

# Engagement Policy

December 2020

## Introduction

This policy sets out the approach to engagement and voting of Federated Hermes. Federated Hermes will comply with the letter and spirit of the EU Shareholder Rights Directive 2 and other relevant rules including the UK Conduct of Business Sourcebook rules and UK's 2020 Stewardship Code.

Federated Hermes honours its responsibility as a fiduciary for investors and their beneficiaries and seeks always to act in their best interests. Federated Hermes undertakes stewardship and long-term engagement to exercise active ownership of investee companies on behalf of investors, and to deliver our purpose of helping investors achieve their financial objectives. For Federated Hermes, stewardship is both a responsibility and an input to achieving optimal investment performance, in particular over the long-term. Federated Hermes takes a comprehensive approach to stewardship, engaging globally with corporates and key stakeholders, in particular policy makers and regulators.

The majority of engagement is undertaken for Hermes by the dedicated stewardship services of Federated Hermes Equity Ownership Services Limited ("EOS"). Federated Hermes benefits from the long engagement history and established relationships of EOS in relation to both Federated Hermes investee companies and its broader investable universe, including directly owned assets.

The implementation of this policy will be reported publicly on an annual basis, including a general description of voting behaviour, an explanation of the most significant votes and the use of the services of proxy advisors. Federated Hermes provides additional reporting on its stewardship and engagement to its clients.

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## How Federated Hermes integrates shareholder engagement in its investment strategy

Research and analysis by our investment teams includes evaluation of performance on strategy, financials, risk, material environmental social and governance ('ESG') factors, and the overlaps between these elements. Engagement with company management, boards, subject specialists as well as other shareholders and stakeholders is a key input into this process and investment strategy. Such engagement is carried out both by our investment teams as well as by EOS on their behalf. The public equities and fixed income teams have access to reports on shareholder engagement carried out by EOS with investee companies and the broader investable universe and may take such information into account when making investment decisions. We believe that ESG-aware investors should not rely on ESG data alone, as it is often backward looking and updated infrequently and with a time lag. As such, voting and engagement activities can be used by our teams to provide a forward-looking view of ESG and broader performance of a company or asset.

All our investment activity is supported by our dedicated Investment Office and Responsibility Office, both of which report directly to our CEO. Regular meetings are held between the two offices and with the investment teams to ensure proper coordination and ESG integration, including engagement.

## How Federated Hermes monitors investee companies on relevant matters

The investment team continues to monitor the financial and non-financial performance of investee companies throughout the life of the holding.

With regards to monitoring strategy, financial and non-financial performance and risk, and capital structure, this is done through financial analysis of company reports, attendance of analyst meetings, investor presentations, use of media and third-party research and engagement meetings. Each investment team is responsible for looking at the financial performance and risk and the capital structure of investee companies. Where there is a concern this will inform engagement and investment decisions. In addition to external research providers, the investment teams have access to a number of proprietary tools which enable Federated Hermes investment teams to pinpoint environmental, social and governance risks at both the company and portfolio level, which may then inform subsequent engagement and investment decisions. On social and environmental impact and corporate governance issues in particular the monitoring is informed and supplemented by the engagement and voting recommendations provided by EOS. The investment teams have access to the EOSi platform which records the outcomes of EOS engagement meetings and the progress on specific objectives.

## How Federated Hermes conducts dialogues with investee companies

Federated Hermes has a well-established outcomes-based philosophy that underpins our approach to engagement and stewardship. There are clear and well-established protocols for how to identify engagement issues, to escalate and to measure an engagement's effectiveness. The majority of dialogues that form Federated Hermes' engagement with investee companies

are conducted by its proxy advisor EOS. Members of EOS may be joined by relevant portfolio managers or analysts from our investment teams. The Responsibility Office ensures that our investment teams and EOS work closely together with a joined-up approach.

Federated Hermes adopts a systematic approach to identifying companies for engagement. We select companies and tailor the intensity of engagement based on the responsible investment policies of our clients, the size of holdings, materiality of the risks and issues, and feasibility of achieving change through engagement.

Dialogue with investee companies is conducted through in person meetings, calls, letters or emails, either directly or as part of a collaborative group. The nature and frequency of the dialogue depends on the location of the company, stage of engagement, severity of the issue and willingness by the company to engage. In the majority of cases, both the investment teams and EOS uses its own relationship. This is in addition to attending meetings facilitated by intermediaries. The majority of dialogues are conducted with the board of directors, corporate secretary, subject specialists or investor relations. Occasionally the dialogue is with executive teams though only where we believe the concern justifies their time and attention.

We escalate the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue. Generally, our engagement activity becomes more active where we believe engagement will lead to an increase in or prevent/limit a decrease in the value of a company over the long term.

## **How Federated Hermes exercises voting rights and other rights attached to shares**

Shareholder rights are themselves an asset and Federated Hermes views the exercise of these rights as part of its fiduciary duty and a responsibility of effective stewardship.

Federated Hermes' voting and engagement are co-integrated as part of its overarching approach to stewardship. As such our voting decisions as well as our advice to clients on voting decisions are informed by the insights and experience from engagement with the investee company.

Federated Hermes uses the services of EOS to provide voting research and recommendations that inform Federated Hermes' exercise of voting rights. As such our voting decisions are primarily based on the EOS Regional Corporate Governance and Remuneration Principles. Please refer to the EOS website for further information.

Votes are escalated, including to the executive team where needed, where they are especially significant for the company, complex, or where a disagreement or potential conflict of interest arises with the recommendation received from EOS.

In those limited circumstances where a conflict over our approach to voting (aside from that directed by client specific policies) or engagement arises, the matter will be escalated to an 'escalation group' which reports to an independent sub-committee of the Board of Federated Hermes. The escalation group comprises the Heads of Investment, Responsibility, Client Relations, Compliance and EOS. The group is guided in reaching its decisions by Federated 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 of the group then the CEO will make a final decision. If such an instance were to occur, it would be documented and reported to Federated Hermes' Risk and Compliance Committee – an independent sub-committee of the Federated Hermes Board.

Federated Hermes may attend AGMs of investee companies or arrange for representation at AGMs by EOS, this can include asking questions or making statements to the board. Federated Hermes may also file or co-file shareholder resolutions.

The exercise of all voting rights is based on an evaluation of materiality and an analysis of costs and value.

## **How Federated Hermes cooperates with other shareholders**

Federated Hermes sees value in both direct and collaborative engagement, and it is the combination of both which leads to the most influence and effective stewardship. Federated Hermes may collaborate with other shareholders when this may be beneficial for the engagement and influencing the actions and governance of investee companies. We seek collaboration where interests are aligned, and the objectives are based on material issues. Any collaboration is done in line with applicable rules on anti-trust, conflicts of interest and acting in concert.

## **How Federated Hermes communicates with relevant stakeholders of the investee companies**

Our stewardship activities may include discussions with relevant stakeholders of investee companies, such as industry bodies, policymakers, regulators, customer groups, employee groups and civil society organisations.

All of our activities are supplemented by our belief in transparency, and our public reporting may also be of value to relevant stakeholders.

## **How Federated Hermes manages actual and potential conflicts of interests in relation to the firm's engagement**

We actively identify, report and mitigate conflicts of interest in our engagement activities. 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 and Compliance. Potential conflicts of interest may arise in relation to engagement or voting relating to any holdings in our own shareholders (Federated Hermes Inc and BT Pension Scheme) or clients or the sponsors of pension fund clients.

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. For example, engagement with and/or generation of voting recommendations in relation to our shareholders is delegated to a senior member of the EOS stewardship team and relevant Federated Hermes investment team members, not the EOS client relationship director.

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 Federated 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 Federated Hermes, our owners or our clients, have a strong commercial relationship.

We also have policies that seek to avoid any potential conflicts for individual Federated Hermes staff members arising from engagements with companies in which individuals have personal interest or a 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 permitted to be involved in any relevant engagement activities.

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

Please refer to the Federated Hermes Stewardship Conflicts of Interest Policy for further detail.

## **Further information**

Please refer to the EOS literature section on the Federated Hermes website as Federated Hermes appointed proxy adviser for further information on our stewardship approach and activities.

## Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes.

Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

### Our investment and stewardship capabilities:

**Active equities:** global and regional

**Fixed income:** across regions, sectors and the yield curve

**Liquidity:** solutions driven by four decades of experience

**Private markets:** real estate, infrastructure, private equity and debt

**Stewardship:** corporate engagement, proxy voting, policy advocacy

For more information, visit [www.hermes-investment.com](http://www.hermes-investment.com)

or connect with us on social media  

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**The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.**

Federated Hermes refers to the international business of Federated Hermes ("Federated Hermes"). The main entities operating under Federated Hermes are: Hermes Investment Management Limited ("HIML"); Hermes Fund Managers Ireland Limited ("HFM Ireland"); Hermes Alternative Investment Management Limited ("HAIML"); Hermes European Equities Limited ("HEEL"); Hermes Real Estate Investment Management Limited ("HREIML"); Hermes Equity Ownership Limited ("EOS"); Hermes Stewardship North America Inc. ("HSNA"); Hermes GPE LLP ("Hermes GPE"); Hermes GPE (USA) Inc. ("Hermes GPE USA") and Hermes GPE (Singapore) Pte. Limited ("HGPE Singapore"). HIML, HAIML and HEEL are each authorised and regulated by the Financial Conduct Authority. HAIML and HIML carry out regulated activities associated with HREIML. HIML, HEEL, Hermes GPE and Hermes GPE USA are each a registered investment adviser with the United States Securities and Exchange Commission ("SEC"). HGPE Singapore is regulated by the Monetary Authority of Singapore. HFM Ireland is authorised and regulated by the Central Bank of Ireland. HREIML, EOS and HSNA are unregulated and do not engage in regulated activity.

**Any references to EOS activities referred to in this document are not regulated activities under the Financial Services and Market Act. This document is for information purposes only.**

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