

# CONFLICTS OF INTEREST POLICY

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## INTRODUCTION

Hermes endeavours at all times to act professionally with its clients and their beneficiaries best interests in mind, and take appropriate steps to identify circumstances that may give rise to conflicts of interest entailing a risk of damage to our clients' interests;

Hermes has established appropriate procedures to manage any conflicts of interest identified to prevent damage to client interests.

## WHAT IS A "CONFLICT OF INTEREST"?

A conflict of interest may arise between Hermes and its clients or between one client and another, or between a Hermes employee and a client.

Examples of conflicts include where Hermes or one of its employees :-

- is likely to make a financial gain (or avoid a loss) at a client's expense;
- is interested in the outcome of the service provided to a client where its interests are distinct from the clients' interests;
- has a financial or other incentive to favour the interests of one client over another;
- receives or will receive from a person an inducement in relation to a service provided to the client, in the form of money, goods or services from a third party in relation to services provided to a client other than standard fees or commissions.

## EXAMPLES OF CONFLICTS OF INTEREST

### 1. Receipt of confidential information

Different parts of Hermes may receive confidential or sensitive information in relation to the services they provide to clients. This information is generally provided for a specific purpose. In some cases the information could be price sensitive information under Market Abuse Rules. It is important that confidential information is used for the purpose for which it was provided and not disseminated to other groups where it could adversely affect their ability to act independently and in the interests of clients.

#### Management/Prevention

Hermes has adopted an information barrier policy designed to prevent the free flow of confidential information from one part of the business to another. An information barrier (enforced through systems, procedures and reporting lines) is established between each of the private side businesses i.e. private equity, infrastructure, direct ending and real estate and the public market side. This is designed to enable all individuals within Hermes to act in the best interests of their clients without having their ability to act affected by confidential information provided to another group.

## 2. Conflicts of Interest between clients

These conflicts can arise in a number of ways. For example, conflicts can arise between clients who receive the same investment service from Hermes. An example would be the method of allocation of an active equity trade between investors in the same strategy where there is a shortfall in the number of shares. Another example relates to the interests of investors in the same investment fund. There could be an information advantage if one group of investors receive early/detailed disclosure in relation to other unitholders.

#### Management/Prevention

Hermes has adopted policies and procedures designed to prevent these conflicts damaging client interests. In the case of allocation of trades this is usually done on a pro-rata basis. Where this is not the case, there are procedures to validate that the reasons are justifiable. Hermes has established a number of procedures to ensure that we do not give differential/preferential information to any of the investors in our Funds. In particular, information about developments likely to affect the liquidity of a fund would be communicated to all investors at the same time so far as is logistically possible.

## 3. Personal Conflicts

Hermes have a number of measures in place to prevent personal conflicts of its staff damaging the interests of clients. Examples of where such conflicts might arise could include an employee receiving a formulaic bonus for selling certain products or services to clients for whom they are not suitable. Another area which could give rise to personal conflicts relates to securities transactions undertaken by staff e.g. a member of staff trading ahead of client orders. Inducements provided to an individual member of staff such as extravagant entertainment from a counterparty could influence that member of staff to use the services of the counterparty where it would damage the interests of clients.

#### Management/Prevention

Hermes has a Code of Ethics which is designed to prevent personal conflicts damaging the interests of clients. Detailed policies and procedures supplement the Code with the intention of appropriately managing personal conflicts. Hermes has a Remuneration Committee made up of non-executive directors who are responsible for ensuring Hermes Remuneration Policies are risk aligned. Variable remuneration takes the form of a discretionary bonus which is split 50:50 between achievement of objectives and behaviours.

Hermes has a PA dealing policy which is designed to manage conflicts of interest between staff and clients. All PA trades must be pre-cleared through Compliance and there is a minimum holding period to prevent short term trading. In addition Hermes has a Gifts & Entertainment Policy designed to prevent damage to client interests. This requires gifts and entertainment to be signed off by an individual's line manager and Compliance.

## 4. Conflicts between Hermes and clients

Conflicts of interest can arise between Hermes and clients. Hermes' main business is to act as investment manager on behalf of its clients. As such it acts as the agent of its clients and under the Hermes pledge seeks to act in the best interests of its clients and their beneficiaries. Because of Hermes business model, a number of conflicts which may arise in other organisations are not relevant to Hermes. For example, Hermes does not undertake proprietary trading nor deal as principal, it does not run a "box position" in its Funds. This means that in negotiating transactions, it can solely focus on achieving best execution on behalf of its clients. In a number of situations Hermes negotiates or incurs third party costs on behalf of clients. In these situations there could be a conflict in not exercising the same degree of rigour in controlling costs as if Hermes were incurring those costs directly. Another possible conflict could arise if information relating to the external holdings of a stewardship client was disclosed to Hermes portfolio managers.

### Management/Prevention

Hermes Execution Policy sets out the steps taken by Hermes to achieve best execution on behalf of clients. Costs (including execution commission) are the primary driver of the decision regarding where to place a trade. The Policy also sets out the steps taken to monitor the efficiency of execution through the use of transaction costs analysis. Hermes has policies and procedures in place to monitor third party costs allocated to investment funds and provide independent scrutiny. Holdings of stewardship clients are subject to strict system-enforced access controls and are not accessible by portfolio management teams.

## CONFLICT OF INTEREST LOG

Hermes maintains a log of individual conflicts of interest and the measures taken to prevent or manage those conflicts, including assigning responsibility. The log is regularly updated and reviewed by senior management. The management of conflicts are discussed and recommendations for improvements are made if required.

## REPORTING TO COMPLIANCE

Any member of staff who becomes aware of a new conflict of interest must report this to Compliance.

## DISCLOSURE/DECLINING TO ACT

Hermes is confident in the policies and procedures it has in place to manage conflicts and prevent them from damaging client interests. However, if in a particular situation Hermes did not feel sufficiently confident that a conflict could be appropriately managed, we would disclose full details to the client concerned before conducting business. In some circumstances this could result in Hermes being unable to act on behalf of that client.

## 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, and small and mid cap

#### Credit

Absolute return, global high yield, multi strategy, global investment grade, real estate debt and direct lending

#### Multi asset

Multi asset inflation

#### Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

### Offices

London | New York | Singapore

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.

For more information, visit [www.hermes-investment.com](http://www.hermes-investment.com) or connect with us on social media:   