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 countries signed up to, to limit global warming as a result of climate change, to well below 2°C. This historic commitment was helped by the intervention of companies globally, which publicly encouraged political action in the run-up to the Agreement.

Because of 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 this disagreement.

Task Force on Climate-related Financial Disclosures

We welcome the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. We expect companies to adopt the recommendations in full. Companies should conduct scenario analysis to assess future transition and physical risks which will be 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.

Human rights

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 reporting framework of the Guiding Principles to disclose how they manage human rights issues that are salient to their business.

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 the SDGs and encourage them to participate with civil society on how best to support them.

Tax

We expect companies to:

- comply with all tax laws and regulations in all countries of operation;
- 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;
- 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.

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:

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