2.1 Questions addressed to all respondents:

I. General overview

1) Do you think relevant investment entities should consider sustainability factors in their investment decision-making?

<u>Yes</u>
No
No opinion
Please explain the reasons:

We believe that a responsible investment approach encompasses systematic consideration of a range of non-financial factors alongside more traditional financial analysis of cash-flows and P/E ratios. It involves the incorporation of longer-term risk factors including a company or asset's relationship with its stakeholders as well as its impact, through both its operations and the products and services it offers, on the environment and wider society. It is only through this holistic analysis of the risks, return and impact characteristics of a company that it is possible to deliver the holistic returns to which we aspire.

2) What are the sustainability factors that the relevant investment entities should consider? (Please make a choice and indicate the importance of the different factors (1 is not important and 5 is very important). (Please refer to the definition in the Glossary).

	Yes	No	No opinion	Importance
Climate factors (these include climate mitigation factors as well as climate resilience factors	X			4
Other environmental factors	X			4
Social factors	X			4
Governance factors	X			5
Others				

Please specify, which specific factors within the above categories you are considering, if any:

We have undertaken and continue to undertake research in order to understand the relationship between sustainability factors and company performance. Our empirical analysis demonstrates a clear case for ESG (environment, social and governance) integration in both public equities and credit.

Our research has demonstrated that sound corporate governance, and in particular an effective board, is the universal bed rock of risk management and should ensure that environmental and social issues are appropriately managed. Good corporate governance encompasses a vast range of aspects, in particular the effective oversight and alignment of company strategy, and management to beneficiary needs, along with the protection of minority interests, and balancing the competing priorities of different stakeholders against a duty to promote the organisation's long-term success.

We believe that companies are exposed to many environmental costs and for investors environmental externalities generated by a company are likely to impact their portfolios in another place or time. We are mindful of companies' approach to the use of natural resources as well as their impact on the environment. The responses of governments and corporations to climate change in particular will create winners and losers and materially impact both investment returns and society. For this reason, climate change is a critical element of our broader strategy to integrate ESG factors into all of our investment processes.

We recognise that companies are not abstract entities but are composed of people and operate within communities. It is self-evident therefore that companies have responsibilities towards those individuals whom they employ as well as those communities in which they operate; both are rich sources of capital for a company but need to be managed with integrity. The observance of basic human and labour rights, developing the full potential and productivity of human capital and effectively combating bribery and corruption are essential for the long-term sustainability of companies and ultimately maintaining their license to operate.

3) Based on which criteria should the relevant investment entities consider sustainability factors in their investment decision making?

Please explain:

Investment entities should consider the interests of the beneficiaries on behalf of whom they are investing, in particular the time-horizon on which their interests lie. This consideration should guide their investment beliefs and in turn their investment decision making.

We would suggest that the materiality of sustainability issues is considered in such a way as to deliberately take into account those issues which are deemed to have a significant economic, environmental or social impact on their stakeholders, as well as those which may significantly impact the company's prospects over the short, medium or longer-term (these time-horizons should be left to the judgement of the investor).

4) Which of the following entities should consider sustainability factors in their investment decision-making? (Possibility to select several answers). If so, please indicate the level of impact that this would have (1 is the smallest impact and 5 is the highest impact).

	Yes	No	No opinion	Level of impact (1-5)
Occupational pension providers	*X*			*5*
Personal pension providers	*X*			*3*
Life insurance providers	*X*			*4*
Non-life insurance providers	*X*			*3*
Collective investment funds	*X*			*4*
Individual portfolio managers	*X*			*4*

Please explain:

It is important to distinguish between the asset owning entity, often a pension fund which is typically composed of a trustee board, and those entities that are delegated with the management of assets, typically asset managers. This typology is not clearly reflected in the above categories.

We believe that all agents have a duty towards their underlying beneficiaries. Key are asset owners who are directly accountable to their beneficiaries and who award the investment mandates. Unfortunately there is typically an imbalance in resources and expertise between these representatives of the principal beneficiaries and those with whom they are contracting. Further, there has been a belief that the asset owner's principal fiduciary is to investment returns. This is changing as it becomes increasingly accepted that fiduciary duty encompasses a longer time period and consideration of sustainability factors.

II. Problem

5) To your knowledge, what share of investment entities active in the EEA (European Economic Area) currently consider sustainability factors in their investment decisions?

	All or almost all	More than two thirds	More than half	More than a third	Non or almost none	No opinion
Occupational pension providers				X		
Personal pension providers						X
Life insurance providers				X		
Non-life insurance providers						X
Collective investment funds				X		
Individual portfolio managers				X		

6) To your knowledge, which is the level of integration of sustainability factors by the different investment entities (active in the EEA)?

	High integration	Medium integration	Low integration	No integration	No opinion
Occupational pension providers			X		
Personal pension providers					X
Life insurance providers			X		
Non-life insurance providers					X
Collective investment funds			X		
Individual portfolio managers			X		

7) Which constraints prevent relevant investment entities from integrating sustainability factors or facilitate their disregard. Please provide the importance of the different constraints that you consider relevant (1 is not important and 5 is very important).

	1	**2**	**3**	**4**	**5**	**No opinion**
Lack of expertise and experience				X		
Lack of data/research				X		
Lack of impact on asset performance		X				
Inadequate methodologies for the calculation of sustainability risks				X		
Inadequate sustainable impact metrics			X			
Excessive costs for the scale of your company		X				
No interest from financial intermediaries					X	
No interest from beneficiaries/clients				X		

European regulatory barriers	X					
National regulatory barriers		X				
Lack of fiscal incentives			X			
Lack of eligible entities	X					
Others						

Please provide more details on what the constraints/reasons are and how they limit the integration of sustainability factors:

We would draw the Commission's attention to the paper published by our Head of Investment in September 2017, Playing the Long Game: Investing Effectively Beyond the Market Cycle. This paper explores the issues and necessary conditions for a long-term investment approach. Although the asset management industry has made some strides, there is still much work to be done in promoting and adopting a long-term investment horizon. There are a host of reasons behind this, ranging from a shortage of data from companies to the high cost and low benefit of long-term analysis, the dearth of a standardised framework for long-term risk analysis and lack of demand from investors. Equally as relevant are the short term pressures of compensation, incentives and the seemingly all-consuming focus on the latest share price as well as quarterly earnings reports. This can lead to the mispricing of long-term risks, culminating in a mismatch between the asset owners' liabilities and assets.

There is now plenty of academic and industry research which robustly demonstrates a link between at least medium-term investment performance and consideration of ESG matters. What is particularly clear is that there is no right approach to ESG integration and no defined list of factors that should be considered. What is necessary is that investment analysts take a holistic view and take into account all those financial, and those "non-financial" factors which impact on a company's prospects.

8) How challenging is it for relevant investment entities to integrate the different sustainability factors? (1 is not challenging and 5 is very challenging) - Please refer to the definition in the Glossary).

	1	2	3	4	5	No opinion
Climate factors				X		
Other environment factors			X			
Social factors					X	
Governance factors		X				
Others						

In recent years, a number of investment products have begun incorporating climate risk and it is now common to perform a carbon footprint of a portfolio. What is much less straight-forward however, is to understand the alignment of a company's business model with the transition towards a two degrees world – this is as much because of the uncertainty of the future as much as the embryonic nature of investor's understanding of these risks. That said, there is a huge amount of work underway with sophisticated tools being developed and efforts being made to far better understand how a company's investment plans align, or not, with the needed future direction of travel.

With respect to all environmental and social issues, a significant barrier to their integration within investment processes is the lack of consistent and comparable data provided by companies. As an example, below is a snapshot of the disparity in disclosures on just a few metrics provided by companies in the MSCI World Index.

Qualitative disclosure #	Quantitative disclosure #
Training policy: 1,197	Training expense: 143
Health & safety policy: 1,226	Lost-time Incident Rate: 373
Climate change policy: 1,185	GHG scope 1/2: 592
Waste reduction policy: 1,180	Total waste discharged: 232

There is a risk as the investment industry focuses, rightly, on cost and expense transparency that simple solutions are reached for and promoted which fail to fully grasp the difficulty in and nuance needed in properly integrating ESG matters within investment processes.

III. Policy options

9) In which area should relevant investment entities consider sustainability factors within their investment decision-making? Please make a choice and indicate the relevance of the different areas (1 is minor relevance and 5 is very high relevance).

	Yes	No	No opinion	1	2	3	4	5
Governance	●							●
Investment Strategy	●							●
Asset allocation	●							●
Risk management	●							●
Others								

10) Within the area of governance, which arrangements would be most appropriate to enable the integration of sustainability factors? (1 is the not appropriate and 5 is the very appropriate).

	1	2	3	4	5	No Opinion
Specific sustainable investment committee			●			
Specific sustainability member of the board				●		
Sustainability performance as part of remuneration criteria					●	
Integration of sustainability factors in the investment decision process					●	
Integration of sustainability checks in the control process					●	
Periodic reporting to senior management/board					●	
Others –					●	

11) Should insurance and pension providers consult their beneficiaries on an annual/periodic basis on their preference as regards sustainability factors?

- **Yes**
- No
- No opinion

Please explain: Consultation with beneficiaries is an important and complex task. The financial literacy level of beneficiaries varies and the level of awareness around the link between fiduciary duty and ESG issues is likely low. The trustee boards of occupational pension funds should actively consider the interests and preferences of their beneficiaries and where feasible and practicable should considering consulting with their beneficiaries on a periodic basis. Of more importance is regular, fulsome and considered communication of their fund's investment approach and how sustainability matters, and, engagement activity, is incorporated.

12) Within the portfolio's asset allocation, should relevant investment entities consider sustainability factors even if the consideration of these factors would lead to lower returns to beneficiaries/clients in the medium/short term?

- **Yes**
- No
- No opinion

This is dependent upon the financial institution and their duties towards and the interests and preferences of their beneficiaries.

We believe, that institutional investors, whether they be pension fund asset owners or discretionary investment management businesses have a purpose and responsibility that does extend beyond the delivery of nominal financial returns. Our primary purpose we believe, is helping beneficiaries retire better by providing world class active investment management and stewardship services. We believe this purpose includes 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. We have these responsibilities because our decisions will have impacts on the world in which beneficiaries live and work today as well as the one in which they will retire into tomorrow.

In recognition of the above, we do believe that it is absolutely reasonable and justifiable for an investment entity to forgo maximum short-term investment returns if the driver of these excess returns is detrimental to the real interests of the underlying beneficiaries. Some of these considerations will be judgemental as the impacts may be difficult to quantify and measure. Equally, the consideration of these matters does not necessarily mean a binary buy or sell decision. Identification of an issue which is detrimental to long-term returns or results in negative external impacts should be the subject of engagement between management and investors.

13) Within the area of risk management, does the current set of corporate disclosures provide the relevant investment entities with adequate information to perform sustainability risk assessments in respect of investee companies?

- Yes
- **No**
- No opinion

No. As already explained the quality of corporate and asset disclosures on relevant sustainability matters remains poor, although within the EU it is certainly improving.

- More quantification is needed – presently too much sustainability disclosure explains the presence of a policy but provides little information about the implementation or outcome and impact of said policy
- Clarity of scope – too often sustainability data and financial data are a case of comparing apples and pears. Reporting standards should require that the sustainability risks to the entire economic interest of an entity are disclosed and discussed.
- Consistency, comparability and balance – too often it is not possible to compare and contrast between peers over time.

There is little doubt that mandatory reporting has driven up the quantity and in many cases the quality of provided information. GHG emissions data and corporate governance matters are those areas where data is reasonable while other environmental and certainly most social issues are much more patchily disclosed. Initiatives such as that led by SASB and more recently the Task Force on Climate-related Financial Disclosures are also proving helpful in promoting enhanced and consistent reporting.

14) Do the overall information or risk metrics available enable the relevant investment entities to adequately perform sustainability risk assessments?

- Yes
- **No**
- No opinion

No, see above.
One of the key gaps around social risks is that companies do not disclose sufficient metrics around the composition of their workforce and their decent work practices.

15) Do you think that uniform criteria to perform sustainability risk assessments should be developed at EU level?

- Yes
- **No**
- No opinion

Ideally, any standards should be developed at a supra-national and ideally international level, for example include the International Accounting Standards Board along with the US-based Financial Accounting Standards Board. That said, if the EU were to take a leadership position in partnership with willing partners that would no doubt be beneficial.

16) In case material exposure to sustainability factors is identified, what are the most appropriate actions to be performed by the relevant investment entity?

The principal and most powerful tool available to investors is voice. We believe that institutional investors in particular have a responsibility to recognise their duties towards companies and to act as responsible owners of such companies, engaging in constructive dialogue and utilise their proxy voting rights to press for the highest standards of governance and business models which are cognisant of wider impacts and the need to maintain their social license.

17) Should relevant investment entities disclose how they consider sustainability factors within their investment decision-making?

- **Yes**

- No
- No opinion

Please explain: We believe that all regulated investment entities should be required to set out within their relevant documentation their purpose and investment beliefs. In addition, investment funds should be expected to communicate where and how sustainability matters inform the investment process as well as importantly how stewardship responsibilities are fulfilled.

	Yes	No	No opinion	1	2	3	4	5
Governance	X							X
Investment strategy	X							X
Asset allocation	X						X	
Risk management	X							X
Other								

	Yes	No	No opinion
Pre-contractual disclosure	X		
Semi-annual/annual reports	X		
Periodic reports	X		
Website	X		
Newsletters	X		
Factsheets	X		
Marketing materials	X		
others			

IV. Impacts for stakeholders

18) Which stakeholder groups would incur costs and which would benefit from integrating sustainability factors within investment decision-making by relevant investment entities?

	Benefits	Costs
Occupational pension providers	X	X
Personal pension providers	X	X
Life insurance providers	X	X
Non-life insurance providers	X	X
Collective investment funds	X	X
Individual portfolio managers	X	X
General public	X	X
Retail investors	X	X
Financial advisors	X	X
Service providers	X	X
Other stakeholders		

The underlying beneficiaries would likely benefit through enhanced long-term risk-adjusted returns and also through a reduced generation of negative externalities – i.e. better returns would be generated in a better fashion.

This means extra work in analysing companies; understanding externalities, governance practices, environmental impacts, treatment of workforces and the influence of operations on local communities. It also means using influence to improve the behaviour of those companies in which investors have invested; the operations of the assets that investors directly manage, and advocating for systematic improvements to the financial system in which investors participate. This additional analysis is more time-consuming and likely reliant upon additional input resources, similarly, engagement is both resource intensive and time-consuming. Finally, disclosure on these matters clearly comes additional cost to the preparers. Therefore, there is no doubt that there is additional cost for all parties, however, we would confidently contend that the cost is substantially off-set by the aggregate benefits for those impacted.

2.3 Question specifically addressed to relevant investment entities

1) As a relevant investment entity do you consider sustainability factors?

Yes

No

Our primary purpose is helping beneficiaries retire better by providing world class active investment management and stewardship services. We believe this purpose includes 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.

We recognise that as fiduciaries, entrusted with the savings of millions of individuals, we have responsibilities which go beyond those defined in any contract - these are to our clients and their ultimate beneficiaries. We have these responsibilities because our decisions will have impacts on the world in which beneficiaries live and work today as well as the one in which they will retire into tomorrow. Our goal is to help people invest better, retire better and to create a better society for all. In order to deliver the needs of our pension saving beneficiaries we are cognisant of our commitment to clients to deliver superior risk adjusted investment returns within the terms of our mandate. We also understand, that the way we achieve these financial returns will have a wider impact and will consequentially likely impact upon the real value of their retirement incomes. These factors, while more difficult to quantify and measure, will be significant to beneficiaries' ultimate quality of life and cost of living.

It is this understanding that informs our belief that we have a duty to consider the longer term risks and opportunities when investing. This means extra work in analysing companies; understanding externalities, governance practices, environmental impacts, treatment of workforces and the influence of operations on local communities. It also means using our influence to improve the behaviour of those companies in which we have invested; the operations of the assets that we directly manage, and advocating for systematic improvements to the financial system in which we participate.

a) In which areas does your entity consider sustainability factors?

	Yes	No
Governance	X	
Investment strategy	X	
Asset allocation	X	
Risk management	X	
Valuation	X	
Disclosure	X	
Other	X	

We believe that a responsible investment approach encompasses systematic consideration of a range of non-financial factors alongside more traditional financial analysis of cash-flows and P/E ratios. It involves the incorporation of longer-term risk factors including a company's relationship with its stakeholders as well as its impact, through both its operations and the products and services it offers, on the environment and wider society. It also necessitates recognising the importance of the long-term health and stability of the markets in which we invest. It is only through this holistic analysis of the risks, return and impact characteristics of a company that it is possible to deliver the holistic returns to which we aspire.

b) What kind of sustainability factors do you consider? (Please refer to the definitions provided in the Glossary).

	Yes	No
Climate factors	X	
Other environment factors	X	
Social factors	X	
Governance factors	X	
Others	X	

Please see previous answer

c) In case you have products targeting sustainability factors what time horizon do they target? (Several answers possible).

- **Short-term (up to 3 years)**
- **Medium term (4-9 years)**
- **Long term (> 10 years)**
- Other

We incorporate sustainability factors into all of our investment processes. The return objectives will vary by fund, strategy and asset class. For example we have public equity funds with turnovers which range from 2-10 years, at both ends of that spectrum ESG factors are explicitly incorporated. Similarly our private markets funds self-evidently are much longer-term in nature, our infrastructure investments would typically be held for the long-term.

d) In your view, what is the relevant time frame within which risks and opportunities related to sustainability factors typically materialize?

	Short-term	Medium term	Long-term	No opinion
Climate factors		X		
Other environment factors		X		
Social factors		X		
Governance factors	X	X	X	
Others				

e) Within your governance policy, which measures/arrangements do you have in place?

	Yes	No
Spec sustainability inv committee		X
Spec sust member of the board		X
Integration of sust factors in the inv decision process	X	
Integration of sustainability checks in the control process	X	
Periodic reporting to senior mgt	X	
Others	X	

Please specify others:
- Portfolio Monitor
- ESG Dashboard
- Climate risk tool
- Responsibility Working Group
- Hermes Behaviours and Pledge

f) In integrating sustainability factors in your investment decisions, which elements do you consider?

	Yes	No
External sustainability ratings	X	
Internal sust ratings	X	
Sust benchmarks		X
Due diligence analysis	X	
Others		

Ext ratings: We use MSCI, Sustainalytics, ISS
Internal ratings: We utilise best-in-class external data alongside engagement and proxy voting insights as inputs into our proprietary QESG rating

In case you perform a due diligence analyses which elements do you consider?

	Yes	No
Governance arrangements	X	
Commitment of mgt on sust factors	X	

Methodologies for the calculation of market and regulatory sustainability risks	X	
Valuation	X	
Quality and frequency of available information	X	
Sustainability risk adjusted performance	X	
Others		

g) In your risk assessment how do you measure the impact of sustainability risks on your portfolio?

	Yes	No
Internal quantitative model	X	
Third party quantitative model	X	
Qualitative fundamental analysis	X	
Others		

Through the use of our Portfolio ESG Monitor we are able to observe the aggregate ESG risk across our portfolios in both absolute and benchmark-relative terms, subject to the availability of data and company disclosures. Investment teams are able to break these measures down into the constituent environmental, social or governance risks and view the ESG metrics for each portfolio company with the best and worst performers identified.

Hermes investment teams can see in real-time and in detail, the level and intensity of carbon and water risk across their portfolios; which portfolio companies are the greatest emitters and most at risk. We look at the data through multiple lenses to identify those companies whom may be better or worse placed and where additional research or engagement may be necessary. Analysts are subsequently able to see the progress of ongoing engagement towards mitigating the potential risk – we have a firm-wide commitment to engage with the highest emitting stocks in each of our funds. The ability to test-out 'what-if' scenarios ensures that we remain forward thinking and mindful of the impact our investee companies have on the world around them in addition to the opportunity or risk of the investment.

h) Do you disclose information on how you integrate sustainability factors in your investment decision making?

<u>Yes</u>

No

Please explain: Our Delivering Holistic Returns report details our approach across the firm to integrating sustainability factors within our investment processes. In addition, fund specific client reporting details the approach at a fund level.

If yes, where do you disclose such information?

	Yes	No
Pre-contractual disclosure	X	
Semi-annual/annual reports	X	
Periodic reports	X	
Website	X	
Newsletters	X	
Factsheets	X	
Marketing materials	X	
Others	X	

i) Do you disclose information on the outcome of sustainability assessments?
Yes
No

Please explain: examples are regularly provided through quarterly client reports. Carbon footprints of all funds are available on request and will soon be available on the website for all public equity funds.

If yes, where do you disclose such information?

	Yes	No
Pre-contractual disclosure	X	
Semi-annual/annual reports	X	
Periodic reports	X	
Website	X	
Newsletters	X	
Factsheets	X	
Marketing materials	X	
Others	X	

j) Do you take into account sustainability factors in your investment decisions due to related national legal requirements or related soft law provisions?
Yes
No

If yes, please specify the relevant provisions and describe the related costs (financial and non-financial) that you incur as well as the method by which you implement these.

We have a narrow firm-wide exclusion policy which restricts investments in cluster munitions and anti-personnel land mines. This restriction is the result of national legislation in the Netherlands and Switzerland.

Beyond the above, legal requirements have not driven our approach, however, we would cite the UK Stewardship Code as an example of soft law which has had a positive impact in terms of encouraging a raising of standards across the industry.,

k) Do you currently incur the following costs and benefits due to the integration of sustainability factors?

Potential benefits

	Yes	No
Ability to attract investors with specific sustainability requirements	X	
Improved financial performance	X	
Reputational benefits/external communication	X	
Internal communication/recruitment	X	
Others	X	

We have noted a significant increase in questions from clients and prospects around this agenda over recent years and have noted that our ability to answers these questions convincingly has proven helpful in attracting proactive interest from prospects as well as successfully winning business.

Our research demonstrates a clear link between investment returns and ESG performance – see research published by our Global Equities team and our Credit team (**provide links)**

We have received significant reputational benefits as a result of credible and meaningful commitment to sustainability over many years. We are regularly quoted and cited disproportionately higher to our size as an investment firm.

While we are not able to quantify the implication for our ability to recruit and retain staff, we do believe that we have a unique culture that is reinforced by our beliefs and epitomised by the Hermes Pledge.

Potential Costs

	Yes	No
Decreased financial performance		X
Loss of specific financial opportunities (for instance non-sustainable products /projects)		X
Consultancy costs	X	
Legal counsel costs	X	
Compliance costs	X	

Others		

As per above we are confident in our assertion that considered and intelligent integration of sustainability factors within investment processes is an enhancement to investment returns and we believe these more than off-set the costs incurred.

2) What would be the level of costs associated with the integration of sustainability factors in investment decision making in the different areas? Please tick the relevant box. (Costs as % of the AUM)

	< 0.5% of the AUM	0.51% to 1% of the AUM	1.01% to 3% of the AUM	3.01% to 5% of the AUM	> 5% of the AUM	No opinion
Governance	X					
Investment policy	X					
Valuation	X					
Risk management	X					
Disclosure	X					
Overall cost	X					

3) Please explain whether integration of sustainability factors in any of the above mentioned areas would lead to particularly significant (or potentially disproportionate) impacts in terms of costs or benefits incurred by stakeholders.

No. It is important to note that investment management is a scale business and as such the costs incurred become increasing immaterial as the assets under management increase. In any case, the incurred costs not substantial relative to other costs.

4) Do you engage with your clients/beneficiaries as regards their sustainability preference?
<u>Yes</u>
No

If so, could you estimate the average costs associated to that engagement in proportion to the assets under management?
< 0.5% of the AUM
0.51% to 1% of the AUM
1.01% to 3% of the AUM
3.01% to 5% of the AUM
> 5% of the AUM
No opinion

5) What could be the benefits associated with the integration of sustainability factors? Please, specify and quantify where possible and relevant.
Please see our answers to previous questions.