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CORPORATE GOVERNANCE PRINCIPLES

The Netherlands

June 2019

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CORPORATE PURPOSE AND HERMES RESPONSIBLE OWNERSHIP PRINCIPLES

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 other 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 generally support the recommendations of the Dutch Corporate Governance Code ('the Code')[2] and encourage companies to comply with these or to explain their reasons for any non-compliance. We also support the additional guidance provided by the Eumedion Corporate Governance Manual.[3] However, these recommendations do not sufficiently cover all the issues we regard as important, in particular on wider sustainability responsibilities. In our Dutch Corporate Governance Principles, we therefore address additional issues, highlight specific points and set out our preferred approach to particular matters. For instance, we outline priorities that will assist companies in taking concrete 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 move towards best practice, or to further enhance existing practices. The following sections are intended to assist Dutch companies and their directors in understanding our views on these issues.

BOARD GOVERNANCE

Governance structure

The Netherlands traditionally works with a dualistic governance model[4] (ie. a two-tier governance structure). The large majority of Dutch companies choose this model, however the option[5] of a unitary board governance model is used by a number of companies.

Two-tier governance structure

When a two-tier structure is applied, the company's articles will provide for a management board consisting of executive directors, and a supervisory board consisting of non-executive directors (also called supervisory directors). There are several variations in structures and related requirements for two-tier boards. In the majority of Dutch listed companies, the supervisory board nominates and shareholders elect both the supervisory board and the management board.

Under Dutch law, companies that meet certain thresholds[6] of share capital and number and location of employees are considered to be large companies and are legally required to implement the structure regime (structuurregime), which further limits the powers of the management board in favour of the supervisory board. Around 26 Dutch listed companies follow the structure regime.

If the structure regime is in place, the annual shareholders' meeting does not have the power to appoint or dismiss management board members. This power resides with the supervisory board. The supervisory board also has the right of approval for several important decisions of the management board. The annual shareholders' meeting appoints and dismisses the supervisory board, but the works council – representing company employees - has a strong influence on this appointment process, with nominating rights for up to one third of the seats on the supervisory board.[7]

One-tier governance structure

Companies with a one-tier governance structure have a single management board comprising executive and non-executive directors. In this situation, the latter oversee the former, and there is no supervisory board. It is important that independent oversight by non-executive directors is sufficiently ensured. The majority of a unitary board should made up of independent, non-executive directors and committees should comprise exclusively non-executive directors. The chairman of the one-tier board may not also be an executive director.

While our principles focus on the dualistic model, the spirit of our principles, in particular in relation to oversight of management, and diversity also apply to unitary board structures.

Board composition and independence

The supervisory 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. We also encourage companies to have effective mechanisms for assessing board performance and to refresh the board as the needs of the company evolve. This can also help to prevent excessive tenures and assist the process of replacing poorly performing directors or those whose skills are no longer required.

The supervisory board has a duty to represent the interests of all stakeholders. Therefore, even directors nominated by major shareholders have a duty to represent all stakeholders and not just the interests of those that recommended appointing them. While we understand that it can be often justified and useful for major shareholders to play an active role on the board, we expect directors to be independent from management and those nominating them and to protect the interests of minority shareholders. This is particularly important in situations where there is a controlling shareholder.

[1] https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2018/03/final-responsible-ownership-principles-2018.pdf
[2] In December 2016, the Corporate Governance Code Monitoring Committee published the revised Dutch Corporate Governance Code 2016. https://www.mccg.nl/
[3] Eumedion is a Dutch foundation representing the interests of institutional investors with investments in Dutch listed companies. https://www.eumedion.nl/en/public/knowledgenetwork/manual/2017-manual-corporate-governance.pdf
[4] Ever since the world's first publicly traded company, VOC (the Dutch East India Trading Company) established a two-tier board in 1623 in response to governance concerns.
[5] This option was introduced in Dutch company law with the amendment of the Dutch Civil Code that entered into force on January 1st 2013
[6] According to Book 2, Article 153(2) of the Dutch Civil Code, in order to qualify as a 'large company', a company must have an share capital of at least €16 million, employ at least 100 workers in the Netherlands and must have established a 'works council' pursuant to the Works Council Act. These requirements only apply to companies with a majority of employees in the Netherlands. International groups with the majority of employees outside the Netherlands are exempted from these requirements.
[7] Employees of a company or trade union officers directly involved in collective bargaining are excluded from nomination onto the supervisory board. As a consequence, works councils often rely on the nomination to the board of candidates that have demonstrated a certain commitment to the workers' interests (former trade unionists, politicians, industrial relations and human resources experts).

We contributed to and support a position paper by Eumedion[8], with proposals to better safeguard the interests of minority shareholders at companies with a controlling shareholder. We may recommend a vote against the election of shareholder nominated directors whom we do not believe are actually sufficiently independent and where these guidelines are not followed.

In accordance with Dutch governance standards, we generally recommend that all but one member of the supervisory board be independent. In addition, we expect that the majority of the members who serve on the supervisory board's audit, remuneration and selection and appointment committees to be independent.

Appointment period

Dutch law (for structure regime companies) and the Code (for other listed companies) require that supervisory board members either resign or stand for re-election at least every four years. To further improve accountability of board members, we recommend annual re-election of supervisory board members. In addition, we welcome the reduction of the term in office of supervisory board members from 12 to eight years in the latest version of the Code.

Diversity

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, age, nationality and ethnicity, as well as skills, experience, character and other attributes when considering possible candidates for the board and other senior positions.

The Code expects boards to set a diversity policy for the supervisory board, the management board and the executive committee. We expect these policies to contain stretching timebound targets to improve diversity among the company's leadership. We also expect companies to address inequalities in relation to gender, ethnicity or otherwise throughout the organization.

Since January 2013, Dutch listed companies must strive for at least 30% women and men on the management and supervisory board by 2020 at the latest.[9] We are not likely to support the re-election of nomination committee members when either board comprises less than 30% women.

Succession planning

We believe that good succession planning at board and senior management level is essential for safeguarding the long-term value of all companies. It should involve contingency planning for the sudden loss of key personnel, as well as planning for foreseeable change, for example impending retirement or other planned change. Effective planning for both the supervisory board and management board should give consideration to ensuring the right mix of skills and experience and – within this context – promoting the diversity necessary to support the company's strategy, geographical footprint and demographic representation.

Overseen by the supervisory board, senior management should create a pipeline of suitable candidates from within the organisation to become senior managers and executive directors. We also encourage companies to make their senior management and executive directors available to serve as non-executive directors at other companies as part of their development. This helps to develop a deep pool of suitable talent for companies to draw from when selecting candidates for board positions.

Board effectiveness and evaluation

We expect boards to regularly assess their own effectiveness to ensure they are operating optimally, with the best governance practices and supporting structures. We endorse the Code's[10] recommendation that boards should undertake a regular process of evaluation, and we recommend an independent evaluation at least every three years. The independent reviewer should be carefully chosen for his or her relevant skills and experience and should be enabled to interact fully with the board and individual directors. Each director should play his full role in ensuring effective evaluations. The board should then report transparently to shareholders on the main issues arising from the evaluation, as well as the steps that have been taken, and will need to be taken, to address them.

Granting discharge

The discharge of the executive board and of the supervisory board are standard voting items on the agenda of the annual shareholders' meeting. In legal terms, discharge means that the policy of the executive board and the supervision of the supervisory board, as conducted until the moment of discharge, are approved by the meeting.

Discharge is only a waiver of liability for executive and supervisory directors. Third parties are still able to invoke liability of directors. Under normal circumstances the discharge voting items generally receive high levels of support. Not receiving discharge does not have any direct consequences, while receiving discharge does not affect the shareholders' rights to bring legal action against directors for breaches of their duties when unknown facts surface after the discharge is granted.

We see voting against discharge as a corrective gesture; somewhat similar to giving a yellow card in a football match. We will recommend a vote against the discharge to express our dissatisfaction with one or more decisions made and/or with a disappointing performance of the executive and/or supervisory board, without submitting a motion of no confidence in the executive and/or the supervisory board.

[8] https://eumedion.nl/en/public/knowledgenetwork/position-papers/2016-06-position-paper-minority-shareholders-final-version.pdf
[9] Clauses 2:166, 2:276 and 2:391 (lid 7) from the Dutch Civil Code; a statutory provision that aims to ensure a balanced participation of 30% men and 30% women in Supervisory and Management Board. https://www.rijksoverheid.nl/documenten/besluiten/2017/03/24/staatsblad-118-2017-wet-streefcijfer-evenwichtige-zetelverdeling-mannen-en-vrouwen-in-bestuur
[10] The Dutch Corporate Governance Code, December 2016: Principle 2.2.6 Evaluation by the supervisory board and principle 2.2.7 Evaluation of the management board.

In making our decision in relation to the discharge of the board we will consider:

- Is legal action still pending against the company, a member of the management board or a member of the supervisory board?
- If the financial statements are not adopted, granting discharge to members of the management board and members of the supervisory board is not an obvious course of action.
- Has the management board responded adequately in the previous financial year to the remarks of the shareholders with regard to the strategy and policy of the management board? Has the supervisory board played a good, mediating role in this context?
- Has the management board of the company responded adequately to the recommendations made by shareholders in previous general meetings?
- Is the degree of compliance with the Dutch corporate governance code sufficiently high, or have reasons that are acceptable from the perspective of institutional investors been provided for the non-compliances with the provisions of the code?[11]

Importance of board and shareholder engagement

Dialogue 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 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.

To ensure that all directors are aware of the views of institutional investors, the company should make available all correspondence received by the chair or any independent director from any institutional investor by the dispatch of the next set of board papers at the latest and confirm that it has done so in its corporate governance statement in its proxy materials. The only exception to this requirement is when the correspondence relates to a whistleblowing allegation where to make the correspondence available to the whole board might reasonably be expected to jeopardise any investigation.

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.[12] 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.
- 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.

[11] Eumedion – Corporate Governance Manual – 2017 edition
[12] https://www.hermes-investment.com/wp-content/uploads/2018/11/remuneration-principles-clarifying-expectations-1.pdf

- 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.

We welcome the Code's emphasis on executive pay being aligned to culture and value creation over the long-term. We therefore expect remuneration committees to apply our principles, as well as the Eumedion principles.[13]

SHAREHOLDER RIGHTS

Multiple-class share structures

Under Dutch corporate law companies can issue to founders or large shareholders additional voting rights by introducing different classes of shares or granting loyalty voting rights.

Multiple-class share structures disenfranchise minority shareholders and often increase the power of one shareholder for a disproportionate economic stake. We encourage issuers with multiple-class share structures to adopt the concept of one-share one-vote for all shares. We are very unlikely to support the issuance of shares with reduced voting rights and capital raising exercises or share buyback schemes that discriminate against minority shareholders.

Capital issuance requests

We are concerned about capital issuance requests from companies, especially requests to issue new capital without pre-emption rights for existing shareholders. We believe that pre-emption rights are an important safeguard for shareholders and their interests in the companies they invest in. Therefore, we generally do not support any proposal for capital issuance without pre-emption rights that would involve the issuance of additional capital of more than 10% of the already outstanding share capital.

Share repurchases

We generally do not support share repurchase programmes which allow companies to buy back shares for a price which exceeds the market price of the shares by more than 10%. We oppose the authorisation of share repurchase programmes which allow companies to buy back more than 10% of the outstanding shares.

Anti-takeover provisions

Traditionally, the most common anti-takeover measure used by listed Dutch companies is the so-called 'continuity foundation' structure (stichting). The foundation is generally granted a call option for preference shares entitling it to up to 50% of the voting rights at the general shareholders' meeting after the call option is exercised.

While these foundations can often share a long-term perspective with outside minority shareholders, we are concerned that they sometimes have rights that can affect the interests of ordinary shareholders. In particular, we are concerned that foundations can use preference shares to exert influence and control over companies disproportionate to their economic interest.

Companies should disclose the timeframe for any preference share arrangements and we welcome moves by companies or foundations to abolish such structures or introduce sunset provisions, with reasonable and limited timeframes, into them.

Other common anti-takeover measures in the Netherlands are the priority shares structure, the depositary receipt structure and the above-mentioned structure regime. Although the structure regime was originally designed to give employees a stronger position in the company's governance structure, in practice it may have the effect of an anti-takeover measure, as it can make the company less attractive to potential bidders. If the structure regime is applicable, the shareholders' meeting does not have the power to appoint or dismiss management board members. This power resides with the supervisory board.

The proposed provisions in Dutch law permitting the board to suspend shareholder rights for up to 250 days in the event of an unsolicited offer for the company or 'undesired shareholder activism' should not be used by the board. We believe that directors already have sufficient powers to take account of stakeholder views in the earlier mentioned events and that shareholders should decide the merits of any such approach. Shareholders themselves should take account of their stewardship responsibilities and assess what is best for the long-term success of the company in these situations. We welcome statements by companies that they will not use these provisions.

RE-DOMICILING COMPANIES

There is a growing, recent phenomenon of companies redomiciling in the Netherlands. Some of the motivation appears to include the anti-takeover provisions available in the Dutch market (which we discuss elsewhere in these principles). However, we are concerned that some of these companies are redomiciling for additional reasons that also put them at odds with the interests of long-term investors and their underlying beneficiaries. These include tax arbitrage to benefit from lower rates of corporate taxation (see the paragraph on tax later in the principles).

We expect all Dutch companies, whatever their history, to live up to the expectations outlined in these principles and to address the most important concerns of their stakeholders and to uphold the highest governance standards and expectations of the Dutch capital markets.

[13] https://www.eumedion.nl/en/public/knowledgenetwork/law-and-guidelines/2019-eumedion-principles-of-executive-remuneration-clean.pdf

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 annual general meeting is therefore an important accountability mechanism, and the communication of detailed information on all agenda items is a prerequisite for its effectiveness. All documents should be clearly displayed and accessible on the company's website at least 42 days before a shareholders' meeting.

Importance of good quality reporting

We believe that the quality of narrative reporting reflects the thought processes behind the board's strategy and indicates its ability to execute it. In addition, effective reporting means that engagement between share owners and boards is more productive. For this to be most useful, boards must report openly and transparently on the performance of the company and their stewardship of it over the year. It is fundamental that risk is reported in a way that allows investors to understand the main risks that the board has identified for the business and how the company manages and mitigates those.

Accurate and transparent sustainability reporting is also essential to demonstrate how a company considers and addresses ESG issues as part of a long-term view of risks and opportunities. The sharp increase in the number of mandatory and voluntary sustainability reporting instruments over the last decade puts further pressure on companies to focus on the most material issues, informed by best practice frameworks, while demonstrating how a company's efforts align to the UN Sustainable Development Goals (SDGs). We look for integrated reporting that provides a more holistic approach to a company's value-creation story and enables more relevant insight into companies as market value shifts further towards intangible assets such as intellectual capital, research and development, brand value, and natural and human capital.

Auditor's quality and independence

Minority investors rely on the board to provide true and fair reporting of the company's performance and prospects. The external audit should provide significant assurance to outside investors. However, we have significant concerns about the quality of audit. We therefore rely on the audit committee to ensure that management prepares the financial statements and other disclosures to a rigorous standard and that the external audit is conducted to the highest possible quality. Where we have concerns about a company's performance or reporting that we believe the audit firm should have identified to the audit committee or to investors, we will consider not supporting the audit firm's reappointment and/or not recommending the members of the audit committee for re-election.

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.

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 develop the potential of their employees in support of maximising 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 key performance indicators they use to manage human capital.

Tax

Tax payments underpin the functioning of vital services in developed and developing countries, including emergency services, health, welfare, justice, education and environmental protection. As such they are potentially the single biggest source of funding for the SDGs. On average corporate income tax alone contributes 9% of government tax revenue in OECD countries and often over 15% in developing markets[14].

In accordance with directors' fiduciary duties, companies should be financially efficient and avoid paying undue tax. However, in our view opaque and aggressive tax structuring, or reliance of realising profits in tax havens, is unsustainable in the long-term and create additional risks for investors as well as for the company. Risks can materialise through impacts on earnings, costs to respond to changing regulation, licence to operate, trust and reputation, as well as the potential for investigations, litigation or fines.

Misalignment of taxes paid with the location and scale of economic value generated, and aggressive tax avoidance, as continue to be seen at some large multinational corporations, are in our view a breach of the company's, in particular the board's, responsibility to shareholders and other stakeholders.

In our engagements we look at the three areas of tax policy, governance and transparency:

- On policy, we look for a clear set of principles on tax responsibility that include paying tax in line with the location of economic value generation and in line with the legislative intention of tax law. We also look for policies to cover the company's tax-related approach to corporate structuring, due diligence, tax havens and use of incentives.
- On governance, we support the G20/OECD Principle of Corporate Governance[15] that an important board responsibility is "to oversee the risk management system and systems designed to ensure that the corporation obeys applicable laws, including tax". We expect the board, in particular the audit or other risk committee, to have oversight of tax risks and the implementation of the tax policy. The remuneration committee also needs to consider tax behaviour in the structuring of executive remuneration policy.
- On transparency, we seek clear disclosure of the company's approach to tax and the consideration of tax in corporate activities. This should accompany a clear explanation of taxes paid including country-by-country reporting. We look for alignment of taxes paid through country-by-country reporting and the company's description of its approach and results on alignment in its reporting and our engagement discussions. Where there is no evidence of alignment we will consider escalating our engagement through other channels, including the use of shareholder rights.

[14] http://www.oecd.org/tax/beps/corporate-tax-statistics-database.htm and https://taxfoundation.org/sources-of-government-revenue-oecd-2018/
[15] www.oecd.org/corporate/principles-corporate-governance.htm

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

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.

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EOS00414 0006634 Global 10/19