

HFML Remuneration Policy

To be ratified by the Board of Directors of HFML on 25 July 2019

Purpose

This document sets out the Remuneration Policy of Hermes Fund Managers Limited (“Hermes” or “the Company”) and its subsidiaries, the purpose of which is to demonstrate compliance with relevant regulations and in particular the FCA Remuneration Codes (“Code”).

The policy also summarises how Hermes applies specific remuneration policies for certain categories of staff (“Code Staff”) as required under relevant regulations.

We believe the current policy to be fully compliant with the requirements of the AIFM Remuneration Code the BIPRU Remuneration Code and the Markets in Financial Instruments Directive (“MiFID II”). Where applicable, under the rules of delegation, either the UCITS requirements will apply to delegates or they will be subject to an equally effective regime.

Scope

This policy covers all employees of the Company, wherever based, and across all subsidiaries except HFM Ireland (“HFMI”) who have their own Remuneration Committee (“RemCo”) and Remuneration Policy

Membership

The Remuneration Committee is constituted as a Committee of the Board of Hermes Fund Managers Limited. Membership of the Remuneration Committee is formed by the Chairman of Hermes and other Directors (both Executive and Non-Executive) who are appointed in line with the business needs of the organisation.

The primary focus continues to be centred on advising the Board of Directors on remuneration matters. This advice takes shape through policies and plans that are designed to motivate and retain high-calibre executive directors, senior management and staff.

Hermes’ remuneration philosophy

Our remuneration policy is designed to attract, motivate, retain and reward employees regardless of gender, ethnicity, age, disability, gender reassignment, race, marital or civil partnership status, pregnancy or maternity, religion or belief, or sexual orientation. Our philosophy is to reward individual contribution, as demonstrated by the delivery of long-term sustainable results that are aligned with our business strategy, values, behaviours and which serve the best interests of our clients and shareholders while enabling the business to grow to its potential.

Through focusing on long term awards, our incentive pay strategies encourage employees to act like long term shareholders and support our performance and partnership culture to create a sustainable business, discouraging excessive or concentrated risk taking and avoids conflicts of interest

Individual and organisational performance is transparently and rigorously assessed against a combination of financial (multi-year) and non-financial targets in order to determine appropriate total compensation that will attract and retain our key talent.

Reward strategy principles

These principles form the basis of our approach to performance and behaviour-linked total compensation. The principles of our remuneration policies, procedures and practices are:

- To be aligned with business strategy, objectives, values and long-term interests of Hermes and its clients as reflected in the Hermes pledge
- To provide competitive total remuneration potential, designed to attract, retain, motivate and reward employees that deliver outstanding long-term performance and corporate behaviours.

- To promote sound and effective risk management.
- To ensure remuneration is linked to investment, business, personal performance and corporate behaviours measured over the short, medium and long term.
- To differentiate and reward strong performance and demonstration of corporate behaviours and to proactively manage poor performance and behaviours not aligned to the corporate values.
- To deliver reward programs which are transparent, simple to administer and affordable to the Company.
- To deliver compensation and benefit strategies which have the oversight and approval of our RemCo.

Governance

The RemCo and Board agree the broad policy and framework for the remuneration of the Chief Executive Officer, other executive directors of the Company, and senior managers whose compensation is over a certain threshold. Within this framework, RemCo has responsibility for the remuneration relating to the Hermes Group. For the avoidance of doubt, this excludes HFML and the joint venture Hermes GPE who have their own respective remuneration committees.

The RemCo has adopted this policy which is set in line with the remuneration philosophy of Hermes and is designed to ensure compliance with Regulatory requirements.

In addition to the RemCo and Board, the Control Function leads comprising the Heads of Risk & Compliance Monitoring, Internal Audit and Human Resources meet during the pay review cycle to consider any emergent trends and employee related key risks to ensure that these are properly considered during the compensation review process and that their findings are reported to the Audit Committee and RemCo as appropriate.

Remuneration components

Remuneration in the context of this policy means:

- Fixed Remuneration – including base salary, pension and other corporate benefits; and
- Variable Remuneration – performance and behaviour-based discretionary remuneration

Refer to Appendix 1 for more detail.

Determination of variable remuneration

The three sources of variable remuneration are the discretionary annual cash bonus, co-investment/bonus deferral scheme and the long-term incentive plan. In addition, to ensure strong alignment with the majority shareholder, up to 50% of the CEOs deferred bonus is awarded in Federated Bonus Restricted Stock and as a member of the Federated Executive Team he is also eligible to participate in the Restricted Stock plan. The proposed awards are presented to the RemCo by the Executive Committee (“ExCo”) which reviews all the proposals prior to the submission to RemCo. Proposals in respect of the CEO are presented to the RemCo by the Chairman following discussion with the CEO of Federated Investors Inc.

Any bonus pool is set as part of the strategic plan agreed between the Board and the owners. Each Division receives a share of the bonus pool based on both, bottoms-up approach and their performance during the year against targets set by the CEO and approved by Board, keeping the long-term strategy of the Company in mind. The same approach is used to distribute the pool further down to each team and ultimately to eligible employees after giving due consideration to their year-end performance appraisal vs objectives that are set at the start of the year.

RemCo and ExCo are charged with effectively distributing any awards across the Company on a discretionary basis. Participation in any bonus pool is limited to eligible employees and their participation is based on their

contribution to both financial and non-financial measures. Non-financial measures include demonstration of corporate behaviours, and successfully delivering agreed objectives which are used to adjust the overall discretionary bonus awarded up or down. In addition to individual contribution, consideration is given to Company performance, team performance and market factors.

Co-Investment / Bonus Deferral Scheme

Employees deemed eligible to participate in the bonus deferral scheme and who are awarded a bonus award of £75,000 or more (or local equivalent) are required to defer a percentage of their bonus award; the percentage deferred increases in line with the quantum of their bonus. Any deferred bonus awards are deferred into the co-investment scheme. Deferred bonuses vest over three years on a pro-rata basis. Amounts deferred notionally track fund performance. Notional co-investment is designed to align the interests of the employee with those of the clients and shareholders.

For investment professionals, 50% of their deferred bonus is notionally co-invested in the funds they manage. The remaining 50% can also be notionally co-invested into the funds they manage, or the employee can choose to notionally co-invest in a basket of funds from across the Company.

For non-investment professionals, 100% of their deferred award is notionally co-invested into a basket of funds from across the Company. With regard to employees engaged in control functions, we ensure that their reporting line is independent and their remuneration does not compromise their ability to objectively review the business areas they control and monitor.

The current deferral mechanism works as follows:

Column 1	Column 2: Co-Investment Thresholds	Column 3: Deferred Percentage
First Row	Any part of the Aggregate Bonus not exceeding £150,000 (or the Overseas Equivalent); if bonus is greater than £75,000	10%
Second Row	Any part of the Aggregate Bonus exceeding £150,000 (or the Overseas Equivalent) but not exceeding £300,000 (or the Overseas Equivalent)	30%
Third Row	Any part of the Aggregate Bonus exceeding £300,000 (or the Overseas Equivalent)	50%

Long Term Incentive Plan (“LTIP”)

The Long Term Incentive Plan offers selected employees the chance to acquire beneficial ownership of ordinary shares in the Company.

Malus and Clawback are applied to both schemes.

Guaranteed variable remuneration

The Company will not guarantee or replace any incentive awards that will breach the Code. In limited and exceptional circumstances and generally only in the first year of employment, and where permitted by the Code, the Company may agree to make an award of guaranteed variable remuneration in line with the Code. Replacement awards are not the Company's standard compensation practice; however, on the occasions where a replacement award is considered, the Company will take steps to determine an appropriate amount, only in accordance with the Code. Retention awards are considered guaranteed variable remuneration.

Code Staff

Code Staff may be employed by or considered staff of other entities, including other entities within the Hermes group of companies.

Code Staff can be interpreted to mean:

- (i) members of the governing body (Board);
- (ii) Senior management;
- (iii) Staff responsible for risk management and compliance functions; and
- (iv) Staff members whose professional activities can exert material influence on the risk profile of the Company.

The Company has undertaken a comprehensive review to identify those persons who it considers to be Code Staff for the purposes of the FCA Codes. In doing so, the Company considered and reviewed all employees who have a material impact on the Company's risk profile, including any employee who performs a significant influence function for the Company, senior managers and risk takers. In seeking to identify material risk takers, the Company considered those employees that might exercise significant influence in relation to any material risks identified in the Company's ICAAP. This review is undertaken periodically.

The RemCo approved the approach to determine and select which roles and individuals should be designated as Code Staff for the purposes of the Code. It reviews this group annually and then provides an annual notification to those Code Staff. Any additional Code Staff roles identified during the year are included.

Personal Investment Strategies and Avoidance of SYSC 19

Hermes Code Staff undertake not to use personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk-alignment effects embedded in their remuneration arrangements and the Company maintain effective arrangements designed to ensure that staff comply with their undertaking.

Hermes ensures that variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the Codes.

Internal and external disclosure

The policy is available to all employees via Human Resources ("HR"). Code Staff are notified of their status as such, and the implications of this status on their remuneration arrangements.

Hermes also discloses its remuneration in the Annual Report & Accounts, which can be found on the Hermes external website. The transparency of the disclosures in the Annual Report & Accounts is intended to mirror that of public companies. Disclosures include remuneration of executive directors and setting remuneration decisions in the context of Hermes' performance. This aligns the disclosures with Hermes' recommendations for public listed companies.

Administration

This policy is administered and reviewed regularly by ExCo on behalf of the RemCo with input from HR and Compliance. Any questions should be addressed to HR.

Appendix 1:

The following table describes each component of our compensation program for employees as well as its purpose and key measures:

Remuneration Type	Pay element	What it does and who is eligible	Key measures
Fixed	Base salary, retirement & other benefits	<p>Provides competitive fixed pay at a level that reflects market-compensation for the role</p> <p>Assists employees with retirement and provides insurance coverage and other corporate benefits</p> <p>Applies to all employees</p>	<p>Experience, duties and scope of responsibility</p> <p>Internal and external market factors</p> <p>Reviewed annually, RemCo approve the budget requested by ExCo. Proposals are approved in accordance with the RemCo Terms of Reference</p>
Variable	Discretionary annual cash bonus	<p>Discretionary awards to reward performance and demonstration of corporate behaviours</p> <p>Applies to all employees employed by 1 October in the given performance year, unless previously agreed</p>	<p>Based upon financial and non-financial measures and progress against long-term strategic objectives</p> <p>Typically based on individual performance and behaviour, team performance, and company performance; with reference to external market factors</p> <p>Proposals are approved in accordance with the RemCo Terms of Reference</p>
	Discretionary co-investment/bonus deferral scheme	<p>Align employees' interests with those of clients and shareholders</p> <p>Investment Professionals are notionally co-invested into the fund(s) they manage. Non-investment Professionals are notionally co-invested into a basket of funds managed by the Company</p> <p>Applies to all employees that qualify for the bonus deferral scheme</p> <p>Under the plan rules that govern the scheme, all awards are subject to a variety of conditions including malus, clawback and leaver provisions</p>	<p>Investment performance, as measured by the Company</p>
	Long Term Incentive Plan	<p>Offering restricted shares in the Company</p> <p>All employees are eligible to participate</p> <p>Eligibility is reviewed on an annual basis</p>	<p>Valuation of Hermes at each vesting and holding anniversary.</p> <p>ExCo proposals are presented to RemCo for approval</p>
	Bonus Restricted Stock Program	<p>Only CEO is eligible, a portion of CEO's deferred bonus is paid in the form of restricted shares of Federated Class B Common Stock</p>	<p>Value of Federated Investors listed stock.</p>

	Stock Incentive Plan	Only CEO is eligible, an award of Federated Class B Common Stock subject to performance conditions	An award that vests after 5 years subject to Federated Investors Operating Profit conditions to be met in the year after award.
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