HERMES INVESTMENT MANAGEMENT

Excellence. Responsibility. Innovation.

Q3 2014

Hermes EOS

Public Engagement Report

Shining a light on governance in Asia

This report contains a summary of the responsible ownership activities undertaken by Hermes EOS on behalf of its clients. It covers significant themes that have informed some of Hermes EOS' intensive engagements with companies in Q3 2014.

The report also provides information on its voting recommendations and the steps Hermes EOS has taken to promote global best practices, improvements in public policy and collaborative work with other shareholders.

What is Hermes EOS?

Hermes EOS helps long-term institutional investors around the world to meet their fiduciary responsibilities and become active owners of public and private companies. Hermes EOS' team of engagement and voting specialists monitors its clients' investments in companies and intervenes where necessary with the aim of improving their performance. Hermes EOS' 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.

Through pooling resource with other like-minded funds to create a strong and representative shareholder voice, our joint company engagements are more effective. We currently act on behalf of 41 clients and £120.3 billion* assets under advice.

Hermes has the largest stewardship resource of any fund manager in the world. Our 26-person team includes industry executives, senior strategists, corporate governance and climate change experts, fund managers and lawyers.

The depth and breadth of this resource reflects our philosophy that ownership activities require an integrated and skilled approach. Intervention at senior management and board director level should be carried out by individuals with the right skills and with credibility. Making realistic and realisable demands of companies, informed by significant hands-on experience of business management and strategy setting is critical to the success of our engagements.

Hermes EOS has extensive experience of implementing the Principles for Responsible Investment (PRI) and other stewardship codes. Its chief executive Colin Melvin chaired the committee that drew up the original principles and we are actively engaged in a variety of workstreams through the PRI clearinghouse. This insight enables Hermes EOS to help signatories in meeting the challenges of effective PRI implementation.

How does Hermes EOS work?

Our corporate, public policy and best practice engagement programmes aim to enhance and protect the value of our clients' investments and safeguard their reputations. We measure and monitor progress on all engagements, setting clear objectives and specific milestones. In selecting companies for engagement, we take account of their environmental, social and governance risks, their ability to create long-term shareholder value and the prospects for engagement success.

The Hermes Responsible Ownership Principles set out our basic expectations of companies in which our clients invest. These cover business strategy, communications, financial structure, governance and management of social, ethical and environmental risks. The Principles and their regional iterations guide our intervention with companies throughout the world. Our approach is pragmatic and company and market specific, taking into account individual company circumstances.

We escalate the intensity of our engagement with companies over time, depending on the nature of the challenges they face and the attitude of the board towards our dialogue. Some engagements involve one or two meetings over a period of months, others are more complex and entail multiple meetings with different board members over several years.

At any one time there are around 400 companies included within our core engagement programmes. All of our engagements are undertaken subject to a rigorous initial assessment and ongoing review process to ensure that we are focusing our efforts where they can add most value for our clients.

While we are robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines through campaigns, which can often undermine the trust that would otherwise exist between a company and its owners. We are honest and open with companies about the nature of our discussions and will aim to keep these private. Not only has this proven to be the most effective way to bring about change, it also acts as a protection to our clients, so that their positions will not be misrepresented in the press.

For these reasons, this public report does not generally contain specific details of our interactions with companies unless they are already public. Rather it explains some of the most important issues relevant to responsible owners and outlines Hermes EOS' activities in these areas.

We would be delighted to discuss Hermes EOS with you in greater detail.
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* as at 30 September 2014

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Tim Goodman
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Operations


Amy Lunn
Head of Business and Client Development


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Head of Operations


Nina Röhrbein
Reporting

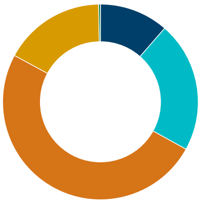

Lucy Saville
Client Relations

Engagement by region

Over the last quarter we engaged with 139 companies on 333 social, environmental, business strategy and governance issues. Hermes EOS' holistic approach to engagement means that we typically engage with companies on more than one issue simultaneously. The engagements included in these figures are in addition to our discussions with companies around voting matters.

Global

We engaged with **139** companies over the last quarter.



- Environmental **11.4%**
- Social and ethical **21.6%**
- Governance **49.8%**
- Strategy and risk **16.8%**
- Stewardship **0.3%**

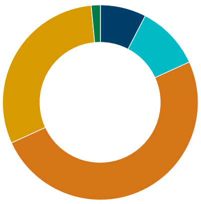
Australia and New Zealand

We engaged with **17** companies over the last quarter.

- Environmental **11.8%**
- Social and ethical **31.4%**
- Governance **51.0%**
- Strategy and risk **5.9%**

Developed Asia

We engaged with **28** companies over the last quarter.



- Environmental **7.6%**
- Social and ethical **10.6%**
- Governance **50.0%**
- Strategy and risk **30.3%**
- Stewardship **1.5%**

Emerging and Frontier Markets

We engaged with **14** companies over the last quarter.

- Environmental **22.9%**
- Social and ethical **28.6%**
- Governance **25.7%**
- Strategy and risk **22.9%**

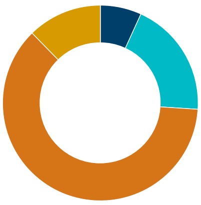
Europe

We engaged with **18** companies over the last quarter.

- Environmental **10.8%**
- Social and ethical **24.3%**
- Governance **51.4%**
- Strategy and risk **13.5%**

North America

We engaged with **34** companies over the last quarter.



- Environmental **6.8%**
- Social and ethical **19.2%**
- Governance **61.6%**
- Strategy and risk **12.3%**

United Kingdom

We engaged with **28** companies over the last quarter.

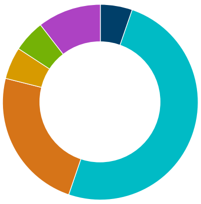
- Environmental **14.1%**
- Social and ethical **22.5%**
- Governance **47.9%**
- Strategy and risk **15.5%**

Engagement by issue

A summary of the 333 issues on which we engaged with companies over the last quarter is shown below.

Environmental

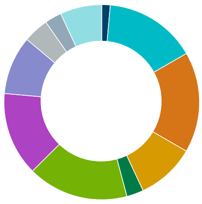
Environmental issues featured in **11.4%** of our engagements over the last quarter.



- Biodiversity **5.3%**
- Climate change/carbon intensity **50.0%**
- Environmental management **23.7%**
- Forestry **5.3%**
- Waste **5.3%**
- Water stress **10.5%**

Social and ethical

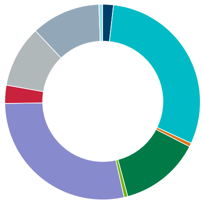
Social issues featured in **21.6%** of our engagements over the last quarter.



- Access to medicine **1.4%**
- Bribery and corruption **15.3%**
- Community relations **16.7%**
- Corporate culture **9.7%**
- Customer relations **2.8%**
- Employee relations **16.7%**
- Health and safety **13.9%**
- Licence to operate **9.7%**
- Operations in troubled regions **4.2%**
- Political risk management **2.8%**
- Supply chain management **6.9%**

Governance

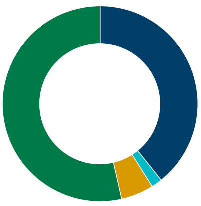
Governance issues featured in **49.8%** of our engagements over the last quarter.



- Accounting or auditing issues **1.8%**
- Board structure **30.1%**
- Committee structure **0.6%**
- Other governance **13.3%**
- Poison pill **0.6%**
- Remuneration **28.3%**
- Separation of chair/CEO **3.0%**
- Shareholder communications **10.2%**
- Succession planning **11.4%**
- Voting rights – not 1 share 1 vote **0.6%**

Strategy and risk

Strategy and risk issues featured in **16.8%** of our engagements over the last quarter.



- Business strategy **39.3%**
- Capital structure **1.8%**
- Returns to shareholders **5.4%**
- Risk management **53.6%**

Stewardship

Stewardship issues featured in **0.3%** of our engagements over the last quarter.

- Reporting/disclosure **100.0%**

Environment

Sustainability disclosures matter – Why integrated reporting is the way forward

Hermes EOS has raised the issue of better disclosure and integrated reporting with companies.

Setting the scene

In addition to the annual financial reports they are obliged to produce, in recent years companies have begun – driven by various accounting standards bodies – to publish separate sustainability reports in order to showcase their green and social credentials. However, this form of reporting in silos makes it difficult to understand how the issues discussed in the sustainability report are relevant to the company's risk management and strategy, leaving environmental, social and governance factors to continue to come second place behind financial facts and figures. As they often seek to address a wide range of stakeholders, sustainability reports also tend to be voluminous, often overwhelming their readers with information they neither want nor need.

Mandatory reporting

In 2008, Denmark became the first country to adopt a law requiring its 1,100 largest listed companies to report on their sustainability efforts. These include corporate social responsibility (CSR) policies, their implementation and the results obtained as well as managements' future expectations for responsibility programmes. If companies do not have a CSR policy, they must explicitly state this.

UK-listed companies have been mandated to report on their greenhouse gas emissions since 1 October 2013. If they feel they cannot report on all material emissions for which they have responsibility, they must state what is omitted and explain the reasons for it in their annual directors' report. To increase transparency and performance on environmental and social matters by companies in the EU, thereby effectively contributing to long-term economic growth and employment, the European Commission meanwhile in April 2014 adopted the Directive on disclosure of non-financial and diversity information by companies with over 500 employees.

Similarly, South Africa's King Report on Corporate Governance – the latest version of which is King III – requires companies to implement sustainability reporting as a core aspect of corporate governance. In a country faced with many sustainability challenges, it does not come as a surprise that many South African fund managers, for example, are interested in the reporting of such factors.

Research by the Copenhagen Business School in 2013 found that the Danish reporting requirement seems to have encouraged more companies to have developed CSR policies, increased the quantity of CSR information in annual reports and provided a platform for reporting of sustainability activities to develop within companies. It concluded that the allocation of two to four pages in the annual report provides CSR with authority and perceived alignment with financial reporting. However, with only one third of reporting companies including key performance indicators and a focus on general and topical CSR issues, the research also pointed out that the law may have led to more quantity than quality reporting. A 2011 study by independent non-profit media and research centre DanWatch found that while the law put CSR on management's agenda, it was still treated like an add-on. In addition, it highlighted that more difficult CSR issues were not well-addressed and that it would take time for companies to move from policy to implementation.

As such, while there are clear arguments in favour of mandatory reporting on certain factors, without consideration of the materiality and relevance of the issues to the company, such reporting can be treated as a compliance exercise based on the lowest common denominator.

It can also lead to information overload. More data does not necessarily mean better data which enables investors to understand the relevance of the issues and how successful a company is at managing them.

Tone from the top

To be able to report efficiently on its sustainability efforts – which often is a starting point for our engagements – a company needs to know how those factors relate to the operations that lie at the heart of its business model and how to communicate this in its financial report. All too often companies disclose seemingly immaterial sustainability metrics and neglect to mention the core factors that influence their day-to-day operations as well as those that are relevant within their supply chain.

In our engagement with companies it has become clear that those that excel at integrated reporting are companies where the drive to sustainability comes from the top and where it is embedded in the company's core values. As such, a good integrated report demonstrates good management and an understanding of sustainability issues as well as their implementation throughout the company's operations.

Conversely, a lack of clarity about what is material seems to be holding companies back from moving to an integrated reporting model. They are reluctant to publicly disclose issues they are uncertain about, particularly if they are not required to do so or feel they may be left open to criticism or reputational damage.

Integrated thinking

Beneath any successful integrated report must lie an integrated thinking strategy. Companies should be able to explain their long-term business model in their annual reports, in other words why they are in the business, how they make money, how they address their customers and suppliers, what resources they use in their operations and the impact they have on the wider society in which they operate. Boards need to establish which key performance indicators ought to feature in their reports and what their performance targets are. Sustainability reports ought to contain information about the progress achieved against those targets. For a mining company, for example, this could include agreements with governments and licences to operate obtained from communities, the work it is doing with the local community, the jobs it has created and how it ensures the health and labour of its workforce.

Among the environmental factors frequently measured by companies are air, land and water emissions directly and in the supply chain as well as the use of water and other natural resources in operations. Social metrics often include reported fatalities and injuries, lost time injury frequency rates and the number of employees who have completed training.

While we do not recommend a single reporting approach, we believe that starting an integrated report with the investor in mind is a good basis. In addition, an annual integrated report should address each of the sustainability factors that are most material to the business without resorting to box-ticking.

However, the merit does not always lie in the name. Some of the best integrated reports are not labelled as such.

Engagement success

We have addressed integrated reporting in our engagement with various companies. In 2014, for example, we pushed for this with a European healthcare provider, as integrated reporting is becoming prevalent in the industry and is increasingly seen as best practice. Our discussion, in particular about the determination of reporting parameters and fostering cooperation at its divisional level, was reflected in its first integrated report. The company reached out to us to confirm it had found our contribution useful, encouraging us to provide further comments. We welcomed the clearer reporting on strategy and the progress made towards describing the business model in a more coherent manner but found the risk report overly general and lacking in depth. We also called for more transparency on lobbying and supply chain auditing and were told that our feedback will be considered when the next report is put together.

We also completed an engagement objective on sustainability reporting with a US technology company. In 2013, we suggested improving the incorporation of issues such as carbon, human rights and data privacy into the company's reporting as important risks and opportunities, which the company acknowledged. Its subsequent report marked a qualitative change by clearly highlighting the areas of focus, setting mid-term targets and explaining not only its strategic intent but how the sustainability programme is an integral part of the strategy. Our meeting with the head of sustainability confirmed our opinion that the company is working effectively to integrate sustainability objectives into its strategy.

Initiatives

As well as engaging with companies directly, we are part of several initiatives to promote integrated reporting, such as the Sustainable Stock Exchanges Initiative (SSE), the Group of Friends of Paragraph 47, the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) and the Sustainability Accounting Standards Board (SASB).

All of these initiatives help listed companies disclose material, useful sustainability information to investors that will assist them in their decision-making. Our work with these initiatives complements our company-specific efforts on engagement in relation to integrated reporting.

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Social

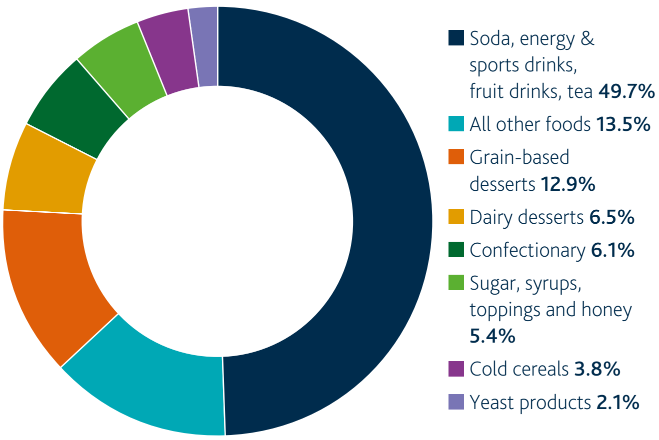
Malnutrition and obesity – Addressing the nutritional paradox

Hermes EOS has been engaging with food companies as they deal with the challenges and opportunities of modern life.

Setting the scene

According to the UN Food and Agriculture Organisation, nearly 870 million people in the world suffer from chronic malnutrition, whether it is protein-energy or micronutrient deficiency, with the overwhelming majority living in developing countries. At the same time, obesity has been rising globally, more than doubling since 1980. In 2008, more than 1.4 billion adults aged 20 and older were overweight, says the World Health Organisation. Of these, over 200 million men and nearly 300 million women were obese. Meanwhile, more than 40 million children under the age of five were classed as overweight or obese in 2012. Earlier this year, researchers at the University of Washington's Institute for Health Metrics and Evaluation in Seattle put the number of overweight or obese people at 30% or 2.1 billion people worldwide. In many developing countries, companies are dealing with the double burden of obesity on the one hand and providing access to nutrition on the other. To address this, companies need to have two strategies – one to reduce the calorie content of products linked to obesity and another to enrich their products with the nutritional elements missing in the populations of their target markets. In our engagement with companies, we have addressed this double burden.

Sources of added sugars in the average US diet



Source: SG Cross Asset Research/SRI, USDA 2010

The food and beverage sector is generally viewed as a defensive one, in particular during economic downturns. However, being reliant on consumer demand, the sector needs to constantly adapt to changing preferences to maintain returns. Therefore, with soaring global obesity, an ageing population, increases in non-communicable diseases and exploding global healthcare costs, nutritional challenges have risen up the agenda of governments and subsequently at many of the sector's companies.

Increasing regulation

Regulation is the main driver behind the move to better nutritional value. As governments have begun to ban certain foods in school environments and restrict advertising of foods that are high in sugar and fat, and national health policies have come up with guidelines, the food industry has become increasingly regulated.

The government in Mexico, for example, where, according to the Access to Nutrition Index (ATNI) 70% of the population is either overweight or obese and 9.1 million people now have type two diabetes, introduced a special one-peso-per-litre tax on soft drinks in an attempt to reduce the consumption of soft drinks. It also imposed an 8% tax on high calorie foods. It toughened its stance on obesity by restricting food marketing on TV and in cinemas to children.

The measures taken by the Mexican government have been much discussed elsewhere, meaning that other countries may follow suit. Hungary introduced taxes on salt and sugar in 2011, while France brought in a tax on sugar-sweetened beverages drinks a year later. Brazil was due to implement a tax increase on beer, soft drinks, some juices and energy and sports drinks of around 1% per item this autumn. However, a controversial so-called 'fat tax' introduced by Denmark on food items containing more than 2.3% saturated fat has been revoked. Its proposed sugar tax plans were also scrapped as the government feared a negative impact on its economy.

At the other end of the scale meanwhile, many governments – mainly in developing countries – have fortified staple foods with nutrients they perceive to be lacking in their populations. In Japan, for example, rice is fortified with calcium, while in Brazil and in several African countries minerals such as iron and vitamins are added to food to increase access to basic nutrients.

For investors, the risk lies in companies losing market share as a result of a governmental drive to curb sugar and salt unless they adapt their products to meet stricter requirements and new consumer trends and market them ethically. The extra tax in Mexico, for example, has dented the sales and consequently the share prices of one of the biggest bottlers of soft drinks, Fomento Economico Mexicano.

Company engagements

Through marketing and labelling practices, reformulating existing products – by reducing the fat, salt or sugar content or increasing the fibre and protein content – and providing healthier options to consumers, food manufacturers can help shape consumer health. This does not mean losing out financially, as, even in tough economic times, companies have been able to find opportunities in producing and marketing organic and health products.

We have addressed access to nutrition in our dialogue with several companies. It is one of our engagement objectives with a large Latin American food manufacturer, which produces and sells all types of meat, dairy and processed foods in its home market and internationally. Similarly to other emerging economies, due to its growing and aspirational middle class which has been shifting away from traditional home cooking, the company's domestic market has suffered a dramatic increase in obesity and type two diabetes. We met the company to raise our concerns in August 2013. We were pleased to be able to report to Hermes EOS' clients that access to nutrition is a core part of its strategy and it has made extensive efforts to reduce the salt and saturated fat content of its products as well as adding iron to the products destined for a part of its home market where the population is likely to be iron-deficient. We commended the company on its efforts and disclosure but encouraged it to publish more forward-looking targets with regard to its salt and fat reduction programmes and offered to provide input into its next sustainability report.

However, engagement on nutrition does not solely focus on the products and their ingredients. Providing consumer education, advice on exercise, responsible marketing and better labelling of ingredients are all key aspects of improving the reputation of food companies and therefore of our engagement programmes.

For example, we recently met a Netherlands-based retailer to discuss the integration of its key priority of 'healthy living' into its product strategy. The company is taking a multi-channel approach, which includes setting targets for sales of healthy products, the clear labelling of healthy products and consumer education focused on children as well as adults.

Access to Nutrition Index

We provided extensive input into the Access to Nutrition Index (ATNI) by the Global Alliance for Improved Nutrition to ensure the index is a useful tool for investors as they engage with the food and beverage companies they invest in. Aiming to encourage best practice within the sector, the index provides a ranking of the commitment of 25 food and beverage manufacturers to access to nutrition and their actions in respect of the issues. The ATNI sets a benchmark for companies and investors to assess the risks and opportunities related to malnutrition and obesity issues, particularly in emerging markets. Its methodology looks at governance, products, accessibility, marketing, lifestyles, labelling, engagement, obesity and undernutrition as factors. The Access to Nutrition Foundation has also been working on three spotlight indices that focus on India, Mexico and South Africa, as these are countries that are heavily impacted by the malnutrition double burden.

The first ATNI, released in 2013, revealed that the world's largest food and beverage manufacturers must do more to increase access to nutritious products and positively exercise their influence on consumer choice and behaviour, as even the top performer only scored 6.3 on a scale of one to 10, with only the top three performers scoring over five. The highest-scoring companies have clear commitments, detailed policies and measurable targets related to nutrition in place, have charged senior executives with achieving these targets and provided incentives for them to do so. However, companies' practices often do not measure up to their commitments and they miss key opportunities to implement their commitments in core business areas, such as in the formulation of healthy products as well as in the transparent marketing and distribution of products, according to the ATNI. In addition, it found that companies are not meaningfully engaged in addressing malnutrition and could better leverage their expertise and scale to help combat this global health challenge.

We will continue to work with the ATNI as nutrition increasingly becomes an issue of concern in our engagement with companies.

We will also expand our engagement on nutrition, which currently focuses on those companies selling products in developing countries, and continue our discussions with retailers.

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Governance

Bright lights – Building board level relationships with Asian companies

The development of corporate governance practices across Asia has reached a critical phase. Hermes EOS has invested additional time and resource across key markets in the region to take its engagement to the next level.

Setting the scene

Stewardship and responsible ownership concepts, which have their origins in Europe and the US, are beginning to gain a foothold in some countries in Asia. But investor engagement remains a new concept and is sometimes regarded as incompatible with local cultures. In addition, few investors have sought intensive dialogue about sustainability issues with companies in the region to date. Even fewer investors have succeeded in escalating such issues and holding discussions with members of the board. The limited uptake of responsible ownership in the region means that approaches to engagement which have worked in Europe or the US, such as dialogue at the director level, are often untried and untested. While concerning on the one hand, on the other it may mean that the impact we have can be even greater, as we are often the first – or only – investor to engage at senior executive and board level with companies on sustainability issues.

Momentum

In several Asian countries, the drive to better corporate governance stems from the very top – the government.

In Japan, it is part of Abenomics, the economic policies promoted by Prime Minister Shinzō Abe. Fundamentally the structural reforms are based on the belief that good corporate governance can add value to companies and in turn help spur economic growth. This is why the country's stewardship code, formally known as the Principles for Responsible Institutional Investors, in the development of which we were actively involved, was launched and a council of experts has been set up tasked with the creation of a Japanese corporate governance code.

In Malaysia, the move, which started with the Corporate Governance Blueprint roadmap and the introduction of a robust corporate governance code, is also government-driven. It was recently accelerated with the launch of the country's Code for Institutional Investors, to which we also contributed. Foreign investors had not held the corporate governance of Malaysian companies in high esteem and with the stewardship code and other measures such as the introduction of laws to protect whistleblowers, the government sought to improve their reputation.

In Taiwan, where the perception of corporate governance has also been comparatively poor and local institutional investors have seemed disengaged from efforts to improve the governance of domestic companies, regulators are considering stewardship guidelines. Interactions with senior executives from the Taiwan Stock Exchange in the second quarter of 2014 provided us with an update on the corporate governance department's roadmap and allowed us to share our views on priorities. We are delighted that our call for the development of a stewardship code in Taiwan seems to have been heard as the Financial Services Commission (FSC) plans to introduce some basic requirements for local funds, similar to a stewardship code. In addition, significant amendments to the corporate governance code and related guidance are well underway.

On the mainland meanwhile, based on several interactions with senior executives from the China Securities Regulatory Commission (CSRC) in the third quarter of 2014, we understand that the revision of China's corporate governance code and some stewardship guidance for investors are on the CSRC's agenda.

In Singapore, earlier discussions about corporate governance and stewardship with a number of stakeholders bore fruit, resulting in the set-up of a working group aiming to draft a stewardship code. We are pleased that the idea of developing such code – to which Hermes EOS has actively contributed – is now taking off.

Hong Kong has shown little interest in stewardship to date although we have addressed the issue in a discussion with a key regulator. And an apparent lack of political pressure has meant that Korea has been the slowest mover in terms of corporate governance and stewardship.

Relationship building

Our dialogue with policy-makers is complementary to our engagement work which involves direct contact with companies.

However, given the shareholding structures of companies in the region, which are often controlled by families or the state, and the different cultural context, successful engagement can be challenging. Building relationships and trust is so fundamental that our engagement approach in Asia can be referred to as 'relational engagement.'

Nevertheless, some techniques and tools commonly used in engagement in Europe and the US – such as board level dialogue – can also be highly valuable in the Asian context.

In our experience, concerns that institutional asset owners and managers raise with investor relations or sustainability specialists are not always effectively reported to the board of directors. For that reason, access to a company's senior executives – and over time non-executives – is an essential element of effective engagement. To be granted such access, the development of good working relationships is critical. This requires regular contact and a presence on the ground for corporate events and meetings with senior executives. Filing shareholder resolutions, as commonly done in the US in order to negotiate a settlement, is unlikely to lead to results.

Hermes EOS director Hans-Christoph Hirt spent six months in Asia earlier in the year to test the effectiveness of various engagement techniques and intensify our interactions with a number of companies. This included dialogue with non-executive directors, which continues to be a rare occurrence in markets such as Hong Kong and Taiwan, and interventions at AGMs. A series of face-to-face meetings led to companies better understanding our aims and resulted in significant results in a relatively short space of time.

One of these was at our widely publicised engagement with major electronic component manufacturer and service provider Hon Hai. We had been actively engaging with the company on its labour issues for a number of years, which included a site visit to its Shenzhen operations in 2012. In April 2014, we again met senior executives in Taipei and Hong Kong to review the situation and encourage further action. The company has made good progress on the labour practices that had triggered our intensive engagement, with working hours remaining the only significant outstanding issue, according to an independent report by the Fair Labor Association.

Escalation of issues

Despite this progress, we continued to have concerns about a number of other issues at Hon Hai. These included a lack of transparency about the company's long-term objectives, its strategy and business model, the composition and effectiveness of its board of directors and the manufacturer's overall approach to the management of human capital and the board's role in this. The powerful chair and founder was also unwilling to enter into private dialogue with us. This led us to escalate our engagement. On behalf of eight other large institutional investors from Europe and the US with a combined holding of almost 2.5% of the company' shares, we attended and spoke at the company's AGM in June 2014. Having exhausted other channels, we felt it was the right way forward, in particular as the company previously suggested to us that the best way to communicate with the chair was at the AGM.

Selective attendance of shareholder meetings can be a crucial tool in engagement with companies in Asia to escalate issues on which private dialogue has not led to results. In addition to relationship building and benchmarking with local players, it is a technique we believe could be used more often to advance our engagements.

Through our intervention and questions at Hon Hai's AGM, the board of directors heard our concerns directly and provided us with some reassurance about its composition, leadership and oversight role and, to a lesser degree, the chair's succession. The company has since been open to our requests for greater transparency and better communication of its long-term objectives, its strategy and business model. We believe our collaborative intervention has laid the foundation for progress on all of our engagement objectives.

The step-by-step escalation of our engagement with Hon Hai was to a large extent facilitated by our work on the ground in China, Hong Kong and Taiwan, particularly the relationship we have developed with key executives at the company, which meant we kept the company abreast of all of our actions to avoid damaging the trust we had built up over a number of years.

Our local presence and persistence also enabled Hermes EOS to be one of the first investors to start dialogue with the independent non-executive directors of a Hong Kong-listed but state-controlled company. As a result of our communication about our planned AGM intervention, a meeting between Hans-Christoph Hirt and the company's audit committee chair took place the day after the AGM where he obtained commitments on board evaluation and compliance management. This was highly unusual in the context of the market.

We were also the first shareholder representative to visit a food producer in a remote part of Taiwan in the second quarter of 2014. The site visit allowed us to verify the steps that have been taken since a food contamination scandal a few years earlier and assess the new procedures in place to avoid a recurrence. Another sign of our successful relationship building is that we have been invited back to the company's headquarters to review progress in 2015.

As the introduction of new tools has proven successful in furthering our engagement on behalf of Hermes EOS clients with Hon Hai, we will continue to use selectively engagement techniques that have not historically featured in key Asian markets.

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Blurred lines – When politics confronts companies

Geo-political risks impact on the governance of companies operating in the countries concerned.

Setting the scene

We live in times of geopolitical turbulence where countries that were relatively stable for decades find themselves in turmoil due to regime changes, wars or state intervention. Companies face political risk when the government of a country in which they operate makes decisions that could adversely affect the reputation, operations, strategy and value of their business, thus crossing the line between the private, listed sector and the state. To minimise the possibility of a negative impact on the value of the business, companies need to prepare for such risks.

Our approach

While some investors may treat geo-political events as background noise, Hermes EOS believes that political risk – or any risk for that matter – may negatively affect the value of a company at some stage.

Political risk does not just relate to civil wars and new nation-building but encompasses issues such as expropriation of assets, insurrection, threats to the safety of operations and staff on the ground, censorship, state ownership, lack of respect for human rights, a lack of transparency, bribery and corruption as well as a company's relationship with the local government.

When it comes to raising awareness of political risk with companies, we apply a three-pronged approach: While seeking dialogue with a company, particularly with its independent directors, about the matter, we also speak to organisations such as the OECD and other best practice organisations and work with local initiatives.

Questions companies need to ask

We have challenged companies on their preparedness for and their handling of political risk. As part of their due diligence, companies need to ask themselves the following questions:

1) Has your board discussed and well-understood the potential economic risks to which the company may be exposed as part of its operations?

2) What, if any, are the financing/funding implications of political risk/change? What are the implications for services, customers and prices?

3) What are the operational and reputational cost implications of relocating part or all of your company's operations to a specific region?

Most companies only consider withdrawing from operations in a specific country if they can no longer guarantee the safety of their employees on the ground.

However, before even entering a high-risk country, companies need to make an assessment of the risk. During their operations, they ought to monitor the risk on an ongoing basis and report on it in a transparent fashion.

To help with the due diligence process, Hermes EOS advocates adherence to the Guiding Principles on Business and Human Rights, also known as the Ruggie Principles due to their authorship by professor John Ruggie. The principles are based on three pillars: the state duty to protect against human rights abuses by third parties, the corporate responsibility to respect human rights and the need for access to remedy for victims of business-related abuse.

In the absence of regulatory infrastructure, extra oversight and safeguards are needed to compensate for the lack of robust state oversight structures. Companies must keep this in mind and apply stringent international standards to their local operations. It is equally crucial to assess the potential impacts – positive and negative – of any projects affecting the local population. Many companies, for example, provide benefits to the populations affected by their operations, for example by building hospitals and schools.

State interference

One of the biggest risks to companies is expropriation of assets. Spanish oil and gas firm Repsol, for example, which held a majority stake in Argentinean extractives company YPF, felt the impact of the renationalisation of YPF when the state bought a controlling share in the company. Investment in exploration and its reserves in crude and natural gas fell, which Repsol is said to have blamed on the government controls that were placed on exports and prospecting leases as well as its imposed price controls on domestic oil and gas. Similarly, the French state has taken significant minority stakes in car manufacturer Peugeot and multi-national Alstom.

Other kinds of ties between a company and the state are a much more frequent occurrence. Governments, for example, have a financial interest in mining companies due to royalty fees. However, any interference by the state in listed companies can have a significant impact on their value. At one Latin American company, for example, it led to significant stock underperformance and a lack of respect for minority shareholder rights.

This triggered our intensive engagement with the company. To gain more leverage, we worked together with several other institutional investors to press for changes to the board structure, which was heavily influenced by the state, the introduction of a credible nomination process and the appointment of independent minority shareholder representatives. We also sought the help of the country's regulator. As a result of our collaborative engagement, the company became the first one in the country to publicly disclose the names of minority shareholder nominees for election to its board. In addition, at its 2014 AGM, the slate put forward by international minority shareholders won by an overwhelming margin, marking a watershed in the company's governance with the election of two independent directors.

As the company has since taken a step backwards with the removal of the only independent director from its audit committee and replacing him with a director linked to the controlling shareholder, we are again collaborating with other shareholders for the company to address this latest governance concern.

But political risk is not confined to emerging markets. We are also engaging with a UK electricity and gas supplier, which, after politicians waded into the debate, has become subject of a price-fixing investigation by the country's Competition and Markets Authority (CMA) alongside its peers. The company has also threatened an investment strike in response to the proposal by one political party for a freeze one energy prices. In addition, as the company agreed another three-year supply deal with a Russian gas firm in 2014, we will press it on the way it balances the pros and cons of risky agreements with state-run companies in the wake of extended US and EU sanctions on Russia over its conflict with Ukraine.

Sanctions

While the immediate consequences of the sanctions on the Russian oil and gas industry are limited and the financing restrictions are not expected to have a significant impact either, export bans on technology or equipment to Russia have injected substantial uncertainty. Exxon-Mobil, for example, has been one of the corporate casualties of the sanctions, having to put its drilling campaign in the Russian Artic on hold.

Companies with interests in or partnerships with large Russian firms will need to strategise to deal with the fact that those companies no longer have access to US capital markets.

In our engagements with several oil majors that have an ongoing partnership with Russian oil and gas firms, we have urged companies to demonstrate that they manage the risks and rewards of their activities in Russia in the interests of long-term shareholders. We expect them to eventually present a clear strategy for managing risks in relation to Russia and to effectively execute the strategy to maximise the benefits to long-term shareholders.

Social media

Political risk affects every sector. Banks, for example, risk their reputation when they continue to lend to blacklisted individuals and companies, while telecommunication companies need to consider how they manage their relationships with the US if they provide services in Iran. Mining companies meanwhile can be affected by protests that cause disruptions, as witnessed during the strikes in South Africa's platinum belt.

Social media has made it easier for civil unrest to take place as less advance warning is given to companies or governments to prepare for any disruptions, as seen in the recent protests in Hong Kong or previously in Turkey. It also makes corporate reputation more vulnerable to the negative impacts of events.

Troubled regions

Sometimes, involvement in certain industries and territories may cause a disproportional amount of risk. Extractive companies – miners and oil and gas businesses – in particular are exposed to political risk, which can jeopardise their access to 'safe' oil and other resources. The risk intensifies the more unstable the countries they operate in are.

We have engaged with various companies about their operations in troubled regions, such as Iran, Libya, Myanmar, the Occupied Territories, Sudan, Syria and Western Sahara and challenged how they can ensure upholding their code of conduct policies in these countries.

A terrorist attack in Algeria in 2013 for example brought an abrupt halt to the joint venture operations by a European oil company. Having engaged with the firm on security risk management and pressed for transparency on its efforts to address this area of the business, we learnt that the incident had been a wake-up call for the company and gained assurance that our recommendations will be communicated to the board.

In South Africa, meanwhile, we questioned one telecommunications service provider on how it ensures the safety of its employees in countries of civil war, such as Syria. We encourage companies operating in such regions to develop a credible strategy to manage the risk of complicity in human rights abuses and demonstrate that effective measures are in place to mitigate the risk in those areas.

As more risks continue to emerge as part of the political spectrum, for example, most recently lobbying on climate changes actions and CO2 prices by industry bodies and representation groups, our engagements with companies on political risk are on the up. We urge companies to control such risk wherever possible to minimise the chances of asset losses and destruction of shareholder value.

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Strategy

Engagement on strategy

Many of the most successful engagements undertaken by Hermes EOS combine discussions of business strategy and structural governance issues.

Overview

Hermes EOS adopts a holistic approach to engagement, combining discussions on business strategy and risk management, including social, environmental and ethical risks, with structural governance issues. Our engagements seek to challenge and support corporate management in their approach to the long-term future of the businesses they run, often when there is minimal outside pressure for change. We are generally most successful when we engage from a business perspective and present environmental, social and governance issues as risks to the company's strategic positioning. Companies may benefit from new perspectives on the board and from promoting fresh thinking at the head of the company. An independent chair or change of CEO is frequently the key to improving performance and creating long-term value for shareholders.

Examples of recent engagements

Higher dividends

A Japanese company confirmed its commitment to a dividend payout target of 50% by 2015. It was equally encouraging to learn that the company also committed to a 50% minimum payout ratio from 2016. In a discussion about capital policy, its management reiterated to Karin Ri that achieving sustainable growth is its top priority for business and investment, which is largely driven by its overseas business. While welcoming its significant progress in improving shareholder returns and shareholder communication over the past two years, Karin was left unconvinced by the use of earnings per share growth indicators for carrying out future share buybacks. She strongly urged the board to consider share buybacks from the perspective of return enhancement. She also questioned management's thoughts on capital and resource allocation to other businesses – such as medical, drinks and food – and expressed concerns about a possible conglomerate discount in valuation. On corporate governance, Karin sought a detailed explanation of how the current board is structured to support its international subsidiary. Given its overseas expansion and need for future growth drivers, she discussed how to further enhance board expertise to provide strategic inputs into conducting overseas business.

Sustainable palm oil

An emerging markets company Hermes EOS has been intensively engaging with signed the Sustainable Palm Oil Manifesto. The manifesto commits the company and other palm oil growers and traders to refraining from deforestation of high carbon stock forest and carrying out new developments on peat lands. In addition, it requires them to ensure a positive impact on local communities and create traceable and transparent supply chains. This is a major step forward for the company which until then had failed to demonstrate a strong interest in promoting sustainable palm oil. And following Hermes EOS' engagement on this topic with a number of these companies over the past few years, the move was strongly welcomed. However, as disclosure on the issue remains limited, Sachi Suzuki will continue the dialogue with the company to understand the progress in obtaining certification from the Roundtable for Sustainable Palm Oil and the implementation of its policy commitment throughout its supply chain. A joint letter to the company's chair, co-signed by other investor members of the Principles for Responsible Investment's palm oil working group, was sent out.

Remuneration law changes

During a discussion with a European company, Hans-Christoph Hirt gained significant reassurance regarding the concerns about some of the members of the board of directors and the forthcoming changes to the articles of association as a result of the new domestic remuneration law. The company seems to have listened to the concerns of investors close to its 2014 AGM. Building on a number of governance changes introduced by the new chair, it is working on winning back their trust ahead of the 2015 shareholder meeting. The board is working on the amendments of the articles, which are required by the new legislation and due to be presented to shareholders for approval. Positively, in addition to the legally required binding vote on quantum the company is likely to introduce a vote on its remuneration policy in future. This is something Hermes EOS had strongly pushed for. Hans also assessed the composition of the board of directors, specifically the ongoing role of directors that were most closely implicated in agreeing and then failing to disclose a highly questionable non-compete arrangement with the former chair. To further assess the effectiveness of the changes the new chair has introduced since taking over, Hans also requested a meeting with him ahead of the AGM in February 2015.

The significant improvements the company has made to its existing structures were also outlined. For example, the company's new chair has established a board level committee for governance and corporate responsibility. It was also reassuring to hear that the new global corporate responsibility head reports directly to the CEO. Further to these structural changes, the company carried out a detailed corporate responsibility materiality analysis. It also confirmed that it is seriously considering the creation of an external sustainability advisory committee.

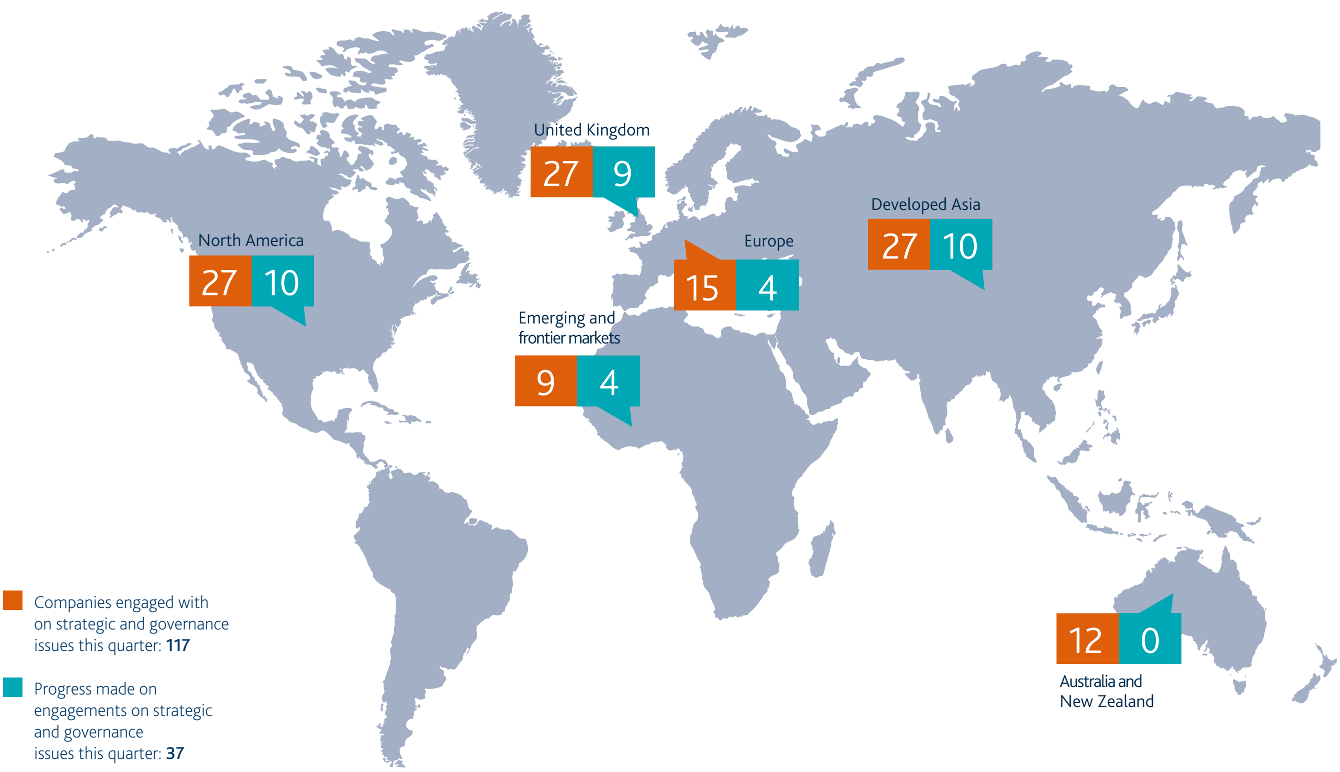
Operational improvements

The continued commitment displayed by a US extractives company in the handling of operational risk and the improvements in its reporting on its efforts are impressive. Darren Brady spoke with the company to examine the progress it has made in deepening the integration of safety and risk protocols uniformly across its global operations. This followed on from his meeting with the CEO in 2013 which he acknowledged the challenges in tying the company's strong regional and project-based risk management efforts together on a comprehensive global basis. Darren was encouraged to learn that many of the multiple areas of enhancement described by the CEO at the time, such as significant investment in enhancing internal monitoring, oversight and auditing systems, as well as an increase in third party assurance assessments, have largely been implemented. The company's a worldwide alerting system, which instantly notifies operators around the world of an incident to initiate a mandatory site-by-site review at the relevant projects globally, is also highly welcome. Earlier, Darren gained some clarity on the company's progress in implementing enhanced systems and procedures to strengthen the integration of its human rights policy across its global operations. He was satisfied that the company has made sufficient improvements in this area in line with what Hermes EOS had sought.

Risk reduction

A meeting with the chief legal officer (CLO) at this UK company instilled confidence that it is doing its utmost to ensure that it implements a best practice financial crime compliance structure. As part of the deferred prosecution agreement with the Department of Justice (DOJ) in 2012, a monitor is working within the company to oversee its efforts in this area and report any breaches back to the DOJ. The company assured Jennifer Walmsley that the monitor is not uncovering issues that it has not already detected, however, in some cases, he is pushing for faster progress. Positively, his reports have so far been complimentary of the work underway. Jennifer found it helpful to hear of the company's determination to ensure that beyond the DOJ, the relationship with regulators worldwide is open and cooperative. The executives and the board firmly believe that through a perceived reduced risk of financial crime and through better, more trusted relationships with customers, the outcome of the current process will give the company a competitive edge. The CLO admitted that there is more to do in terms of improving monitoring technology to reduce the number of "false positives", as well as overcoming the challenges of the federated structure.

Engagements on strategy and governance issues



Public policy and best practice

Protecting and enhancing value by promoting better regulations

Hermes EOS contributes to the development of policy and best practice on corporate governance, corporate responsibility and shareholder rights to protect and enhance the value of its clients' shareholdings over the longer term.

Overview

We actively participate in debates on public policy matters to protect and enhance value for our clients by improving shareholder rights and boosting protection for minority shareholders.

This work extends across company law, which in many markets sets a basic foundation for shareholder rights, securities laws, which frame the operation of the markets and ensure that value creation is reflected in value for shareholders, and developing codes of best practice for governance, management of key risks and disclosure. In addition to this work on a country-specific basis, we address regulations with a global remit, which are currently in the areas of accounting and auditing standards. Investment institutions are typically absent from public policy debates even though they can have a profound impact on shareholder value. Hermes EOS seeks to fill this gap. By playing a full role in shaping these standards we can ensure that they work in the interests of shareholders rather than being moulded to the narrow interests of other market participants – particularly companies, lawyers and accounting firms, which tend to be more active than investors in these debates – whose interests may be markedly different.

Highlights

Establishment of Corporate Governance Code council of experts

On behalf of Hermes EOS, Sachi Suzuki welcomed the formal start of discussions on a Corporate Governance Code in Japan, which was marked by the first meeting of the council of experts, jointly administered by the Financial Services Agency and Tokyo Stock Exchange. The council consists of corporate governance experts and company directors and aims to launch the code before the next AGM season. This development is positive as Hermes EOS has been encouraging regulators to introduce such a code on a comply-or-explain basis to promote good governance practices.

At a separate meeting, Karin Ri discussed the importance of introducing a code that embeds local practices rather than one that simply is a carbon copy of codes from other markets, adding that it ought to include specific examples of best practice in addition to high-level principles. She stressed that the implementation and continuous development of the code is a journey and requested the code undergo regular reviews.

Launch of PRI engagement guidance on water risks in supply chains

After two years of collaboration with fellow signatories, the investor guidance document for collaborative engagement with agricultural companies by the Principles for Responsible Investment (PRI) was launched. Victoria Barron was part of the steering committee that consulted with external experts and defined a collaborative engagement to focus on the water risks in agricultural supply chains. Building on the findings from the partners, the World Wildlife Fund and PwC Germany, the steering committee crafted a collaborative engagement strategy targeting 54 companies to engage with. The guidance document captures the results of the steering committee's work and is designed to form the basis of a PRI coordinated engagement, outlining initial engagement questions. The work has been endorsed – as the only investor activity – by the White House Climate Data Initiative.

Stewardship code working group

Hans-Christoph Hirt contributed to the first meeting of the working group of key stakeholders that aims to develop a stewardship code in Singapore. During his on-the-ground work in Singapore in the first half of 2014, he actively called for a local stewardship code initiative to be set up. It has since been decided that the Stewardship & Corporate Governance Centre (SCGC) will take the lead on this initiative, with the Monetary Authority of Singapore (MAS) providing the secretariat support. Following the first meeting of the stewardship code working group, Hans was invited to provide some written input that will be used to determine the initiative's approach and the scope of the project. He drew on Hermes EOS' experience and shared some of the ideas and concepts contained in the Statement of Principles for Institutional Investor Responsibilities by the International Corporate Governance Network. He also highlighted the important role asset owners play in challenging how fund managers apply stewardship code principles and referenced some of the work of the UK's National Association of Pension Funds that may provide a useful starting point in this regard.

Other work in this quarter included

Promoting best practice

- In an advisory council meeting by the Council of Institutional Investors (CII), Tim Goodman agreed to co-sign the CII's letter to the US Securities and Exchange Commission advocating a **universal proxy voting system in the US** to permit remotely voting shareholders to elect candidates from either the board's or the dissident shareholder's slate.
- Freddie Woolfe presented to a group of UK company secretaries on key governance topics. He touched on pay and also impressed the importance of engagement on audit under the new auditor and audit committee reporting regime. In addition, he expressed support for the proposed **amendments to the UK Corporate Governance Code** on going concern disclosures, as they will allow investors to assess the ability and competence of management.
- On your behalf, Hermes EOS co-signed a letter addressed to the boards of the Russell 1000 index in the US, promoting the **Shareholder Director Exchange protocol** to encourage better engagement between non-executive directors and institutional investors on governance and other matters that affect long-term value.
- Encouragingly, senior executives at the **China Securities Regulatory Commission (CSRC)** plan to bring the topics of corporate governance and stewardship code together and move forward at least with some guidance for institutional investors. In last quarter's meeting it had seemed that while both topics were still on the agenda, they appeared much less of a priority than before.
- Sachi Suzuki met senior officials of South Korea's Financial Supervisory Services (FSS) to discuss **stewardship codes**. Given the apparent lack of knowledge of such codes among FSS officials, she explained the purposes and designs of the codes. Sachi encouraged the FSS to consider developing a similar code, not least in light of the introduction of such codes in Japan and Malaysia. The FSS appeared interested in taking this forward and requested other countries' codes as examples.
- Karin Ri met a senior executive and board director of Japan's Corporate Governance Network (JCGN) to discuss how to improve the skills and competencies of **outside directors in Japan**. Prior to the launch of a corporate governance code in Japan ahead of the 2015 AGM season, she discussed the key areas to focus on for the promotion of best practices and encouraged direct meetings and dialogue between shareholders and appointed outside directors.
- Rochelle Giugni had a positive meeting with the head of listed company supervision at Borsa Italiana, which is part of the Italian Corporate Governance Committee, about the **evolution of corporate governance in Italy** since the committee's inception. One of the key challenges to the application of the Italian Corporate Governance Code are the two distinct types of company ownership structures in Italy, which a single code cannot adequately address. Therefore, the committee will consider splitting the code in two separate sections in the future. On restricted access to non-executive directors, an issue Hermes EOS has faced in Italy, the head of listed company supervision agreed that provided the requests are reasonable, follow proper procedures and justify why contact with a non-executive director should be provided, there should be no reason why this cannot be granted.
- Sachi Suzuki was invited to a meeting with a special adviser to the **cabinet of Japan** to discuss the government's growth strategy. With its focus on tackling the prolonged deflation, the growth strategy plans to support the labour force by introducing a new style of employment. This intends to provide more stability than casual employment, which has increased rapidly in the past few years as a result of the economic downturn and weakened purchasing power of a large section of the society. In a private conversation with the adviser, she gained assurance that the government strongly believes it needs to increase independent representation on Japanese company boards.
- Karin Ri met the director-general of the Financial Services Agency's planning and coordination bureau to discuss the progress in implementing the **Stewardship Code in Japan**. Hermes EOS had been among the first institutions to sign up to the code earlier this year.
- In a discussion on the merits of **divestment from fossil fuel companies** organised by the Institutional Investors Group on Climate Change, Leon Kamhi outlined the contribution that investor engagement can make in addressing the issue of stranded assets and climate change. He described how climate change externalities matter to universal asset owners and how Hermes EOS engages on their behalf for an introduction of a global carbon price, an end to subsidies for fossil fuel companies and the requirement for greater and more consistent disclosure of relevant carbon emissions expended directly by a company as well within its supply chain.
- As a keynote speaker at an **integrated reporting** seminar in Tokyo, Karin Ri argued that quality reporting and communication makes for better two-way discussions. It is essential for companies to demonstrate a clear and coherent strategy, which is why their sustainability approach should be an integral part of their business strategy.
- Tim Goodman demonstrated insights from Hermes EOS' engagement with companies on fracking at a seminar on the development of the technique in the UK. Some of the participants were unwilling to acknowledge the improvement in how **fracking** is conducted by some companies in the US, in particular their management of the social and environmental effects. Tim described a conversation with a director of a leading oil and gas company that does not believe that fracking will develop meaningfully in the UK, mainly because of the disruption caused to the local population in a much more densely populated country.
- A representative of the Canadian Association of Petroleum Producers provided an overview of the **oil sands** industry. Tim Goodman was encouraged that the organisation wants to see a meaningful carbon price that is greater than the current price implemented in the Canadian province of Alberta. He will follow up the UN lead climate change negotiator's call made at the Principles for Responsible Investors conference to request that it publicly and unequivocally supports carbon pricing at a material level. Tim will further suggest that the industry implements a unilateral price in the region.

Public policy

- On behalf of Hermes EOS, Karin Ri welcomed the publication of the **Ito review**, which similarly to the UK's Kay review, addresses the competitiveness and incentives for sustainable growth with a focus on building favourable relationships and encouraging effective dialogue between companies and investors. Encouragingly, the Ministry of Economy, Trade & Industry's working group plans to establish an investor forum task force as a platform for domestic institutional investors to regularly exchange views to promote quality dialogue with a long-term focus.

Working with other shareholders

- Leon Kamhi provided an engagement practitioner perspective in a steering group meeting chaired by the Financial Reporting Council on adherence to the UK Stewardship Code. The meeting's objective was to develop the voluntary questionnaire to go to investor signatories to demonstrate how they are implementing the code. The questionnaire was finalised in September.

Hermes EOS votes at general meetings wherever practicable. We take a graduated approach and base our decisions on annual report disclosures, discussions with the company and independent analysis. At larger companies or those where clients have a significant stake, we seek to have dialogue ahead of voting against or abstaining on any resolution.

In most cases of a vote against at a company in which our clients have a significant holding, we follow up with a letter explaining our concerns. We maintain a database of voting and contact with companies and if we believe further intervention is merited, we include the company in our main engagement programme.

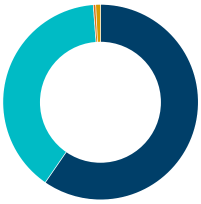
Hermes EOS votes at company meetings all over the world, wherever its clients own shares.

Overview

Over the last quarter we voted at 1,109 meetings (10,000 resolutions). At 435 of those meetings we opposed one or more resolutions. We voted with management by exception at nine meetings and we abstained at four meetings. We supported management on all resolutions at the remaining 661 meetings.

Global

We voted at **1,109** meetings (**10,000** resolutions) over the last quarter.



- Total meetings voted in favour **59.6%**
- Meetings where voted against (or voted against AND abstained) **39.2%**
- Meetings where abstained **0.4%**
- Meetings where voted with management by exception **0.8%**

Australia and New Zealand

We voted at **33** meetings (**134** resolutions) over the last quarter.

- Total meetings voted in favour **69.7%**
- Meetings where voted against (or voted against AND abstained) **30.3%**

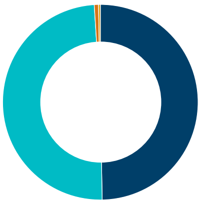
Developed Asia

We voted at **114** meetings (**736** resolutions) over the last quarter.

- Total meetings voted in favour **41.2%**
- Meetings where voted against (or voted against AND abstained) **57.0%**
- Meetings where voted with management by exception **1.8%**

Emerging and Frontier Markets

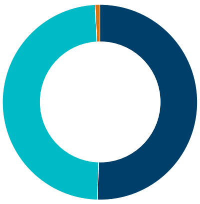
We voted at **304** meetings (**2,669** resolutions) over the last quarter.



- Total meetings voted in favour **49.7%**
- Meetings where voted against (or voted against AND abstained) **49.3%**
- Meetings where abstained **0.7%**
- Meetings where voted with management by exception **0.3%**

Europe

We voted at **121** meetings (**1,005** resolutions) over the last quarter.



- Total meetings voted in favour **50.4%**
- Meetings where voted against (or voted against AND abstained) **48.8%**
- Meetings where abstained **0.8%**

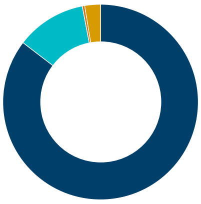
North America

We voted at **304** meetings (**2,398** resolutions) over the last quarter.

- Total meetings voted in favour **59.2%**
- Meetings where voted against (or voted against AND abstained) **40.8%**

United Kingdom

We voted at **233** meetings (**3,058** resolutions) over the last quarter.



- Total meetings voted in favour **85.4%**
- Meetings where voted against (or voted against AND abstained) **11.6%**
- Meetings where abstained **0.4%**
- Meetings where voted with management by exception **2.6%**

Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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