

# Stewardship conflicts of interest policy

April 2019

Hermes Investment Management

**Hermes acknowledges its position as a fiduciary for its clients and seeks always to act in their best interests. Accordingly, Hermes takes all reasonable steps to identify actual or potential conflicts of interest and maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients.**

We are proud to have a strong culture of responsibility and we aspire both to maintain and further foster this client focused culture. The [Hermes Pledge](#) expresses the commitment of each of member of staff to always put the interests of our clients and their beneficiaries first and in so doing manage conflicts of interest fairly between all affected parties. Further we seek to align with international good practice on managing and reporting conflicts of interest.

While a commitment to being good stewards of those companies in which we have invested is consistent across our investment teams, the majority of Hermes' stewardship activities are carried out by our dedicated stewardship team, Hermes Equity Ownership Services ("HEOS"). Across Hermes we take all reasonable steps to identify conflicts of interest between: (1) Hermes, including its managers, employees and appointed representatives or any person with a relevant direct or indirect link to them, and Hermes clients as a body; or (2) any one client of Hermes and the client body.

## Potential conflicts of interest

### Ownership

One potential conflict which has been identified for the Hermes group relates to our ownership structure. In July 2018, 60% of Hermes was acquired by Federated Investors, Inc ("FII") from the BT Pension Scheme (BTPS) which retains ownership of 29.5%. The remaining 10.5% is owned by Hermes executives.

We have internal procedures to regulate the processes and restrict the flow of information among, and within, business units so that activities are carried out with the appropriate level of independence. When engaging with or voting at BT Plc or FII responsibility would reside with a senior member of the stewardship team, not the relationship director.

HEOS is fully owned by Hermes with the Head of HEOS reporting into the CEO of Hermes. Any conflict which may arise between clients of the HEOS service and other Hermes clients will be addressed in a similar way to conflicts between any of Hermes clients.

### Clients

Hermes provides services not only to BTPS and FII, but also to other institutional investors, including a number of pension funds sponsored by corporations, governments and other organisations, as well as fund manager clients. These services include voting and engagement with companies in which Hermes' clients are equity shareholders and/or bond investors.

As a result, the following real or perceived conflicts may arise:

- We may engage with or vote the shares of a company which is the sponsor of one of our pension fund clients – such as BT plc – or is a company within the same group as one of our clients
- We may engage with a government or government body which is the sponsor or associate of the sponsor of one of our clients
- We may engage with a company which has a strong commercial relationship with Hermes, FII and/or with clients
- We may vote on a corporate transaction, the outcome of which would benefit one client more than another
- We may engage with a company which certain clients are equity holders and others are bond holders
- We may hold meetings with companies for the dual purpose of delivering both our fund management and engagement services
- We may otherwise act on behalf of clients who have differing interests in the outcome of our activities

## Managing and monitoring conflicts – a singular focus

In all our activities, we seek to promote the long-term value and success of the companies in which our clients invest and engage with market regulators and other actors to influence public policy and regulation to enable this outcome.

While we welcome client input and suggestions for engagement, all of our engagements are selected and pursued based on an objective assessment of the severity of the problems faced by or opportunities available to the companies engaged; the likely effect on them of public policy and regulation and the likelihood of success in achieving value-enhancing or mitigating value-destroying change. We give due regard to the value of the company to our clients and the value at risk given the issues in question.

In our voting and engagements with companies which are the sponsors of, or in the same group as, our clients, we are careful to protect and pursue the interests of all of our clients by seeking to enhance or protect the long-term value of the companies concerned. In the first instance, we make clear to all pension fund clients with corporate sponsors that we will treat their sponsoring companies in the same way as any other company. In addition, we ensure that in such situations

the relevant Hermes client relationship director or manager is not leading the engagement or making the voting recommendation to clients. This same approach would hold true with respect to any engagement with a company with whom Hermes, FII or our clients, have a strong commercial relationship.

Members of our investment teams within Hermes and FII are encouraged to join engagement meetings with their stewardship colleagues and discuss the implementation of our voting policies. The engagement objectives are set out and the voting recommendations made and provided by our stewardship team in line with Hermes' Responsible Ownership Principles (or, where agreed, client specific policies). While joining engagements may mean investment teams have access to non-inside information before it is disseminated to Hermes' stewardship clients, we believe the benefits to the client body of these joint meetings is substantial in terms of enhanced engagement focusing on the relevant and material environment, social and governance (ESG) risks and a better appreciation of ESG risk in investment decisions.

We have well established publicly disclosed voting principles and based upon these and the judgements reached through engagement with individual companies we provide voting recommendations to our stewardship voting clients. There may be occasions where one of our clients seeks to influence the voting advice we give to other institutional clients. In such circumstances there would be director level involvement and an objective judgement reached based upon what we believe to be in the best long-term interest of our clients as a body. All clients retain full discretion over their final voting decision.

Clients, and internal investment teams, may at times have different immediate interests in the outcome of certain corporate activities, most notably, in the result of a takeover bid involving two public companies. In addressing such situations, Hermes is open with clients about the conflict and discloses it where practically possible. Additionally, as in other cases, we consider in our engagement with the company and the voting recommendation we provide less the financial effect of a deal for any one client but more the long-term value to be created or at risk of being destroyed for our client body.

For our internal investment teams, the voting recommendation provided by our stewardship team will inform their assessment but they will make their final judgement with a view to their fiduciary obligations to their clients. It is expected that votes cast by our investment teams would be consistent with the voting recommendations we provide to our stewardship voting clients other than in limited circumstances and in such cases the rationale for divergence will be documented.

## Conflicts of interest are reviewed at Board level

When any staff member recognises a potential conflict of interest with a company in which they are engaging, he or she must raise this with their line manager.

We also have policies that seek to avoid any potential conflicts for individual Hermes staff members arising from engagements with companies in which individuals have personal investments or some material personal relationship with a relevant individual. Where a staff member has a personal connection with a company, he or she is required to make this known and is not involved in any relevant engagement activities.

## Recording and escalation

We maintain a register of instances of conflicts as they arise.

In those limited circumstances where a conflict over our approach to voting (aside from that directed by client specific policies) or engagement arises which is not able to be resolved in the manner set out above – the matter will be escalated to an 'escalation group' which reports to an independent sub-committee of the Board. The escalation group will be comprised of the Heads of Investment, Responsibility, Client Relations, Compliance and HEOS. The group is guided in reaching its decisions by Hermes' mission to delivering long-term holistic returns, our published Responsible Ownership Principles, voting policies and other appropriate industry endorsed guidance. If there is no majority view on the group then the CEO will make a final decision. All such instances would be documented and reported to Hermes' Risk and Compliance Committee – an independent sub-committee of the Hermes Fund Managers Limited Board.

## Annual review

We review this Stewardship Conflicts of Interest Policy annually to ensure it adequately reflects the types of conflicts that may arise so that we can ensure that they are appropriately managed and as far as is possible mitigated. The Policy is publicly available on the Hermes website.

## Conflicts of interest approach in practice

Our policy on conflicts may be best understood by considering its impact in practice. The following are examples of how we have approached these issues.

### ■ Votes in relation to a client's sponsoring company

Hermes recognised at an early stage that the AGM for a client's sponsoring company would be controversial. Our voting decisions in relation to this meeting were therefore assigned to a senior member of staff and the analysis was carried out early and comprehensively with oversight from a HEOS director. After dialogue with the company, we took the view that the right decision was to recommend a vote against a board sponsored resolution at the AGM. We then communicated with the client to explain our decision.

### ■ Legal action in relation to the sponsoring company of a potential client

A Hermes stewardship client was taking a leading role in a class action against a leading public company. We provided support in relation to this class action even though we were at the same time in discussions with the pension scheme sponsored by this company about it becoming a client.

### ■ Engagement at a company where client's chair is a non-executive director

Hermes recognised the particular sensitivities for both the client and company when a significant client's chair also sat on the board of a public company which needed a highly active engagement. We were open and direct with the client and the company, flagging the issue but also making clear that the situation could not influence our work on behalf of all clients. This engagement included recommending voting against board sponsored resolutions at the company's AGM and asking directly for significant change to the board and to governance practice.

## Contact information

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Biography details for each Hermes EOS engagement professional is included on our website at [www.hermes-investment.com/stewardship/](http://www.hermes-investment.com/stewardship/) along with contact details for HEOS Directors.

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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

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