

OUTCOMES  
BEYOND  
PERFORMANCE

# STEWARDSHIP

Hermes EOS  
2019

For professional investors only

[www.hermes-investment.com](http://www.hermes-investment.com)

  
**HERMES**  
INVESTMENT MANAGEMENT

## Hermes EOS is one of the leading providers of corporate engagement, intelligent voting, portfolio screening, public policy engagement and advisory services.

We provide a platform for like-minded investors to pool resources, creating a powerful force for positive change. We work on behalf of long-term global investors who entrust us with the stewardship of approximately £389/€434/\$496 billion of assets<sup>1</sup> invested in over 10,000 companies worldwide.

We have a diverse and multi-lingual team with a number of senior advisers. Our staff are experienced professionals who have the expertise, language skills and cultural knowledge to work with you and your team to deliver real beneficial change at the companies you invest in.

### Benefits

Hermes EOS helps its clients protect and enhance portfolio performance and support long-term shareholder value.

High-quality academic evidence shows that engagement pays off financially and non-financially.

For example, successful engagement can translate into significant outperformance, ranging from 4.4%<sup>2</sup> to 7.1%<sup>3</sup> per annum after successful engagement. In 2014, Hermes proprietary research<sup>4</sup> demonstrated that corporate governance standards have a meaningful impact on shareholder returns, showing that companies with poor or worsening standards of corporate governance underperformed by up to 30 basis points from December 2008 to December 2013. In addition, there is evidence that engagement leads to lower downside risk<sup>5</sup>.

Our engagement is based on the promotion of long-term corporate value, instead of the short-term financial focus common in financial markets.

**We support our clients' institutional brand and reputation.**

Financial institutions around the world are increasingly required to demonstrate responsible behaviour. Good stewardship of assets is a critical component of what it means to be a responsible investor.

**Our services are:**

### Corporate engagement

We provide engagement services with companies that form part of the public equity and corporate fixed income holdings of our clients.

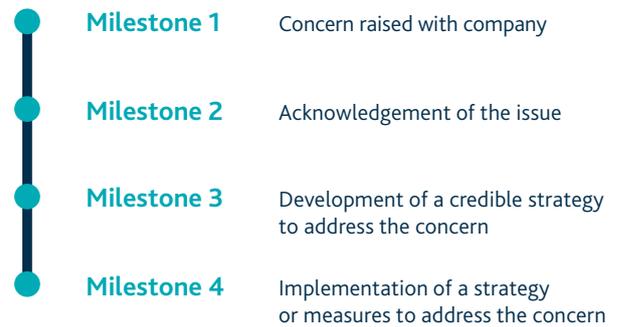
We have a strong track record of securing executive and board level access and achieving positive change to the mutual benefit of our clients, the companies we engage with and the communities in which they operate.

**The aggregate equity positions of our clients, our expert team and our strong relationships with company boards make us particularly effective in promoting value-enhancing change for our clients.**

Our three-year engagement strategy is outlined in an engagement plan we provide to our clients. The plan illustrates our themed and specific objectives, building on client feedback, changes across the market and regulatory environment in different countries and sectors. We seek to challenge the corporate governance and management of environment, social and strategy issues of companies, and, if necessary, encourage change. Our engagement professionals are allocated to sectors, themes and regions to pool knowledge and expertise.

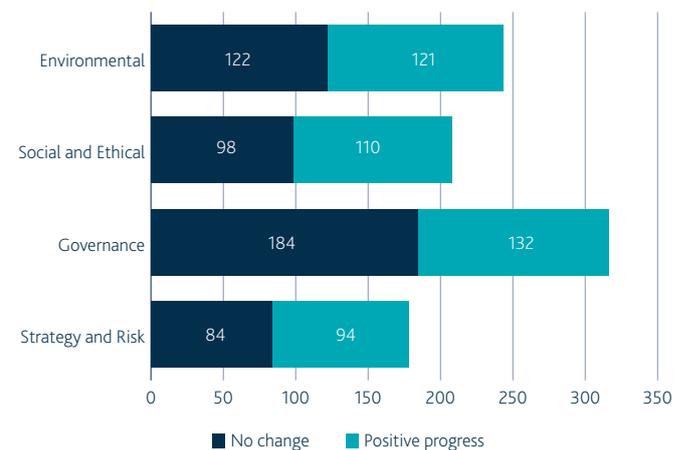
We analyse our clients' portfolios to identify companies for engagement. We select companies based on the responsible investment policies of our clients, the size of their holdings, materiality of the risks and likelihood of success and feasibility of achieving change through engagement.

Our proprietary milestone system allows us to track progress in our engagements relative to objectives set at the beginning of our interactions with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective. They can broadly be defined as follows:



In 2018, we engaged with 746 companies on 2,084 issues and objectives. Good progress was made and at least one milestone was moved forward for about half of our objectives during the year. The following chart describes how much progress has been made in achieving milestones set for each engagement.

Engagement progress in 2018



1 As at 31 December 2018.

2 Hoepner, A, Oikonomou, I, & XY Zhou (2015). ESG Engagement in Extractive Industries: return and risk. Research Paper. Performance period: January 2005 to February 2014. The authors use 'national/regional benchmark factors from Style Research Limited' in order to calculate the abnormal stock return, which is not explained by commonly applied investment style benchmark factors.

3 Dimson, E, Karakas, O, & X. Li (2015). Active ownership. Review of Financial Studies, 28(12). Performance period: 1999-2009 (US companies). The authors calculate cumulative abnormal returns in two ways: (1) 'the monthly stock return minus size-decile matched portfolio return' and (2) 'the monthly stock return minus the value-weighted market return from CRSP (The Center for Research in Security Prices)'.

4 Hermes Global Equities (2014). ESG Investing: does it make you feel good, or is it actually good for your portfolio?

<https://www.hermes-investment.com/wp-content/uploads/2015/06/esg-investing-does-it-just-make-you-feel-good-or-is-it-actually-good-for-your-portfolio.pdf>

5 Hoepner, Oikonomou, Sautner, Starks, Zhou (2018). ESG Shareholder Engagement and Downside Risk. Performance period: 2005-14.

We publish a number of case studies describing our engagement with companies, including our reasons for engagement, the actions we have undertaken and the results. These can be found on our website<sup>6</sup> and in our Annual Reports<sup>7</sup>.



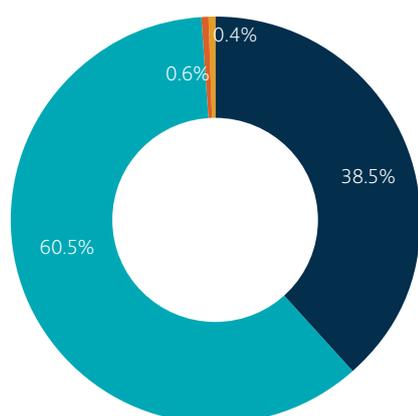
## Voting

Our intelligent voting service is engagement-led, involving communication with company management and boards around the vote to ensure voting decisions are well-informed and include engagement insights where possible.

**We believe our intelligent voting approach is important to achieve beneficial change at companies with the ultimate aim of protecting long-term shareholder value.**

### Global voting activity

During 2018 we made voting recommendations at 10,359 meetings (over 100,000 resolutions)



- Total meetings voted in favour
- Meetings where voted against (or voted against AND abstained)
- Meetings where abstained
- Meetings where voted with management by exception



## Portfolio screening

We provide a quarterly screening service to identify companies which are in or near breach of international norms and conventions to assist with the identification of higher risk companies in the investment portfolios of our clients.

This information is designed to help our clients invest responsibly, encouraging the integration of ESG factors into their investment processes.



## Public policy and industry best practice

Hermes EOS has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard-setters to help shape capital markets.

Our public policy work includes:

- Engagement on issues and written responses to consultations on behalf of our clients;
- Providing our clients with the opportunity to endorse or co-sign responses to consultations; and
- Providing our clients with written responses to consultations for use as a basis for their own response.

In 2018 we recorded 231 public policy interactions. These included policy work in support of the recommendations of the Task Force on Climate-related Financial Disclosures, as well as on diversity. We, for example, supported the recommendations on the ethnic diversity of UK boards made by the Parker Review. Furthermore, we engaged with regulators on dual-class share structures and different listing standards. We also continued to contribute to the implementation of various stewardship codes around the world.



## Advisory services

We work with our clients to develop their responsible ownership policies drawing on our extensive experience and expertise, to help protect their reputations. Typically, policies will cover their positions on stewardship and environmental, social and governance issues, exclusions and voting.



## Reporting

**Hermes EOS recognises that timely communication is key to our clients, as they manage their own responsible investment activities, and communicate with their beneficiaries and stakeholders.**

We provide the following reporting avenues to our clients as part of our services:

- Access to EOSi, our client portal website, which provides our clients with 24/7 access to our engagement activity database and the ability to set alerts for companies that are of particular interest.
- Monthly EOSi snapshots email newsletter, which provides highlights of our most recent engagement, voting and public policy activity.
- Quarterly reports on engagement and voting activity, including statistics.
- Quarterly calls to discuss client priorities, updates from EOS and feedback on our service.
- Annual reports on engagement and voting activity.
- Invitations to the bi-annual Hermes EOS Client Advisory Council, full-day events including feedback, updates, education and networking.

We offer a number of other value-add services to our clients, including public case studies on engagements, EOSi highlight calls, debates and blogs on topical issues.

<sup>6</sup> <https://www.hermes-investment.com/ukw/stewardship/eos-insights/>

<sup>7</sup> <https://www.hermes-investment.com/ukw/stewardship/eos-literature/>

## 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 | Denmark | Dublin | Frankfurt | New York | Singapore

### Contact information

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