

OUTCOMES
BEYOND
PERFORMANCE

UN GLOBAL COMPACT

Communication on Progress

August 2019

www.hermes-investment.com


HERMES
INVESTMENT MANAGEMENT

CHIEF EXECUTIVE STATEMENT

7 August 2019

Hermes Investment Management has been adhering to and promoting with investee companies the spirit and objectives of the UN Global Compact for many years. With our mission of delivering outcomes beyond performance, it is at the heart of what we stand for as an investment and stewardship services firm. We are pleased to submit this report in confirmation of our support of the Ten Principles of the United Nations Global Compact after becoming a signatory in 2017.

Our second Communication on Progress lays out our work in the last 12 months in each area of the Global Compact – Human Rights, Labour, Environment and Anti-Corruption – and the outcomes we have seen. We would encourage other organisations to commit to collective action to advance the principles by signing up to the UN Global Compact.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Nusseibeh', with a long horizontal flourish extending to the right.

Saker Nusseibeh
CEO
Hermes Investment Management

ABOUT HERMES INVESTMENT MANAGEMENT

Hermes Investment Management is an asset manager with a difference.

At Hermes, our primary purpose is to help our clients retire better by providing world-class active investment management and stewardship services. Alongside this is a commitment to deliver holistic returns – outcomes that consider the impact our decisions have on society, the environment and the wider world. We aim to help people invest better and retire better, while at the same time creating a better society for all.

Hermes is majority owned by Federated Investors, Inc (Federated), a leading US investment manager with \$484.9bn assets under management as of 31 March 2019. BT Pension Scheme retains a minority stake, alongside members of Hermes' management. This relationship offers a strong global platform as both firms share a commitment to delivering client-centric investment returns responsibly.

We offer clients access to a broad range of specialist investment teams with £34.1bn assets under management as of 31 March 2019.¹ In Hermes EOS, our stewardship team, we have one of the industry's leading engagement resources, engaging on behalf of clients with £450.5bn of assets as of 31 March 2019.

A MISSION TO DELIVER OUTCOMES BEYOND PERFORMANCE

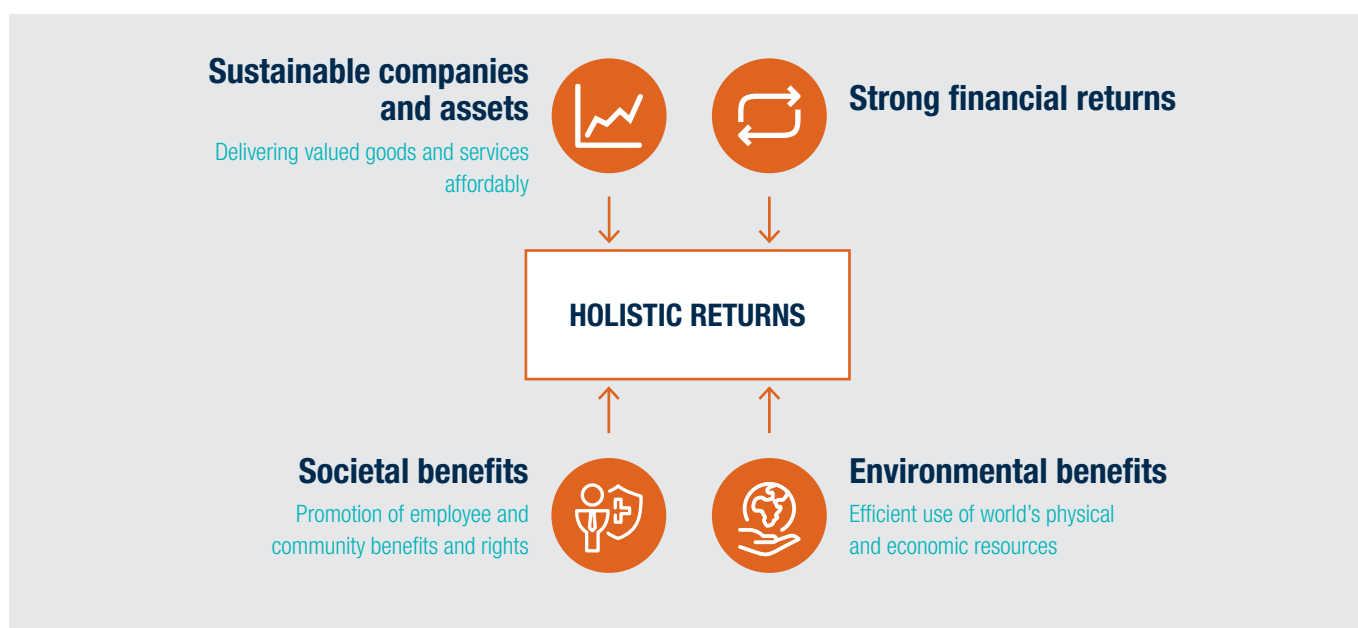
Our primary purpose is helping our clients retire better by providing world class active investment management and stewardship services. We believe this purpose includes a duty to deliver holistic returns – outcomes for our clients that go beyond the financial and consider the impact our decisions have 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 an impact 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 clients and beneficiaries we are cognisant of our commitment to clients to deliver strong investment returns within the terms of our mandate. We also understand that the way we achieve these financial returns (that is, what we invest in and how we engage with those assets) will have a wider impact and will consequentially affect the real value of people's investments. These factors, while more difficult to quantify and measure, will be significant in determining 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 putting extra work into analysing companies as well as 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.

Achieving this mission will mean putting the interests of our clients and their ultimate beneficiaries at the front and centre of all that we do. This is a commitment that all Hermes employees are committed to and is embodied in our Pledge of Responsibility.



¹ Please note the total AUM figure includes £6.5bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers Limited ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £23.4m of total group AUM figure represents HFM mandates under advice.

We operate by the Federated Code of Business Conduct and Ethics, which requires all business to be conducted in accordance with the highest legal and ethical standards and all staff to adhere to the highest ethical standards at all times in the conduct of their professional and personal affairs.

At Hermes we have a strong culture of responsibility and believe that it is a far wider concept than just shareholder engagement. We believe we should lead by example, and we have therefore created the Hermes Pledge, an expression of our commitment to always act responsibly and transparently. The Hermes Pledge makes clear our commitments, obligations and responsibilities as an organisation and as individuals. Hermes is committed, in the way that it interacts with others, to treating everyone fairly, and with dignity and respect. Hermes expects all of its employees to match this commitment throughout their day-to-day work and activities.

We have been actively engaging with companies for over 20 years, building a compelling story for responsible ownership. Our engagement team, Hermes EOS, is a world leader in stewardship services, helping clients to meet their legal obligations for active stewardship in order to create long-term value for beneficiaries. Stewardship means engaging with companies on business strategy and performance including ESG concerns and using shareholder power to positively influence corporate behaviour. Hermes EOS represents £450.5bn of assets under advice (AuA) as of 31 March 2019 and in 2018 engaged with more than 740 companies worldwide on more than 2,000 environmental, social, governance, strategy, risk and communication issues and objectives, and made voting recommendations at over 10,300 company meetings. Hermes EOS engage with the companies in which we and our third-party clients invest in on a regular basis on sustainability, governance, environmental and social concerns. Hermes generally favours engagement over exclusion, as we believe that having a seat at the table gives us greater power to influence than exclusion and divestment does. Our team engages in active stewardship on behalf of clients, voting at AGMs and other shareholder gatherings to achieve our clients' responsible ownership aims and fulfil their fiduciary duty to be active owners. We also screen clients' aggregate holdings for environmental, social and governance (ESG) characteristics. Our Controversial Companies Report (available only to clients), highlights those companies which are considered to be in violation of internationally-recognised guidelines, provides insight into the nature of those violations and provides a view on engagement with the company on the issues. The list identifies companies that are either in breach of or are likely to breach the UN Global Compact Principles.

We dedicate resources to supporting the integration of ESG and engagement information in the investment decisions made by our public- and private-markets teams. This includes using proprietary tools that combine our own analytical ESG data and engagement insights with research from external providers. The feedback loop from our engagements with corporate boards and management teams is a

hallmark of our investment approach. It is enabled by regular interactions between our fund managers and engagers, and especially by the company meetings they jointly attend. For our public-markets teams, ESG and engagement data is considered in the context of the investment philosophy of each strategy. Given the typically long holding periods and concentrated nature of private-market investments, both ESG data and engagement activities are strongly integrated throughout our Real Estate, Infrastructure and Direct Lending investment processes. This includes data and engagement relating to human rights, labour, environmental and governance issues.

The Hermes Pledge

I pledge to fulfil, to the best of my ability and judgment and in accordance with my role, this covenant:

I will act ethically, responsibly and with integrity

I will put the interests of our clients and their beneficiaries first

I will encourage responsible behaviour in the firms in which we invest and on which we engage

I will act with consideration for society and the environment both now and in the future

I will encourage others to do the same

I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society

I will treat my clients, my colleagues and all other stakeholders with respect and as I would wish to be treated

I will deal with our regulators in an open, co-operative and timely way

I will communicate clearly and honestly with all parties inside and outside our firm

I will manage conflicts of interest fairly between all parties



DELIVERING HOLISTIC RETURNS SPANS FOUR MUTUALLY REINFORCING STRANDS OF ACTIVITY

The scale and focus of our active ownership and investment activities allows us to bring the full force of ESG awareness and engagement to our investment decisions. Not only does successful engagement help appraise the actual level of ESG or other risk, if successful, it helps to mitigate it. In turn, our engagement and investment teams are able to focus on the risks and indeed opportunities which are most relevant and material.

Having a focus on responsible investing, responsible ownership and policy advocacy across all of our strategies, while also behaving responsibly as a firm, is integral to delivering holistic returns. Behaving as a responsible business ourselves is critical to giving us the credibility with which to be able to fulfil these ambitions.

Four mutually reinforcing strands of activity



ESG-aware investments

We aim to be 'ESG aware' and actively incorporate relevant considerations into our investment processes across all investment products.



Active ownership and management

We aim to be active, engaged and responsible owners of those companies and assets in which we are invested and those we directly manage.



Advocating in beneficiaries' interest

We engage with and encourage regulators and standard setters globally to intervene to correct market distortions and ensure that the financial system operates in the interests of its ultimate asset owners.



Behaving as a responsible business

We aim, as a firm, to meet the expectations that we have of others. Each of us individually has a responsibility to lead by example and act ethically and with integrity.

INVESTING IN THE SDGS

The UN Sustainable Development Goals (SDGs) are a series of goals aiming to address a global concern including: poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. Together, they make up a framework for achieving a sustainable future for all. The SDGs are directly imbedded in the investment approaches of two of our funds.

The first fund aims to help meet the goals by engaging with companies to help them make improvements relating to the 17 SDGs. To do this, we mapped the SDGs back to sectors in the MSCI indices, so we know when we look at a company what the SDG touchpoints will be. Our SDG-driven engagement focuses on the full spectrum of a company's operations and strategy, providing opportunities to create meaningful and lasting societal impacts. Given the lack of standardised data on SDG alignment, it is only through engagement that investors can really understand a company's impact and achieve positive change.

The second fund aims to enhance prosperity in society investing in companies that will have a positive effect on the world's environment and social challenges linked to at least one SDG. We have created our own SDG taxonomy, with nine investment themes – Water, Health and Wellbeing, Financial Inclusion, Education, Energy Transition, Future Mobility, Food Security, Circular Economy and Impact Enablers.

In private markets, our Real Estate team have developed an impactful investing approach, seeking ways to increase our impact through Responsible Property Investment. By looking for ways to outperform while aligning our strategy to the needs of society as it changes, rather than managing pure-play impact-investment products, we seek to deepen the practice of responsible investment. This means using a purposeful framework to focus our real-estate operations around on impact themes, and within these targeting activities with measurable environmental, economic and societal impacts. Our Real Estate impact themes are intended to support the delivery of the SDGs.

HUMAN RIGHTS PRINCIPLES

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2	make sure that they are not complicit in human rights abuses.

Assessment, Policy and Goals

As an active investor, we are defined by our commitment to deliver holistic returns for clients and their beneficiaries. We consider the social and environmental impact of the investments we make, alongside the returns they deliver. This is why we developed [the Hermes Responsible Ownership Principles](#). These principles include expectations around corporate governance, relationships with stakeholders, workers and human rights. Companies are expected to ensure that they respect the human rights of those affected by their operations and their value chains. They should develop plans to identify and manage these human-rights risks, in order to encourage positive human-rights outcomes and minimise adverse ones. At the very least, companies should not only obey the law but also respect the human rights of those affected by their activities and be open about and prepared to discuss the impact of their activities.

Human rights remain a priority for Hermes EOS. The UN Guiding Principles on Business and Human Rights provide a global standard for addressing the risk of adverse human-rights practices linked to business activity and offer a framework for our engagement with companies in this area. The ability and commitment to respect and remedy human rights issues reflect the strength of a company's culture and risk management. For many companies, human-rights issues reside less in their own operations and more in their supply chain, or potentially in the use of their products.

At Hermes, we are committed to running our business responsibly. Part of this means doing our best to encourage high standards in our supply chain and business. Our [Modern Slavery Statement 2019](#) sets out our objective of ensuring that there is no modern slavery or human trafficking in any of our business dealings. It also describes the processes we have put in place to help us achieve this objective, including our Supplier Code of Conduct and supplier due diligence checks.

We would like all our suppliers to follow our [Supplier Code of Conduct](#). We expect new suppliers with more than £36m in turnover to supply us with their Modern Slavery statements. Hermes promotes best practice for Sustainable Procurement and asks suppliers for evidence of their sustainable-procurement practices covering the following core areas: environmental, social, economic and governance. When procuring goods, sustainable alternatives must be explored and the most sustainable option available must then be procured, unless the business case prohibits this.

Hermes encourages open communication, in keeping with the [Hermes Pledge](#), and regards integrity as a central part of its beliefs. Hermes encourages employees to bring any concerns to the attention of their immediate supervisor or manager. To that effect, Hermes has a whistleblowing policy in accordance with the Public Interest Disclosure Act 1998 – also referred to as 'The Whistleblowers' Act' in the UK and the Whistleblower program in the US – which stipulates that employees are legally protected from dismissal or unfavourable treatment by their employers as a result of raising concerns.

Examples of the type of concern which could be raised are internal fraud or breach of regulatory obligations, such as market abuse. Employees may also report such matters directly to the Strategic Risk and Compliance Director or the Hermes' Chairman. However, Hermes recognises the difficulty of reporting through internal channels and understands that employees may prefer to remain anonymous. To that effect, Hermes also provides several secure, anonymous reporting routes via a hotline and online.

Implementation

Earlier this year, our Global Equities team conducted and published [research](#) that demonstrated that companies with poor or worsening social practices have consistently underperformed their peers by 15bps a month since December 2008. This follows the same pattern we previously observed for governance. The value of the social factor is its ability to identify underperforming companies as opposed to outperformers. This bolsters our belief about the benefit of integrating ESG factors into investment decisions.

When managing real-estate assets, we believe that good human capital management – including the provision of fair living wages, robust health and safety practices and investment in training and development programmes – is the foundation of a stable and productive workforce and the maintenance of businesses' social licences to operate. We included specific references to the Modern Slavery Act in all of our property-management agreements when we renewed them in early 2018, covering the whole of our managed portfolio. Since September 2016 we have also included a clause specifically relating to the Modern Slavery Act in almost all lease agreements we have entered into. This has now been expanded to construction documents, including project team appointments and construction agreements. All of our construction documents now contain specific mention of the Modern Slavery Act, requiring compliance with all relevant legislation.

Hermes EOS provided input to the United Nations Working Group on Business and Human Rights for the 2018 report on 'Corporate human rights due diligence: emerging practices, challenges and ways forward', published in October 2018. Challenges include meaningful reporting and measuring of performance, as well as the challenge of framing of human rights as a risk issue. We also attended the Principles for Responsible Investment roundtable on human rights in the extractive sector, where we exchanged views with companies, investors, non-governmental organisations and industry associations. We discussed the challenges associated with risk identification and monitoring and tracking the effectiveness of remediation and training. In addition, we considered how companies and investors manage and mitigate human-rights controversies and allegations.

One of our engagements on human-rights issues in recent years has been with a large retailer on the issue of managing human rights and modern slavery risks in the supply chain. The retailer responded to our request to disclose its supplier audit findings in 2018. It now publishes the share of its suppliers that are high-risk Tier 1 with critical non-conformance to international human-rights standards, along with the percentage of these cases where remedial action was implemented within a defined time period. We were pleased as this reflects the company's commitment to discovering and reporting human-rights issues in its supply chain. Our [Modern Slavery Statement](#) also includes a case study of our engagement with a construction company to tackle its high risk of complicity with regard to potential labour and human-rights abuses.

In relation to our own operations, we are in the process of asking our most material suppliers (by spending) to sign our Supplier Code of Conduct or provide an appropriate alternative policy of their own. We will seek to engage with relevant stakeholders with the aim of resolving any issues identified.

In order to comply with the regulations that we as an investment management business are subject to, Hermes undertakes enhanced oversight of certain service providers that are deemed to be material outsourcers. This includes Hermes carrying out regular onsite due-diligence visits to its material suppliers. In 2018, Hermes added modern slavery to the scope of issues to be examined as part of such due diligence visits, including asking suppliers what steps they take to identify areas of their business and supply chains where there is risk of slavery and human trafficking taking place, and the steps taken to assess and manage that risk.

As part of the onboarding process, our Compliance team now screens all suppliers against various sanctions lists using Thomson Reuters Global Screening Tool. In addition to screening against sanctions, suppliers are also assessed against law enforcement, regulatory enforcement, politically-exposed persons and adverse media criteria. Suppliers' details are saved in the system for ongoing screening, which is repeated periodically throughout our relationship with them. Additional checks are conducted on all suppliers based in the UK with bank accounts in another country as part of our financial-crime prevention procedures.

Measurement of outcomes

We measure our engagement outcomes. In 2018, Hermes EOS engaged on 2,084 issues and objectives. 23% of the objectives and issues we engaged during the year were on a social or ethical theme. Of this, 36% related to human rights. 110 out of 208 social engagement objectives were moved forward at least one milestone during the year. Further information is available in the [Hermes EOS Annual Report 2018](#).

LABOUR PRINCIPLES

Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	the elimination of all forms of forced and compulsory labour;
Principle 5	the effective abolition of child labour; and
Principle 6	the elimination of discrimination in respect of employment and occupation.

This section should be read in combination with our reporting above on the Human Rights Principles, covering our efforts to eliminate forced, compulsory and child labour.

Assessment, Policy and Goals

As an active investor we are defined by our commitment to deliver holistic returns, which is why we have established the [Hermes Responsible Ownership Principles](#). These principles include expectations around relationships with stakeholders and in particular workers. The principles state that 'The workforce is a company's most valuable asset and therefore a critical stakeholder. Companies must develop human capital management strategies and objectives that ensure that everyone in their workforce is treated with dignity and respect and should help each person develop their potential. Companies should use their influence on their suppliers to encourage and, where possible, ensure similar outcomes. Such human capital strategies will help companies to deliver greater value for their shareholders and for the people that work for them.'

Social issues are one of the core engagement themes of Hermes EOS. Through our engagement with companies, we seek respect for basic human rights and outcomes. We expect companies to put their customers first and treat their key stakeholders fairly and with respect, to pay tax commensurate with the value added in each jurisdiction and to operate without bribery or corruption. Through our public-policy work we encourage the enactment of strong anti-bribery and corruption legislation.

Hermes is also committed to upholding the UNGC Labour Principles as a business and an employer. An overview of employee rights, responsibilities, policies and benefits is available to all employees in the Hermes Employee Handbook. This includes a formal grievance procedure, available to all employees, should problems arise during the course of employment which cannot be resolved on an informal basis.

Hermes recognises that diversity in the workforce is one of our greatest assets and that an inclusive culture allows us to continue to grow as a strong and innovative organisation, delivering excellence for our clients. Hermes is committed to treating everyone with whom we work fairly, and with dignity and respect, as well as providing an environment which is free from harassment and discrimination, as is reinforced in our Equal Opportunities policy. This includes all our employees and staff (present, future and past) together with all of our other stakeholders, clients and service providers.

Hermes has a set of behaviours innate to its culture that contribute to the success of the business. Every employee has a responsibility to act in a way that upholds Hermes Core Behaviours through their day to day activities. Employee end-of-year performance ratings are based on the extent to which they have demonstrated these behaviours as well as the extent to which they have met their performance objectives.

In addition, it is the responsibility of every leader and manager at Hermes to create an environment where all of our people can give their best, feel valued and be able to build upon their knowledge and skills. We offer a number of management-development programmes in order to train and upskill managers in managing performance and behaviour.

As reported in our [Gender Pay Report](#), and in line with our Women in Finance Charter commitments, we have measured the proportion of male and female staff, and set ourselves gender-diversity targets. In order to set stretching and realistic targets we took a balanced view of our ability to move towards gender parity, taking into consideration the rate of natural turnover in the business, future hiring needs and the availability of a diverse talent pool in certain sectors of the industry. Hermes will continue the positive work it has accomplished to date, including widening access to the profession, with the ultimate ambition of achieving gender parity across the whole business.

Since 2012, Hermes has been accredited as a Living Wage employer, affirming its commitment to provide all employees and on-site contracted staff with compensation and benefits at or above the London Living Wage.

It is the policy of Hermes to take all reasonable practical steps to ensure health, safety and welfare at work for all its employees in accordance with general statutory obligations. This includes training First Aiders and Fire Marshalls on each floor. Health and safety training is undertaken as part of the employee-induction programme.

As described in the human rights section above, if an employee were to have a concern related to labour, the whistleblowing policy would enable them to raise their concerns or seek advice.

Implementation

As outlined above, we dedicate resources to supporting the integration of ESG and engagement information in the investment decisions made by our public- and private-markets teams. This includes using proprietary tools that combine our own analytical ESG data and engagement insights with research from external providers.

All our public-markets investment teams have access to our ESG Dashboard and ESG Portfolio Monitor through which information on metrics such as employee turnover, health and safety performance and fatalities are provided. Investment teams supplement this information with company-specific research utilising a range of sources to understand a company's approach towards its workforce and any potential impact on, for example, productivity.

As described at the beginning of this report, our Real Estate team have developed an impactful investing approach, seeking ways to increase our impact through [Responsible Property Investment](#). Our impact themes are intended to support the delivery of the SDGs. As part of our Urban Regeneration theme, we consider skills development and job growth. Labour and Skills has been identified as one of three potential impact themes to be further developed in the future. Our Real Estate team have an extensive risk and safety programme which identifies improvements required and measures outcomes to ensure labour protection and occupier safety on all of our sites.

When engaging with companies on labour issues, Hermes EOS seeks engaged, healthy, skilled and effective workers, representative of the diversity of wider society, to achieve the highest levels of productivity with the available technologies. We encourage companies to implement credible plans to achieve minimum diversity targets appropriate to each geography, improvement on closing the gender pay gap, training and development, creating a culture and behaviours that respect all workers

and seeking payment higher than the national minimum wage or a real living wage, depending on jurisdiction. We work with organisations such as the Workforce Disclosure Initiative and the Human Capital Management Coalition to improve the quality of corporate reporting on human capital metrics. We also advocate the benefits of having a diverse workforce in public debate and support initiatives to increase diversity among executive management such as the 30% Club.

As an employer, Hermes offers a range of benefits to support the wellbeing of its employees, including private medical insurance cover, health assessments, an employee assistance programme, financial wellbeing seminars and a Cycle to Work scheme.

In June 2018, we hired an Inclusion Partner to join our Human Resources team to ensure specific and appropriate guidance and support across a range of areas, as well as the implementation of an inclusion strategy and programme. In 2018, Hermes conducted an in-depth review and analysis of the business in order to understand what more could be done to create a more diverse and inclusive working environment for all employees. Following this comprehensive analysis, the Board and Executive Committee have endorsed an Inclusion Strategy and three-year plan which will be reviewed on a regular basis. An Inclusion Committee has now been established, which is comprised of senior members of the firm, who are responsible for the inclusion agenda. Hermes has now joined The Diversity Project, the Employers Network for Equality and Inclusion and the 30% Club. Furthermore, the firm has established a returners coaching programme for members of staff who have been out on long-term absence, including maternity, parental or adoption leave, as well as for their line managers.

We believe that diversity encompasses not only gender but all the other protected characteristics as well as other forms of diversity including education, personality differences, experience and skill-sets. Hermes Unity, our employee network which promotes an inclusive culture, has continued to lead initiatives across a range of issues, including Wellness Week and Hermes Pride week, demonstrating support of inclusion and diversity in the workplace.

Measurement of outcomes

In 2018, Hermes EOS engaged on 2,084 issues and objectives. 23% of the objectives and issues we engaged during the year were on a social theme. Of this, 10% related to diversity, 20% to human capital management and 12% to labour rights. 110 out of 208 social engagement objectives were moved forward at least one milestone during the year. Further information is available in [Hermes EOS Annual Report 2018](#).

As reported in our [Gender Pay Report](#) published in March 2019, Hermes has reduced its mean gender pay gap from 30.2% in 2017 to 27% in 2018. We are cognisant that it is imperative for female representation to improve at a senior level within the organisation: this was identified as one of the main causes of our pay and bonus gaps. As part of our Women in Finance Charter commitment, we also report annually on our targets to increase the percentage of women on our Board, in Senior Management, and across all staff. In 2016 Hermes set a number of gender targets for the end of 2018, which have been achieved. As a result, we have set out new gender targets for 2021

In addition, our Inclusion Partner will be working to develop more robust data-collection processes which will allow us to analyse data across various employee demographics and diversity strands and report on this to senior management. We have conducted an employee-engagement survey, including diversity demographics, which we will be able to compare against our previous survey.

ENVIRONMENTAL PRINCIPLES

Principle 7	Businesses should support a precautionary approach to environmental challenges;
Principle 8	undertake initiatives to promote greater environmental responsibility; and
Principle 9	encourage the development and diffusion of environmentally friendly technologies.

Assessment, Policy and Goals

We have published our strategy for managing carbon risk on an annual basis since 2015, most recently in the [2018 Hermes Carbon Report](#). We take a four-pronged approach to confronting the risks and managing the opportunities presented by climate change, which applies across all asset classes and strategies: awareness, integration, engagement and advocacy. This is outlined in further detail in our carbon report. As part of our carbon risk approach, we set specific and measurable targets against which to monitor and measure progress.

Hermes EOS seeks to ensure that company strategies and actions are aligned to the goals of the Paris Agreement to limit global warming to well below 2°C and, ideally to 1.5°C. These include building a circular economy to achieve sustainable levels of consumption, ensuring accessible and affordable food, clean water and critical natural resources and finally reducing the pollution of air, land and water to below harmful levels for humans and other living organisms.

We have a written environmental policy to demonstrate commitment as a business to conducting our operations in an environmentally-responsible manner and to govern internal operations. Our Environmental Management System (EMS) group meet quarterly to discuss how to reduce the environmental footprint of our office.

Hermes promotes best practice for Sustainable Procurement and asks suppliers for evidence of their sustainable procurement practices covering the following core areas: environmental, social, economic and governance. When procuring goods, sustainable alternatives must be explored and the most sustainable option available must then be procured, unless the business case prohibits this.

Implementation

As outlined above, we dedicate resources to supporting the integration of ESG and engagement information in the investment decisions made by our public- and private-markets teams. This includes using proprietary tools that combine our own analytical ESG data and engagement insights with research from external providers.

Hermes' internal climate working group aims to strengthen our understanding and analysis of carbon risks beyond our current management practices. We are developing a comprehensive process for managing portfolio climate risk and opportunities that covers carbon-modelling tools, climate-risk assessment, scenario analysis for a 2°C rise in global temperatures and impact to value. Our investments in and engagements with companies exposed to climate-change risk enables us to raise risks and controversies with their boards and encourage

actions to address them. We can also capture intelligence on the dynamic processes at play in the development of corporate strategies and business plans regarding climate change. Moreover, we ensure that the process is clearly disaggregated so that investors, portfolio managers and engagers can understand the key drivers of the transition and challenge assumptions – either of companies or of third parties.

The Hermes Carbon Tool, launched in 2018, enables fund managers and engagers to identify carbon risks in listed investment portfolios and specific companies that are or might become more exposed to carbon risks in the future. Importantly, the tool incorporates our stewardship activity and intelligence and is able to identify companies that are priorities for engagement and their progress against objectives.

In private markets, we actively manage real-estate assets and engage to improve environmental performance and occupier wellbeing. Environmental risks are also factored into the evaluation of an asset before buying. The fund manager will explicitly consider issues like functional obsolescence, flood risk, solar gain and energy consumption

The role of policymakers is key in determining the investment risks and opportunities created by climate change. We engage with public policy makers and sector organisations, nationally or internationally, to promote policy or best practice. We are active members of, among others, the Institutional Investors Group on Climate Change, Climate Action 100+ and the Carbon Disclosure Project. We have joined the UK Green Finance Initiative and become founding members of the Green Finance Institute steering committee – a public-private initiative aiming to promote the greening of the global financial system to manage climate-change risks in a precautionary fashion.

Hermes EOS engage extensively on environmental issues. As co-lead for the European utilities sector within Climate Action 100+, we helped to establish a five-year strategy outlining investor expectations for the sector. As part of this strategy, we co-led the composition of a letter from investors to European energy utilities, published in the Financial Times. This called on the industry to set out plans for the transition to a low-carbon economy and ensure alignment of their business model to the goals of the Paris Agreement. The letter was backed by investors collectively representing \$11.5 trillion.

Together with 25 other investors, we signed a declaration on reducing plastic pollution by non-governmental organisation As You Sow, which promotes corporate accountability through shareholder action. The signatories have formed a plastic-solutions investor alliance to engage with companies within the consumer goods sector on the threat posed by plastic pollution and the associated corporate brand risk. We also joined an Investor Forum initiative focused on improving the handling of micro plastic pellets in the supply chain by engaging with standard-setting bodies.

We hold the ISO 14001 accreditation in our offices which reflects the deliberate steps we took to improve the environmental impact when we fitted them out. We offset our corporate travel and other carbon emissions by partnering with Trees for Cities. We publish our carbon risk management strategy on an annual basis and in support of the Financial Stability Board Taskforce for Climate Related Financial Disclosures (TCFD) recommendations will continue to enhance the level of relevant public disclosures we provide as a firm.

Measurement of outcomes

Over the past year, we have made good progress in the implementation of the TCFD recommendations. During 2017 we identified the most appropriate performance indicators for each asset class. We intend to report annually on our performance against these measures from 2017. We have reported on our decarbonisation activities for 90% of our AUM and measured the carbon footprint of 86% of our AUM, since August 2018. We aim to fully comply with the TCFD recommendations in the next two years. More detailed information about our policy, implementation and measurement of outcomes is available in our [2018 Hermes Carbon Report](#). This paper provides information about our 2017 performance. Our [Responsible Property Investment Report](#) publicly discloses environmental and social outcomes for our Real Estate funds.

Hermes EOS engages extensively on environmental issues. In 2018, Hermes EOS engaged on 2,084 issues and objectives. 27% of the objectives and issues we engaged during the year were on an environmental theme. Climate change continued to be a major focus, as we took up the role of lead or co-lead engager at 27 companies in Climate Action 100+, the collaborative engagement initiative representing \$32 trillion of assets, which targets the top 100 systemically important emitters. We also continued work on reducing pollution and encouraging waste management and circular-economy practices. 121 out of 243 environmental engagement objectives were moved forward at least one milestone during the year. Further information is available in [Hermes EOS Annual Report 2018](#).

We have achieved ISO 14001 accreditation in our offices, and as described above we monitor the environmental footprint of our carbon emissions and offset this financially and through volunteering activities with Trees for Cities. For every tonne of greenhouse gas emissions that Hermes generated from its day-to-day operations and its business travel during 2017, verified carbon offsets for 1,102 tonnes of CO₂ have been generated in 2018 by planting 3,159 trees.

ANTI-CORRUPTION PRINCIPLES

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

Assessment, Policy and Goals

Hermes has controls in place to prevent bribery, corruption, tax evasion and fraud. This is managed by our Compliance team. Our Strategic Risk and Compliance Director sits on the Hermes Executive Committee. We also have a Risk and Compliance Committee, currently comprising four Non-Executive Directors and one employee of our parent company Federated Investors Inc.

Hermes has a zero-tolerance approach to corruption. We have in place a financial-crime policy and procedures that provide an effective control framework within which Hermes complies with applicable legislation and regulatory requirements, including but not limited to:

- The Money Laundering Regulations 2017
- Terrorist Act 2000 (as amended by the Anti-Terrorism, Crime and Security Act 2001, the Terrorism Act 2006 and the Terrorism Act 2000 and Proceeds of Crime Act 2002 (Amendment) Regulations 2007)
- Proceeds of Crime Act 2002 (as amended by the Crime and Courts Act 2013 and the Serious Crime Act 2015)
- 4th Money Laundering Directive 2017
- Financial Services and Markets Act 2000
- The Bribery Act 2010
- Joint Money Laundering Steering Group Guidance Notes
- Financial Conduct Authority Handbook
- The United States Patriot Act and Bank Secrecy Act
- Criminal Finances Act 2017
- Cayman Islands Proceeds of Crime Law (2017 Revision)
- Cayman Islands Anti Money Laundering Regulations (2018 Revision)

In addition to policies on conflicts of interest and outside business interests, Hermes has established a financial-crime framework which identifies, mitigates and manages the risks that Hermes faces whereby Hermes products and services might be involved in or used to facilitate financial crime. The Hermes Financial Crime Policy covers a wide range of topics, including:

- Anti-Money Laundering and Counter Terrorist Financing
- Anti-Bribery and Corruption
- Fraud
- Financial Sanctions
- Suspicious Activity Reporting
- Breaches of the Financial Crime Policy
- Financial Crime Training

Implementation

As outlined in relation to our implementation of the UNGC Labour Principles, social issues are one of the core engagement themes of Hermes EOS. We seek respect for basic human rights and outcomes from companies in our engagement which put their customers first and treat their key stakeholders fairly and with respect, pay tax commensurate with the value added in each jurisdiction and operate without bribery or corruption. Through our public policy work we encourage the enactment of strong anti-bribery and corruption legislation.

Hermes will take appropriate action (including seeking prosecution and notifying relevant regulators) against any person in employment who is involved or assists in committing a financial crime.

Checks are carried out for each client in accordance with their risk rating. Hermes clients are screened via the Thomson Reuters Global Screening Tool, which checks against the following:

- Law enforcement
- Regulatory enforcement
- Sanctions
- Politically Exposed Persons (“PEPs”)
- Adverse media

No monies can be accepted until the client due diligence checks have been completed.

All new staff members must undergo initial Compliance training within two weeks of joining the firm. Training covers the content of the Financial Crime Policy and employees are also required to read the policy upon joining the firm. Existing Hermes employees, including senior management, are required to complete Compliance training on an on-going basis. Additional training may be provided depending on the risk associated with specific roles.

As described in the human rights section above, Hermes encourages open communication, Hermes encourages open communication, in keeping with the [Hermes Pledge](#), and regards integrity as a central part of its beliefs. Hermes encourages employees to bring any concerns to the attention of their immediate supervisor or manager. If an employee were to have a concern related to corruption, the whistleblowing policy would enable them to raise their concerns or seek advice.

Measurement of outcomes

Hermes Financial Crime program is subject to independent review by the internal audit function. The results of the review are presented to senior management for review and appropriate action is taken. The last Internal Audit of Compliance was conducted in November and December of 2017, and the report was distributed in December 2017. The Compliance Monitoring team also review our Financial Crime Program as part of their risk-based approach monitoring plan. In addition, Compliance provide a report on the Financial Crime Program to senior management on a periodic basis. On an annual basis, our Money Laundering Reporting Officer provides a report to the Board and senior management to demonstrate Hermes has established and maintains effective systems and controls for compliance with applicable financial crime requirements and standards under the regulatory system, and to counter the risk that Hermes might potentially be used to further financial crime.

The prominent focus of the Risk and Compliance Committee during the first half of 2018 was the change of ownership. Key areas that required review included risk of incompleteness and an assessment of the risks posed, such as client disruption, staff retention and plans for managing the collaboration with Federated from day one. Other topics considered throughout the year included a GDPR update, approval of ICAAP 2018 and new Compliance policies following the Federated transaction.

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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, 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

For more information, visit www.hermes-investment.com or connect with us on social media:



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