HERMES
INVESTMENT MANAGEMENT

Hermes Equity
Ownership Services Limited
150 Cheapside
London EC2V 6ET
United Kingdom

Tel: +44 (0)20 7702 0888
Fax: +44 (0)20 7702 9452

www.hermes-investment.com

13 November 2018

To Brent J. Fields, Secretary, Securities and Exchange Commission

By email to: rule-comments@sec.gov

Dear Mr Fields,

Re: SEC roundtable on the proxy process

Hermes Investment Management is an asset manager with a difference. With $46.9 billion in assets under management, we focus on 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. Its stewardship team, Hermes EOS, is one of the world's leading engagement resources, advising on $468.2 billion on behalf of over 40 international institutional investors.

The views expressed in this communication are those of Hermes EOS and do not necessarily represent the views of all clients. Our response to this consultation is explicitly supported by the BBC Pension Scheme (UK), Environment Agency Pension Fund (UK) PNO Media (the Netherlands), and VicSuper (Australia).

We are writing to the SEC to provide our views as a leading engagement provider globally. Hermes helps our clients be more active and engaged owners of the companies in which they own stock. We engage directly with these corporations on matters that affect their long-term value. We are therefore often welcomed by corporations as a voice for timeframes much longer than the three month horizon of many quarterly earnings calls. It is only through longer term, strategic, governance and risk discussions that investors can gain the understanding needed to support or encourage companies' strategies that are truly longer term. In turn, such long-term strategies help to create value for our clients and a stronger economy.

We support most of our clients in their voting at over 9,500 shareholder meetings worldwide. In the US this support involves analysis of around 3,000 company meetings. To help us, we use Institutional Investor Services' (ISS) voting platform. We also work with ISS to implement our own customized, non-ISS voting policy as well as the implementation of bespoke non-ISS policies on behalf of a number of our clients.

We would like to emphasise that our voting policy is very different from ISS's standard policy, a point that the discussion about ISS's influence often seems to miss. Indeed, the platform that ISS provides is what enables us to both develop, annually update, implement and report on our own customized voting policies. 2018 to date, our voting decisions on at least one resolution were different from ISS's at more than two thirds of the US shareholder meetings for which we have made recommendations so far this year. This is the proof point that ISS does not exert a significant influence on our voting activity. By way of many examples, we recommend a vote against the re-election of a serving CEO in only very exceptional circumstances. ISS's standard policy is much more likely to do so.

ISS encourages its clients to develop their own policies in line with their own investment and stewardship policies. For those with fewer resources, it also offers a variety of template policies which its clients can further adapt. And so, it is not just our voting record that is different from ISS's standard template but so are those of many other investors.

Beyond providing a voting and custom policy platform, ISS does help us by providing aggregation of first level data to help us with the significant number of proxy statements that we need to analyze. ISS aggregation and first level analysis services enables us to be more thoughtful and to concentrate our analysis and dialogue with companies on where we most need to seek clarification or express our concerns with what we believe may be less than best practice. These company engagements lead to better mutual understanding between ourselves, the companies and our global clients that have invested in them, providing benefits to both the issuers and our clients and their beneficiaries, ordinary savers.

As ISS is an important supplier to us, we frequently meet with them to discuss the performance standards and service levels we have agreed. This gives us the opportunity to improve the service that we receive from ISS.

We believe that the United States investment market itself is best placed to improve the service that investors receive from ISS and other proxy service providers. We also note, that in other markets, there has been a preference for market based stewardship initiatives rather than regulation of engagement between corporations and investors. This is why we are endorsers of the US Investor Stewardship Group that is seeking a market based development of principles around engagement and stewardship. These principles will help asset owners and retail investors to choose those organisations that are committed to engagement as part of their search for increased and more sustainable returns if they believe that stewardship helps in this regard. It is surprising that the United States may take a more regulatory approach to the provision of services to sophisticated investors than in other parts of the world that are traditionally more interventionist.

If the SEC does intervene in the market, it should be wary of unintended consequences. We are concerned that increased regulation may have the unintended consequence of increasing the barriers to entry to competitors. Extra regulation will result in extra cost and those advisors with small market share, particularly in the US, may choose to leave the market. This may lead to a reduction of competition, less choice, less good standards and higher cost all of which may affect the quality of governance at issuers.

Should the SEC choose to intervene in the proxy advisor market by adopting the suggestion that issuers receive the draft research before the proxy advisors' clients who pay for it, would this not set an unfortunate precedent? Should other suppliers to investors, such as sell-side analysts also be subject to similar requirements? Proxy advisors are required to exercise a duty of care in the performance of their services. As indicated elsewhere in this response, we hold our provider to this standard. Is the possible consequence of this requirement that investors may choose not to vote or are able to perform less analysis than is currently the case, reducing the quality of their voting decisions? This may exacerbate problems that some parties are claiming intervention will solve.

It is clear from market developments from the Investor Stewardship Group, the Commonsense Principles, the growth of stewardship teams at mainstream investors, including BlackRock, Vanguard and others that ESG analysis and action is increasingly being demanded by institutional investors. Our own team is growing as is the number of clients and assets we represent. What we are seeing in other countries is regulators embracing and acknowledging this trend by overseeing Stewardship and Corporate Governance Codes. Should the SEC consider embracing this trend and support the development of such codes in the US?

We believe that ISS helps us and other institutional investors in our stewardship activities that our clients and ourselves believe enhance long-term returns, better performing corporations that are long term job creators. Over-regulation may damage these outcomes and will certainly make it harder for institutional investors to make informed voting decisions particularly in large portfolios. Proxy advisors help large, sophisticated institutional investors to focus on particular issues without driving their decision making. Without proxy advisors providing data platforms, large portfolio investors', voting decision making may become more problematic for corporations and may result in more votes against the recommendations of the boards of these corporations.

While no system is perfect we believe the changes the committee is contemplating would be worse not only for investors and ultimately the savers on whom they work but also for the corporations that they own.

Yours sincerely

Tim Goodman
Director