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**ENGAGEMENT NOTE** **12 MAY 2015**

# HERMES SUPPORTS THE ELECTION OF BMW'S CEO TO THE SUPERVISORY BOARD

*Ahead of BMW's AGM in Germany on 13 May 2015, Dr Hans-Christoph Hirt, Director, explains why Hermes EOS supports the election of BMW's CEO to the company's supervisory board:*

"Tomorrow, BMW's AGM will once again reignite discussions around the question whether and when a CEO should become chair of a company in the German two-tier board system. On behalf of the institutional investors that Hermes EOS represents, we support the proposed election of BMW CEO, Norbert Reithofer, to the company's supervisory board. It is envisaged that the members of the supervisory board will elect him as chair following the AGM.

"As CEO, Norbert Reithofer, has led a highly successful period at BMW and has in-depth knowledge of the company. In addition to his excellent management track record, he understands the key challenges facing the company. Significantly, we believe that he has the personality and mind-set that would make him an effective supervisory board chair.

"Our support for his direct move from the management to the supervisory board is also based on the impact of employee representation on German supervisory boards, which makes detailed company and sector knowledge among the shareholder representatives even more critical."

**The two-tier board system in Germany**
"Under the two-tier system dictates the CEO chairs the management board which leads and manages the company; while the chair of the supervisory board oversees, controls and advises the management board. Shareholders only have the right to elect members of the supervisory board, which in turn appoints the CEO and other members of the management board."

**German law – two-year cooling-off period**
"Hermes EOS publicly raised concerns about the introduction of a law in 2009, which for most companies meant that even successful and suitable CEOs could only become a member or chair of the supervisory board after a two-year cooling-off period. We continue to believe that this law harms German companies, as well as investors, as it means highly valuable experience and relevant knowledge is lost for at least a couple of years."

"We have consistently argued that an assessment whether an immediate election to the supervisory board is in the interest of the company should be made on a case-by-case basis. The assessment should take into account the company's situation, the composition of the supervisory board and, of course, the CEO's track record as an executive and his or her personality." (See *Hermes EOS Corporate Governance Principles Germany*)"

"We do not view a general, legally binding waiting period of two years for individuals – not just the CEO – moving from the management to the supervisory board as helpful. At present, this can only be circumvented if 25% of the shareholders support a proposal. We believe that the mandatory waiting period leads to a loss of valuable experience and relevant knowledge from the supervisory board, resulting in weakening its efficiency rather than strengthening it."

"We do not believe that it is always appropriate for an outgoing CEO to become chair because the two roles demand different personalities or at least mind-sets. If such a move is being considered its merits need to be explained to the company's shareholders well ahead of the AGM."

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## Notes to Editors:

**Hermes EOS**
Hermes EOS, which is owned by Hermes Investment Management, has one of the largest stewardship resources of any fund manager in the world. Our team comprises industry executives, senior strategists, corporate governance and climate change experts, fund managers and lawyers. As at 31 December 2014, we act on behalf of 41 clients and advise on £134billion of assets on behalf of some of the world's leading pension funds.

We help long-term institutional investors around the world to meet their fiduciary responsibilities and become active owners of public and private companies. Our team of engagement and voting specialists monitors clients' investments in companies and intervenes where necessary with the aim of improving their performance. Our activities are based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

**Hermes Investment Management**
Hermes is focused on delivering superior, sustainable, risk adjusted returns for our clients – responsibly.

Hermes manages assets on behalf of more than 200 clients* across equities, fixed income, alternatives and real estate, with £28.6 billion* assets under management. In Hermes EOS, we have the industry's leading engagement resource, advising on more than £134.0 billion* of assets.

We believe in **Excellence**, **Responsibility** and **Innovation**

- **Excellence:** We aspire to excellence in everything we do. This manifests itself most visibly in our investment performance. We will only offer products to our clients where we believe there is a strong investment thesis and where we can deliver sustainable alpha.

- **Responsibility:** We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and, ultimately, society at large. We have always sought positive engagement with the firms in which we invest.

- **Innovation**: We have the entrepreneurial culture to identify forward-looking products that meet those needs, along with the resources and speed-to-market mentality to develop them rapidly.

Our structure gives clients globally the benefit of access to a broad range of specialist, high conviction investment teams operating within an established and robust operating platform.

Hermes' investment solutions include:

- **Equities**: Global, Emerging Markets, Small & Mid Cap, Europe, Asia Ex Japan, Greater China
- **Fixed Income**: Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Real Estate**: Segregated, Unitised, Debt, UK, US Residential, European, UK PRS
- **Alternatives**: Multi Asset, Infrastructure, Private Equity

*Please note the total AuM figure includes £3.7bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.4bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 31 December 2014.