



LEAG	Materiality	Page 123
Individualist/stand engagements	Reason for interaction	<input type="checkbox"/> To support improved performance in the context of ESG issues <input type="checkbox"/> To influence corporate practice for more effective risk management <input type="checkbox"/> To encourage improved ESG practices <input type="checkbox"/> To support transition towards net-zero <input type="checkbox"/> To influence corporate practice regarding its own emissions <input type="checkbox"/> To encourage improved ESG practices
Collaborative engagements	Reason for interaction	<input type="checkbox"/> To support transition towards net-zero <input type="checkbox"/> To influence corporate practice regarding its own emissions <input type="checkbox"/> To encourage improved ESG practices <input type="checkbox"/> To influence corporate practice regarding its own emissions <input type="checkbox"/> To encourage improved ESG practices
Service provider engagements	Reason for interaction	<input type="checkbox"/> To support transition towards net-zero <input type="checkbox"/> To influence corporate practice regarding its own emissions <input type="checkbox"/> To encourage improved ESG practices <input type="checkbox"/> To influence corporate practice regarding its own emissions <input type="checkbox"/> To encourage improved ESG practices

# CLIMATE TRANSPARENCY REPORT

## 2019

Hermes Investment Management

# About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US\$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2019 PRI Reporting Framework.

## About this report

This report is an export of only the climate-related indicators from the 2019 Reporting Framework response. The full Public Transparency Report is available here ([https://reporting.unpri.org/surveys/PRI-reporting-framework-2019/-6B532BBA-CACF-49E3-9A20-2033396F7C51/00000000-0000-0000-0000-000000000000/doc/2/-%7C%7C\\*complete\\*%7C\\*public\\*/Merged/](https://reporting.unpri.org/surveys/PRI-reporting-framework-2019/-6B532BBA-CACF-49E3-9A20-2033396F7C51/00000000-0000-0000-0000-000000000000/doc/2/-%7C%7C*complete*%7C*public*/Merged/)). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2019 climate reporting as “private”. Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the [PRI website](#) and on the [Data Portal](#).

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

## TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.1	✓	Public				
SG 01.2	✓	Public				
SG 01.3	✓	Public				
SG 01.4	✓	Public				
SG 01.5	✓	Public				
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 01.11 CC	-	Public				
SG 01.12 CC	✓	Public				
SG 02.2	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	✓	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	-	Public				
SG 13.1	✓	Public				
SG 13.2	✓	Public				
SG 13.4 CC	✓	Public				
SG 13.5 CC	✓	Public				
SG 13.6 CC	✓	Public				
SG 13.7 CC	✓	Public				
SG 13.8 CC	✓	Public				
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.4	✓	Public				
SG 14.5	✓	Public				
SG 14.6 CC	✓	Public				
SG 14.7 CC	✓	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Public				
SG 15.2	✓	Public				
SG 15.3	✓	Public				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation
Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.	

# ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
<b>Name</b>	Hermes Investment Management
<b>Signatory Category</b>	Fund Management - Majority
<b>Signatory Type</b>	Investment Manager
<b>Size</b>	US\$ 30 - 50 billion AUM
<b>Main Asset Class</b>	>50% Listed Equity Internally Managed
<b>Signed PRI Initiative</b>	2006
<b>Region</b>	Europe
<b>Country</b>	United Kingdom
<b>Disclosure of Voluntary Indicators</b>	100% from 38 Voluntary indicators

# Hermes Investment Management

## Reported Information

### Public version

### Strategy and Governance

## PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

## Investment policy

SG 01

Mandatory

Public

Core Assessed

General

**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

SG 01.1

Indicate if you have an investment policy that covers your responsible investment approach.

Yes

SG 01.2

Indicate the components/types and coverage of your policy.

Select all that apply

Policy components/types	Coverage by AUM
<input checked="" type="checkbox"/> Policy setting out your overall approach <input checked="" type="checkbox"/> Formalised guidelines on environmental factors <input checked="" type="checkbox"/> Formalised guidelines on social factors <input checked="" type="checkbox"/> Formalised guidelines on corporate governance factors <input checked="" type="checkbox"/> Fiduciary (or equivalent) duties <input checked="" type="checkbox"/> Asset class-specific RI guidelines <input checked="" type="checkbox"/> Sector specific RI guidelines <input checked="" type="checkbox"/> Screening / exclusions policy <input checked="" type="checkbox"/> Engagement policy <input checked="" type="checkbox"/> (Proxy) voting policy <input type="checkbox"/> Other, specify (1) <input type="checkbox"/> Other, specify(2)	<input checked="" type="radio"/> Applicable policies cover all AUM <input type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM

**SG 01.3**

Indicate if the investment policy covers any of the following

- Your organisation's definition of ESG and/or responsible investment and it's relation to investments
- Your investment objectives that take ESG factors/real economy influence into account
- Time horizon of your investment
- Governance structure of organisational ESG responsibilities
- ESG incorporation approaches
- Active ownership approaches
- Reporting
- Climate change
- Understanding and incorporating client / beneficiary sustainability preferences
- Other RI considerations, specify (1)
- Other RI considerations, specify (2)

**SG 01.4**

Describe your organisation's investment principles and overall investment strategy, interpretation of fiduciary (or equivalent) duties, and how they consider ESG factors and real economy impact.

Our primary purpose is to help beneficiaries retire better by providing world class active investment management and stewardship services. 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.

We have a diversified platform. Our investment solutions include private markets, high active share equities, credit and stewardship. We provide client-centric solutions in public and private markets that aim to meet the risk/return objectives of long-term investors.

Our investment acumen is informed by rigorous fundamental research and a deep awareness of environmental, social and governance factors, enabling us to deliver strong long-term returns. In analysing companies, we endeavour to understand externalities, governance practices, environmental impacts, treatment of workers and their influence on local communities. We also use our influence to improve the behaviour of those companies in which we have invested, the operations of the assets we directly manage, and advocating for beneficial improvements to the financial system in which we participate.

**SG 01.5**

Provide a brief description of the key elements, any variations or exceptions to your investment policy that covers your responsible investment approach. [Optional]

Our responsible investment approach covers four mutually reinforcing strands:

1. We aim to be 'ESG aware' and actively incorporate material ESG factors into our investment decision-making processes. To that end, ESG issues are integrated into the management of our portfolios through a combination of fundamental research and proprietary data.
2. We aim to be active, engaged and responsible owners of those companies and assets in which we are invested and those we directly manage. This objective is supported by our stewardship business, Hermes EOS, which is one of the largest stewardship resources globally.
3. We seek to be responsible participants in the financial system in which we operate and advocate for positive reform. In particular we look to identify and intervene to correct environmental, social and other market failures that may prevent the financial system operating in the best holistic interests of its ultimate asset owners.
4. We aim, as a firm, to meet the expectations that we have of the businesses we invest in. Behaving as a responsible business is critical to being able to fulfil our wider ambitions. Each of us individually has a responsibility to lead by example and act ethically and with integrity.

We have developed and implemented a comprehensive programme to ensure our responsibility approach



and activities are integrated seamlessly across our funds, stewardship services, corporate citizenship activities, employee policies, client relationship management/reporting and business development. This includes:

- Delivering sustainable performance within the terms of the mandate and within the clients' risk appetite
- Taking into account all material investment factors, including ESG matters and insights from engagement, ensuring we are informed but not constrained by these considerations
- Acting as a responsible, engaged, long-term steward of investments, encompassing constructive dialogue and taking action where necessary
- Engaging with public policy makers and industry bodies to encourage a sustainable economy beyond the timeframe of a specific mandate

Specific initiatives and activities across the business include:

- Development of a Hermes carbon tool that enables fund managers and engagers to identify carbon risks in listed investment portfolios and specific companies which are or may become more exposed to carbon risks going forward.
- Advocacy focus on developing detailed responses using in-house expertise from across the firm to the European Commission's Sustainable Finance legislative proposals, in order to provide feedback on how we consider it might work in practice
- Internal working group on climate
- Publication of proprietary research demonstrating the material influence ESG factors can have on investment performance.
- Systematic engagement with each public and private markets investment team to develop strategies to further integrate ESG and engagement information into investment decisions and valuation processes

We take this approach as we believe it will enable us to deliver strong long-term holistic returns for our clients and ultimate beneficiaries. Hermes recognizes that the integration ESG and stewardship necessitates different considerations at various stages in the investment process. We put great store in drawing on our strong stewardship capabilities, which help identify specific risks in our investments and engages to mitigate them. Each investment team has their own ESG and engagement integration approach that suits their investment philosophy. They supplement fundamental financial analysis with information provided through a range of proprietary ESG and engagement tools, qualitative analysis and the insights gleaned through company engagement. Of particular note are the firm's carbon tool, ESG Dashboard, QESG Score and the Portfolio ESG Monitor, which are used to identify ESG risks and opportunities and to guide security selection.

The Responsibility Office works with all investment teams across all asset classes to support them in integrating ESG and engagement insights into their investment decisions.

We have a firm-wide exclusion policy for anti-personnel mines and cluster munitions; the precise composition of the list fluctuates, but it generally includes circa 250 companies worldwide. We have broader exclusion policies in place for particular clients.

No

I confirm I have read and understood the Accountability tab for SG 01

I confirm I have read and understood the Accountability tab for SG 01

SG 01 CC	Voluntary	Public	Descriptive	General
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**SG 01.6  
CC**

Indicate the climate-related risks and opportunities that have been identified and factored into the investment strategies and products, within the organisation's investment time horizon.

*"Society clearly cares more than it did about the long-term effects of climate change on the environment and society. As society moves, it expects institutions to follow suit."* Saker Nusseibeh, CEO HIM

The latest scientific assessments and statements by financial regulators across jurisdictions clearly points to the pretty profound financial impacts due to climate change. A momentum is growing that is changing society's consumer habits, and will impact what people buy and how, the process has already started and it is going to continue to grow fast. Investors need to be taking account of the risk to the financial system of stranded assets and the substantial long-term impacts both to the financial system and the real world.

Our risk assessment points to the significant legal and regulatory risks, including regulatory changes and mandatory legislation affecting a company's licence to operate or management practices in certain sectors or geographies.

There are also significant market transformation risks. Market-led changes will both see the emergence of new opportunities as part of the transition to a low carbon and carbon neutral economy, requiring a significant reallocation of capital towards new grow markets. There are also clear risks of companies being affected by additional operating costs from carbon pricing or taxes, the risks of impact to insurance premiums or ability to insure assets in certain locations at risk, or the costs of implementing regulatory standards. Which changing market demand there is in time a risk of obsolescence of certain products and services in certain sectors and the risk of losing their social licence to operate. Asset price dislocation will increase particularly for those entities in danger of becoming stranded assets, which includes deeply carbon oriented companies.

We also identified the risks of more frequent and more extreme climatic events. Such risks could cause either obsolescence or stranded as sets across a whole range of assets, sectors and geographies. Extreme weather events could impact defined geographical locations or, in some cases, whole regions, and lead to significant supply chain disruption that affects a large number of sectors in the economy.

We have identified the risks of impact to infrastructure and real assets, ranging from business discontinuity costs, refurbishments and rebuilding costs, to obsolescence and destruction, and impact to costs and availability of insurance. The implications of climate change for investor decisions in listed markets will differ sector by sector. The automotive and utility sectors, for example, have significant value at risk from the transition to a more sustainable economy, but also significant opportunities - from electric vehicles and renewable energy respectively. By contrast, the oil and gas sector will be one of the hardest-hit. Even if an oil company can achieve an economic return, it might not be in beneficiaries' interests if it worsens climate change and this creates strong pressure on policy-makers to clamp down on the industry. How we factored these risks into our investment strategies and products within our investment time horizon is described on question SG 01.10 CC. and SG 14.8 CC.

**SG 01.7  
CC**

Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

Yes

**SG 01.8  
CC**

Indicate the associated timescales linked to these risks and opportunities.

We analyse climate and carbon related risks across different timeframes.

**Short term:** risks that could cause impacts in 0-2 years from now; legal and regulatory risks.

Description of material climate-related issues: Regulatory changes and mandatory legislation affecting licence to operate or management practices in certain sectors or geographies.

**Medium term:** risks that could cause impacts in 2-5 years from now; legal and market transformation risks.

Description of material climate-related issues: Regulatory changes and mandatory legislation affecting licence to operate in certain sectors or geographies; market-led changes, emerging new opportunities, obsolescence of certain products and services affecting certain sectors; risk of stranded assets.

**Long term:** risks that could cause impacts in 5 years and beyond; legal, market transformation risks and extreme weather events

Description of material climate-related issues: In addition to the above: Obsolescence and stranded assets across a range of assets, sectors and geographies due to regulatory changes, market transformation or extreme weather events; extreme weather events impacting defined geographical locations and whole

regions and supply chain disruption affecting large number of sectors; impact to infrastructure and real assets, ranging from business discontinuity costs, refurbishments and rebuilding costs, to obsolescence and destruction; impact to insurance premiums or ability to insure assets in certain locations at risk.

No

**SG 01.9  
CC**

Indicate whether the organisation publicly supports the TCFD?

Yes

No

**SG 01.10  
CC**

Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

Yes

Describe

We have a formal approach to climate and carbon risk management, it integrates assessing and managing our exposure to carbon risks and access opportunities from the transition to a low-carbon economy. Integrating this approach in compliance, risk management and investment management is shared by the investment teams and across the firm with the support of the Responsibility Office and a dedicated Climate management Working Group.

The carbon risk and opportunities management activities we are implementing cover our public equities, credit, and private real estate assets.

Our approach has four elements:

- **Awareness:** Portfolio managers are aware of the carbon risks in their portfolios, which investments are the largest contributors, and what are the associated risks and mitigation strategies.
- **Integration:** Portfolio managers integrate carbon risk considerations alongside other value and risk considerations, exploiting green investment opportunities or divesting where carbon risk alongside other factors impacts value.
- **Engagement:** We act as engaged stewards of the investments we manage or represent on behalf of our clients. Where we hold assets with significant carbon risk exposure, we will manage directly-owned assets, and engage with public and private companies, to mitigate the carbon risk.
- **Advocacy:** We engage with public policymakers and sector organisations, nationally and internationally, to encourage policy or best practice that facilitates the transition to a low-carbon economy.

Over the last four years, we have reviewed and refined our approach and continued to implement it across our investment and stewardship activities, taking account of the specific challenges faced by each investment strategy and different asset classes and learning from our experiences and industry best practice.

Over the next 2 years we plan to continue the ground-breaking work delivered to date along the dimensions of awareness, integration, engagement and advocacy. We are aiming to deliver at the end of this period a full integration with the risk management strategy.

To deliver this we plan to further supplement this work by:

- Determining and integrating the actual and potential impact of climate change on our business strategy, investment approach and financial planning
- Development of a process that integrates climate management into every stage of the investment process, supported by the appropriate tools (internal and external) and information.

- Developing and integrating scenario analysis into our existing processes and assessing our alignment to the Paris Agreement
- Further developing existing metrics to assess, manage and disclose our approach
- Increasing our disclosures in line with TCFD recommendations

No

<b>SG 1.12 CC</b>	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.
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- Public PRI Climate Transparency Report
- Annual financial filings
- Regular client reporting
- Member communications
- Other

	specify
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Annual carbon management report: <https://www.hermes-investment.com/ukw/wp-content/uploads/2018/12/hermes-corporate-carbon-report-06.12.181.pdf>

<b>SG 02</b>	<b>Mandatory</b>	<b>Public</b>	<b>Core Assessed</b>	<b>PRI 6</b>
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

<b>SG 02.1</b>	Indicate which of your investment policy documents (if any) are publicly available. Provide a URL and an attachment of the document.
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- Policy setting out your overall approach

	URL/Attachment
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- URL

	URL
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{hyperlink:<https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf>}

- Attachment (will be made public)

	Attachment
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[File 1:Hermes-Delivering-Holistic>Returns.pdf](#)

- Formalised guidelines on environmental factors

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment (will be made public)

Attachment

[File 1:hermes-eos-engagement-plan-2019-2021-public-version \(1\).pdf](#)

[File 2:Hermes-Delivering-Holistic>Returns.pdf](#)

[File 3:Hermes Carbon Report 2018.pdf](#)

[File 4:final-responsible-ownership-principles-2018 \(3\).pdf](#)

Formalised guidelines on social factors

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment (will be made public)

Attachment

[File 1:hermes-eos-engagement-plan-2019-2021-public-version \(1\).pdf](#)

[File 2:Hermes-Delivering-Holistic>Returns.pdf](#)

[File 3:final-responsible-ownership-principles-2018 \(3\).pdf](#)

Formalised guidelines on corporate governance factors

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2018/03/final-responsible-ownership-principles-2018.pdf}

Attachment (will be made public)

Attachment

[File 1:hermes-eos-engagement-plan-2019-2021-public-version \(1\).pdf](#)

[File 2:Hermes-Delivering-Holistic>Returns.pdf](#)

[File 3:final-responsible-ownership-principles-2018 \(3\).pdf](#)

Fiduciary (or equivalent) duties

URL/Attachment

URL

URL

{hyperlink:<https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf>}

Attachment (will be made public)

Attachment

[File 1:Hermes-Delivering-Holistic>Returns.pdf](#)

Asset class-specific RI guidelines

URL/Attachment

URL

URL

{hyperlink:<https://www.hermes-investment.com/ukw/capabilities/private-markets/real-estate/responsible-property-investment/>}

Attachment (will be made public)

Attachment

[File 1:responsible-property-investment-strategy-and-policy-2018-1.pdf](#)

[File 2:Hermes-Delivering-Holistic>Returns.pdf](#)

Sector specific RI guidelines

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment (will be made public)

Attachment

[File 1:responsible-property-investment-strategy-and-policy-2018-1.pdf](#)

[File 2:hermes-eos-engagement-plan-2019-2021-public-version \(1\).pdf](#)

[File 3:Hermes-Delivering-Holistic>Returns.pdf](#)

Screening / exclusions policy

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment (will be made public)

Attachment

[File 1:Hermes-Delivering-Holistic>Returns.pdf](#)

Engagement policy

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2018/02/engagement-objectives-and-plan-2018-2020-public-version.pdf}

Attachment (will be made public)

Attachment

[File 1:hermes-eos-engagement-plan-2019-2021-public-version \(1\).pdf](#)

[File 2:Hermes-Delivering-Holistic>Returns.pdf](#)

(Proxy) voting policy

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/stewardship/eos-literature/}

Attachment (will be made public)

Attachment

[File 1:hermes-eos-engagement-plan-2019-2021-public-version \(1\).pdf](#)

[File 2:Hermes-Delivering-Holistic>Returns.pdf](#)

We do not publicly disclose our investment policy documents

**SG 02.2** Indicate if any of your investment policy components are publicly available. Provide URL and an attachment of the document.

Your organisation's definition of ESG and/or responsible investment and it's relation to investments

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/about-us/responsibility/}

Attachment

File Attachment

{hyperlink:Hermes-Delivering-Holistic>Returns.pdf [1567KB]}

Your investment objectives that take ESG factors/real economy influence into account

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment

File Attachment

{hyperlink:hermes-eos-engagement-plan-2019-2021-public-version (1).pdf [1214KB]}

Time horizon of your investment



URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment

File Attachment

{hyperlink:Hermes-Delivering-Holistic>Returns.pdf [1567KB]}

Governance structure of organisational ESG responsibilities

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment

File Attachment

{hyperlink:Hermes-Delivering-Holistic>Returns.pdf [1567KB]}

ESG incorporation approaches

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment

File Attachment

{hyperlink:Hermes-Delivering-Holistic>Returns.pdf [1567KB]}

Active ownership approaches

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/12/hermes-investment-management-approach-to-stewardship-2017.pdf}

Attachment

File Attachment

{hyperlink:hermes-eos-engagement-plan-2019-2021-public-version (1).pdf [1214KB]}

Reporting

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/uki/wp-content/uploads/2018/09/hermes-annual-report-and-financial-statements\_2017.pdf}

Attachment

File Attachment

{hyperlink:hermes-eos-annual-report-2018.pdf [1489KB]}

Climate change

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/2018/12/hermes-corporate-carbon-report-06.12.181.pdf}

Attachment

File Attachment

{hyperlink:Hermes Carbon Report 2018.pdf [1022KB]}

Understanding and incorporating client / beneficiary sustainability preferences

URL/Attachment

URL

URL

{hyperlink:https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/07/Hermes-Delivering-Holistic>Returns.pdf}

Attachment

{[hyperlink:Hermes-Delivering-Holistic>Returns.pdf \[1567KB\]](#)}

We do not publicly disclose any investment policy components

**SG 02.3**

Additional information [Optional].

We are proud of our strong culture of responsibility and we aspire to both maintain and further foster this positive approach in the way we behave as a firm and as individuals. In 2015 we created a Pledge of Responsibility and Transparency. This pledge is intended to express the commitment of each of us individually to act ethically and, crucially, to put the interests of our clients and their beneficiaries at the heart of what we do.

**Governance and human resources****SG 07 CC**

Voluntary

Public

Descriptive

General

**SG 07.5  
CC**

Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

Board members or trustees

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Other Chief-level staff or head of department

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Portfolio managers

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Investment analysts

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Dedicated responsible investment staff

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Investor relations

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Other role, specify (1)

Other description (1)

**Investment Office**

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

<b>SG 07.6 CC</b>	For board level roles for which have climate-related issues oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.
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As per our ESG oversight/accountability, while the responsibility for implementing our approach resides with all Hermes personnel, we have a number of structures and teams to ensure that we effectively discharge our stewardship responsibilities, including around climate change risks and opportunities.

**Board members**

Hermes has a well-established governance structure that is led by the Board. Among the responsibilities residing with the Board is the formulation of the Hermes strategy, namely to be the world's leading provider of long-term holistic returns for savers, thus creating value for all stakeholders in the financial system. The board and executive committee reviews our climate management approach on an annual basis and is informed on implementation progress through updates from the Head of Responsibility.

**Chief Executive**

Our Chief Executive has passionately led the development and implementation of Hermes' mission and responsibility goals. Our Chief Executive is also the non-executive chairman of Carbon Tracker.

**Responsibility Office**

Our dedicated Responsibility Office, led by the Head of Responsibility, reports to our CEO and coordinates and supports the integration of our responsibility approach, including our climate change action plan.

**SG 07.7  
CC**

For the management-level roles that assess and manage climate-related issues, provide further information on the structure and process involved.

**Portfolio managers and investment analysts**

Each of our investment teams across asset classes has formulated their own climate change management approach in the context of their particular strategy and investment universe. Each team is responsible for undertaking their own fundamental ESG research including assessing climate risks and opportunities and is accountable through the performance appraisal system for their part in delivering Hermes' mission.

**Stewardship staff**

Our stewardship team, Hermes EOS, boasts one of the largest stewardship resources of any fund manager in the world. The engagement programme has identified climate as a specific engagement focus. EOS has taken an active role on the Climate 100+ and leads on engagement with 28 companies, including BP, Centrica, Rolls Royce and AngloAmerican. See SG 14.9 CC.

**Hermes climate management working group**

The working group has been established with representatives from teams across Hermes, investment, risk management, business development. The group supports HIM businesses by developing a detailed understanding on how to integrate further climate risk and opportunity into management processes through climate management frameworks, and by furthering our analysis of carbon and climate risks monitoring and reporting implications. Plans going forward including rolling out 2-degree scenario assessments in ways that are meaningful for our investment processes across different asset classes.

**ESG issues in asset allocation**

**SG 13**

**Mandatory**

**Public**

**Descriptive**

**PRI 1**

**SG 13.1**

Indicate whether the organisation undertakes scenario analysis and/or modelling and provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

Yes, to assess future ESG factors

Describe

Climate risks are part of the fundamentals of value creation and interact with other, such as the impact of technological innovation, globalisation, consumer behaviour shifts and the catch-up in emerging markets. We assess and model future ESG policy and regulatory changes and their impact on our investment strategies

Yes, to assess future climate-related risks and opportunities

Describe

As part of our climate risk strategy we are developing a comprehensive portfolio climate risk and opportunity management process that covers carbon modelling tools, climate risk assessment, making sense of 2-degree scenario analysis, impact to value and including a dynamic element to carbon footprints throughout the investment and engagement process.

No, not to assess future ESG/climate-related issues

**SG 13.2**

Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

**We do the following**

- Allocation between asset classes
- Determining fixed income duration
- Allocation of assets between geographic markets
- Sector weightings
- Other, specify
- We do not consider ESG issues in strategic asset allocation

**SG 13.3** Additional information. [OPTIONAL]

Allocation between asset classes is not a business activity which Hermes carries out.

SG 13 CC	Voluntary	Public	Descriptive	General
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**SG 13.4 CC** Describe how the organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, the results and any future plans.

- Initial assessment

**Describe**

As part of our climate risk strategy we are developing a comprehensive Portfolio climate risk and opportunity management process that covers carbon modelling tools, climate risk assessment, making sense of 2-degree scenario analysis, impact to value and including a dynamic element to carbon footprints throughout the investment and engagement process in ways that are meaningful within different asset classes and investment time frames.

We are applying this approach to each asset class. In listed markets, a one element of the process is Hermes' internal "The Carbon Tool" to help fund managers and engagers alike have easy and accessible information on carbon risk in portfolios and in companies. It is able to calculate the potential financial impact of climate impacts, such as the profit at risk in an investment fund under different carbon pricing and policy scenarios.

Other tools include the Transition Pathway Initiative Benchmarks, PACTA 2DII -PRI scenario analysis tool. However, given the level of uncertainty and lack of understanding of underlying assumption we use scenario analysis with care, and are working towards a more dynamic assessment of risks. Our key finding is that deep engagement in the climate scenario analysis process is indeed fundamental in order to best understand the low-carbon transition and apply it to both engagement and investment decision-making.

- Incorporation into investment analysis

**Describe**

Whilst we do not discount the use of climate's value-at-risk outputs from industry models, given the degree of uncertainty baked in, it is used as one element of the story and is complemented by a deep analysis of trends and scenarios aiming to paint the full story of companies and underlying progress

Dedicated carbon footprint and assessment tools exist for Real Estate allowing a dynamic analysis of carbon risks and impact to value from carbon pricing.

We ensure that the process is clearly disaggregated so that investors, portfolio managers and engagers are able to understand the key drivers of the transition, and challenge assumptions, either of companies or of third-parties.

- Inform active ownership

Describe

Stewardship and corporate engagement are a crucial element of our climate process positive feedback loop, as it both enables us to raise risks and controversies with the boards and encourages actions to address them, as well as to capture intelligence on the dynamic process at play in the development of a company strategy and business plans.

Assessing carbon risk supports our engagement selection, it helps to begin or intensify engagements that can reduce the risk of holding exposed companies, - and, critically, whether we are being successful in our engagement. by:

Identifying companies with which carbon-focused engagement should be initiated or intensified  
Gauging the level of carbon risk being engaged on within portfolios - and the progress achieved

EOS engagement programme has identified climate as a specific engagement focus and is informed by the outcomes of the carbon tool. EOS has also taken an active role on the Climate 100+ initiative, see SG 14.9 CC.

- Other

**SG 13.5  
CC**

Indicate who uses this analysis.

- Board members, trustees, C-level roles, Investment Committee  
 Portfolio managers  
 Dedicated responsible investment staff  
 External managers  
 Investment consultants/actuaries  
 Other

**SG 13.6  
CC**

Indicate whether the organisation has evaluated the impacts of climate-related risk, beyond the investment time-horizon, on the organisations investment strategy.

- Yes

Describe

Climate risks identification and analysis covers periods beyond investment horizons. See SG 01.6 CC and SG 01.8 CC

In real estate our carbon risks tools model value at risks and impact of carbon pricing over the lifetime of assets

- No

**SG 13.7  
CC**

Indicate whether a range of climate scenarios is used.

- Yes, including analysis based on a 2°C or lower scenario  
 Yes, not including analysis based on a 2°C or lower scenario  
 No, a range is not used

**SG 13.8  
CC**

Indicate the climate scenarios the organisation uses.

Provider	Scenario used
IEA	<input checked="" type="checkbox"/> Beyond 2 Degrees Scenario (B2DS)
IEA	<input checked="" type="checkbox"/> Energy Technology Perspectives (ETP) 2 Degrees scenario
IEA	<input checked="" type="checkbox"/> Sustainable Development Scenario (SDS)
IEA	<input checked="" type="checkbox"/> New Policy Scenario (NPS)
IEA	<input checked="" type="checkbox"/> Current Policy Scenario (CPS)
IRENA	<input type="checkbox"/> RE Map
Greenpeace	<input type="checkbox"/> Advanced Energy [R]evolution
Institute for Sustainable Development	<input type="checkbox"/> Deep Decarbonisation Pathway Project (DDPP)
Bloomberg	<input type="checkbox"/> BNEF reference scenario
IPCC	<input type="checkbox"/> Representative Concentration Pathway (RCP) 8.5
IPCC	<input type="checkbox"/> RPC 6
IPCC	<input type="checkbox"/> RPC 4.5
IPCC	<input type="checkbox"/> RPC 2.6
Other	<input type="checkbox"/> Other (1)
Other	<input type="checkbox"/> Other (2)
Other	<input type="checkbox"/> Other (3)

SG 14

Mandatory to Report Voluntary to Disclose

Public

Additional Assessed

PRI 1



**SG 14.1**

Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

- Changing demographics
- Climate change
- Resource scarcity
- Technological developments
- Other, specify(1)

other description (1)

Urbanisation and demographic lifestyle changes

- Other, specify(2)

other description (2)

Pollution and waste/circular economy

- None of the above

**SG 14.2**

Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

- Established a climate change sensitive or climate change integrated asset allocation strategy
- Targeted low carbon or climate resilient investments

Specify the AUM invested in low carbon and climate resilient portfolios, funds, strategies or asset classes.

	trillions	billions	millions	thousands	hundreds
Total AUM			136	100	000
Currency	USD				
Assets in USD			136	100	000

Specify the framework or taxonomy used.

The Low Carbon Strategy is a Global Equity Strategy that avoids companies that have material exposure to fossil-fuels or are highly carbon intensive. We apply Trucost, MSCI, Sustainalytics absolute emissions and intensity data to GICS sector mapping. The strategy also avoids companies that are engaged in unethical or unsustainable activities, while seeking to identify companies that have good or improving ESG characteristics. These figures are accurate as of 31/12/2018.

- Phase out your investments in your fossil fuel holdings
- Reduced portfolio exposure to emissions intensive or fossil fuel holdings
- Used emissions data or analysis to inform investment decision making
- Sought climate change integration by companies
- Sought climate supportive policy from governments
- Other, specify
- None of the above

**SG 14.3**

Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

- Scenario analysis
- Disclosures on emissions risks to clients/trustees/management/beneficiaries
- Climate-related targets
- Encouraging internal and/or external portfolio managers to monitor emissions risks
- Emissions-risk monitoring and reporting are formalised into contracts when appointing managers
- Weighted average carbon intensity
- Carbon footprint (scope 1 and 2)
- Portfolio carbon footprint
- Total carbon emissions
- Carbon intensity
- Exposure to carbon-related assets
- Other emissions metrics
- Other, specify

other description

Physical impacts risks

- None of the above

**SG 14.4**

If you selected disclosure on emissions risks, list any specific climate related disclosure tools or frameworks that you used.

In 2017, we started developing a new tool to support the integration of climate change into investment decision-making and enable better targeted engagements. In 2018, we launched this carbon tool that allows fund managers to assess their fund's carbon performance, carbon risk, and corresponding engagements with investee companies in a comprehensive manner. The tool will also be the source for enhanced client reporting to demonstrate how ESG and engagement is being credibly integrated into the firm's fund and stewardship offerings.

We decided to develop the tool in-house because we realised that most commercially-available portfolio tools were focused on reporting, as opposed to investment decision-making and delivering progress in climate related engagements. We also wanted to combine carbon data from Trucost with our own internal carbon model, QESG, financial and engagement data.

Our proprietary public markets carbon analytics tool goes beyond portfolio-level aggregate statistics and focuses on identifying patterns and outliers. In particular, we look at data with various lenses to identify companies better or worse placed to deal with climate change. In particular, the carbon tool assesses and integrates the following four key elements, making it a cutting-edge approach in evaluating the impact that investment funds have on the environment:

- (1) Measuring the carbon risk of an investment fund relative to its benchmark and of listed companies relative to their peers, including Scope 1, Scope 2, and Scope 3 emissions
- (2) Calculating the profit at risk for an investment fund for different carbon pricing and policy scenarios
- (3) Identifying companies with which carbon-focused engagement should be initiated or intensified
- (4) Gauging the level of carbon risk being engaged on within portfolios - and the progress achieved.

The calculation of the average carbon footprint intensity (carbon emissions divided by AUM) across our equities portfolio reveals that they are lower than the those of the corresponding benchmarks for scope 1/2 and scopes 1/2/3.

Our carbon tool also reveals - most importantly - that the concentration of emissions in a small number of companies makes engagement potentially very powerful. This gives a lot of leverage to push companies for better carbon performance, and more generally a coherent climate change strategy. This year we have engaged on 43% of the Scope 1/2/3 carbon emissions in our portfolio (2.1 MtCO<sub>2e</sub> vs 5 MtCO<sub>2e</sub>) and on 56% of the Scope 1 and 2 carbon emissions (1.7 MtCO<sub>2e</sub> vs 3 MtCO<sub>2e</sub>).

In our real estate funds, we mostly own and manage assets directly, and since 2006 we have set long-term carbon emission reduction targets and integrated carbon management across our investment and asset management process. We have an in-house energy management and data collection system based on the collection of operational data directly from energy suppliers, with our emissions data third party verified. Since 2007, we have reported publicly our performance against these targets in our annual responsible property investment report. In 2017, we have focused on how to move from managing risk to delivering positive climate impacts, by cutting carbon emissions and scaling up energy efficiency measures.

We have had carbon emission reductions targets since 2006 for those assets where we have direct management control of our investment, we have both long term targets to reduce our absolute (tCO<sub>2</sub>) and relative to area (tCO<sub>2</sub>/m<sup>2</sup>) and operational targets to reduce by 5% year-on-year the absolute carbon emissions (tCO<sub>2</sub>) of our standing portfolio and our relative energy consumption (kWh/m<sup>2</sup>).

<b>SG 14.5</b>	Additional information [Optional]
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On top of mitigation activities, we are also working on being able to more accurately assess how our portfolios might be impacted by the physical risks of climate change impact.

<b>SG 14 CC</b>	Voluntary	Public	General
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<b>SG 14.6 CC</b>	Please provide further details on these key metric(s) used to assess climate related risks and opportunities.
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Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
<b>Climate-related targets</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority of assets <input checked="" type="checkbox"/> Minority of assets	To achieve long-term carbon emissions reduction targets and annual operational targets for real estate	Absolute carbon emissions - tCO2 Carbon intensity relative to area - tCO2/m2	Carbon intensity relative to area reduced over time. Average of 8% operational absolute carbon emissions reduction year-on-year for the last 8 years.
<b>Weighted average carbon intensity</b>	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	To be able to compare the carbon footprint with a fund's benchmark, we calculate a weighted carbon footprint to reflect the exposure of the fund to certain sectors for public equities	tCO2 (metric tonnes) / company revenue in USD	Total metric tonnes / company revenue. This is weighted by size of the portfolio's holding in the company. The carbon emissions data comes from Trucost.
<b>Carbon footprint (scope 1 and 2)</b>	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	We measure carbon emissions for public equities, credit, and directly managed real estate. This allows us to compare the carbon footprint with a fund's benchmark.	tCO2 (metric tonnes) (Scope 1 and 2)	Total metric tonnes. This is weighted by size of the portfolio's holding in each company. The carbon emissions data comes from Trucost, and the calculation takes into consideration the Fund's ownership of each company Real estate carbon emissions are measured directly at source from utility meter reads and billing and integrated into Real Estate sustainability data management system
<b>Portfolio carbon footprint</b>	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	We measure carbon emissions for public equities and credit. This allows us to compare the carbon footprint with a fund's benchmark.	tCO2 (metric tonnes) (Scope 1, 2 and 3)	Total metric tonnes. This is weighted by size of the portfolio's holding in each company. The carbon emissions data comes from Trucost, and the calculation takes into consideration the Fund's ownership of each company Real estate carbon emissions are measured directly at source from utility meter reads and billing and integrated into Real Estate sustainability data management system. Data is third party verified
<b>Total carbon emissions</b>	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Measuring total carbon emissions for public equities, credit, and directly managed real estate. This allows us to compare the carbon footprint with a fund's benchmark.	tCO2 (metric tonnes)	Total metric tonnes. This is weighted by size of the portfolio's holding in each company. The carbon emissions data comes from Trucost, and the calculation takes into consideration the Fund's ownership of each company Real estate carbon emissions are measured directly at source from utility meter reads and billing and integrated into Real Estate sustainability data management system. Data is third party verified.
<b>Carbon</b>	<input type="checkbox"/> All assets	Measuring carbon intensity for public	tCO2 (metric tonnes) /	Carbon intensity (carbon emissions / company revenue). The carbon

<b>intensity</b>	<input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	equities and real estate. This allows comparison with the fund's benchmark.	company revenue in USD	emissions data comes from Trucost, and the calculation takes into consideration the Fund's ownership of each company Real estate carbon emissions are measured directly at source from utility meter reads and billing and integrated into Real Estate sustainability data management system. Data is third party verified.
<b>Exposure to carbon-related assets</b>	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	We identify the highest emitters in public equity funds, and attribute the fund's carbon footprint to stock selection or industry exposure.	tCO2 (metric tonnes) Percentage contribution per company to the fund's total carbon footprint	Total metric tonnes, and size of the fund with carbon-related exposure. This is weighted by size of the portfolio's holding in each company, to calculate each company's contribution to the fund's total carbon footprint as a percentage. The carbon emissions data comes from Trucost
<b>Other emissions metrics</b>	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Measuring Scope 3 emissions, carbon efficiency and carbon intensity for public equities to provide a more complete picture of each fund's carbon emissions.	Scope 3 emissions - tCO2 (metric tonnes), Number of companies YoY difference, 5Y difference % above/below peers	Absolute metric tonnes Outliers (across Scope 1,2 and 3) Historical evolution Comparison with peers Carbon efficiency (Scope 3 emissions / mln USD invested) Carbon intensity (Scope 3 emissions / company revenue) These figures are weighted by size of the portfolio's holding in each company. The carbon emissions data comes from Trucost, and the calculation takes into consideration the Fund's ownership of each company Real estate scope 3 emissions are estimated by a third party consultant.

<b>SG 14.7 CC</b>	Describe in further detail the key targets.
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Targettype	Time Frame	Description	Attachments
<input checked="" type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target	By 2020	1 - reduce the absolute carbon emission (tCO2) by 40% for our landlord controlled directly managed portfolio (scope 1&2) by 2020 from a 2006 baseline aligned with European carbon targets to 2020  2 - reduce the carbon intensity (tCO2/m2) for our landlord controlled directly managed portfolio (scope 1&2) by 40% by 2020 from a 2006 baseline aligned with European carbon targets to 2020	<a href="#">File 1:Hermes Carbon Report 2018.pdf</a>
<input checked="" type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target	2020	1 - to reduce by 5% year-on-year the absolute carbon emissions (tCO2) of our standing portfolio, and our relative energy consumption (kWh/m2)  2 - to reduce by 5% year-on-year relative energy consumption (kWh/m2) of our standing portfolio	<a href="#">File 1:Hermes Carbon Report 2018.pdf</a>
<input type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target	Annually	Disclose Level of carbon emissions attached to investments and expended in Hermes operations, yearly	
<input type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target	Annually	Percentage of assets under management (AUM) for which we measure the level of carbon emissions per USD invested and breakdown by holding, yearly	
<input type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target			

**SG 14.8  
CC**

Indicate whether climate-related risks are integrated into overall risk management and explain the risks management processes for identifying, assessing, and managing climate-related risks.

- ☉ Process for climate-related risks is integrated into overall risk management

Please describe

Climate -related risks are managed as part of Hermes overall investment risk management processes. We integrate climate risks in ways relevant to our different asset classes building on materiality assessments and accounting for each fund/strategy characteristics, mandate and relevant regulatory environment.

**In listed markets** we have enhanced our ESG Dashboard to include more indicators on climate risks and opportunities in companies. We identify companies which are actively integrating environmental considerations within their business strategies.

Hermes is developing a suite of climate tools to measure and understand the risks in our portfolios and in individual companies. Our Carbon Tool enhances understanding of the issue by integrating our engagement and stewardship information. Fund managers are able to assess their fund's carbon performance, carbon risks, value at risk, investment opportunities and corresponding engagements with investee companies in a comprehensive manner. The tool is also a source for enhanced client reporting.

**In credit**, using Hermes' ESG Dashboard and QESG tool, along with the results of analyst research and the efforts of our engagement team, we seek to understand how climate risks can translate into credit risk.

**Impact funds:** In 2018 we launched two new approaches to linking the SDGs to investing. The SDG Engagement fund aims to buy into companies we can help to improve in relation to the goals, such as carbon emissions. We recognise there is a problem with the lack of carbon data in small and mid-cap companies that does not always reflect the real risks or opportunities.

The Impact Opportunities fund invests in companies that are well-placed to profit from activities that will help meet the goals, such as those that provide solutions to the climate transition. It enables to tap into less obvious carbon generators such as agriculture where there are companies that are interesting from an energy transition point of view.

**Across private markets**, our strategies have a governance structure and cover sectors that lend themselves more naturally to innovative opportunities arising from the low-carbon transition. We use our rights and leverage as owners or shareholders of those assets and companies in which we are invested to influence practice and strategy.

**In real estate**, climate has been integrated in our active asset management and sustainable development and refurbishment activities since 2008. We have an increased focus on 'places' where we see an opportunity to bring together climate and environment risk with the other drivers of future performance. We take a disciplined approach to measuring factors such as energy and water consumption, and we have specific tools to reduce those inputs. Our strategy has resulted in a decline of absolute emissions in Hermes' like-for-like portfolios at an average of 8% per year in the last 8 years compared to our 2006 baseline

Hermes measures and offsets its own operational carbon emissions by working with Trees for Cities (<https://treesforcities.org/>). For every tonne of GHG emissions that Hermes generated from its day-to-day operations and its business travel during 2017, verified carbon offsets have been generated by planting 2,942 trees.

- Process for climate-related risks is not integrated into our overall risk management

<b>SG 14.9</b> <b>CC</b>	Indicate whether the organisation undertakes active ownership activities to encourage TCFD adoption.
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- Yes

	Please describe
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**Stewardship and engagement**

We aim to bring all companies up to ESG and climate best practice through engagement. Through Hermes EOS, our stewardship service, which is one of the largest in the world, we represent £359.0bn assets and we engage with over 500 of the world's largest companies each year.

One of the biggest developments in stewardship this year has been the advent of Climate Action 100+. To date, 310 investors with more than \$32 trillion in assets under management - including Hermes - have signed on to the initiative. We are particularly active, leading on 28 companies, including BP, Centrica, Rolls Royce and AngloAmerican.

Outside of Climate Action 100+ we have been engaging with key players in financial services such as HSBC and Standard Chartered to limit their exposure to carbon risks.

There are three dimensions to our engagement - how the board is managing the risks of climate change, the level of action being taken to limit emissions to well below 2°C and how well the company is disclosing its management and action to investors, based on the FSB TCFD recommendations. When it comes to governance, the big issue remains climate lobbying.

**Advocacy**

To support an efficient and cost-effective climate transition we advocate for better policy. We are starting to see some encouraging developments with the actions taken by financial regulators to address climate risks to financial stability and good progresses being made on fiduciary duty. We welcome and endorse the UK new rules requiring pension fund trustees to explain their approach to managing ESG and climate risks through investment strategies and the European Union Sustainable Finance Package. The later requiring funds to be more transparent on how they invest sustainably as a first step to strengthening fiduciary obligations and developing climate benchmarks and standards. This is an important step to use the financial system to direct capital towards more sustainable outcomes.

Beyond the EU, we have been working with China's climate taskforce, which has taken up the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. China's Ministry of Finance is recently focusing on how China can gain from climate opportunities.

No, we do not engage

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1
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SG 15.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.
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Yes

SG 15.2	Indicate the percentage of your total AUM invested in environmental and social themed areas.
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2.18	%
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SG 15.3	Specify which thematic area(s) you invest in, indicate the percentage of your AUM in the particular asset class and provide a brief description.
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Area
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- Energy efficiency / Clean technology
- Renewable energy
- Green buildings
- Sustainable forestry
- Sustainable agriculture
- Microfinance
- SME financing
- Social enterprise / community investing
- Affordable housing
- Education
- Global health
- Water
- Other area, specify

SDG Engagement Fund, Impact Opportunities Fund; Low Carbon Fund

Asset class invested
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Listed equity

2.18	% of AUM
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- Fixed income - SSA
- Fixed income - Corporate (financial)
- Fixed income - Corporate (non-financial)
- Fixed income - Securitised
- Property

#### Brief description and measures of investment

Our investments in our Impact Opportunities fund are aligned with nine impact themes that are aligned with the 169 targets underlying the 17 SDGs. Our impact themes are the result of careful, continuous research into the global sustainability challenges we face and the unmet needs these create. We believe that these unmet needs provide tremendous growth opportunities for companies able to provide disruptive solutions through innovative and cost-effective products and services. We have therefore developed our own impact themes to address these unmet needs; Water, Food Security, Health & Wellbeing, Education, Financial Inclusion, Future Mobility, Impact Enablers, Energy Transition and Circular Economy.

<https://www.hermes-investment.com/ukw/wp-content/uploads/2019/02/hermes-impact-opportunities-q4-2018-report.pdf>

The Hermes SDG Engagement Equity Strategy aims to generate attractive investment returns and positive societal and environmental impacts through engagements with companies focused on the SDGs. We believe that there are compelling opportunities to create such change and value among smaller companies whose operations and supply chains provide rich potential for improvement and the direct access to management required for successful engagement. We believe engagement has the potential to unlock value for all stakeholders - investors, companies, employees, local communities and the planet - and therefore help deliver the ambitious SDGs.

<https://www.hermes-investment.com/ukw/wp-content/uploads/2019/03/hermes-sdg-engagement-2018-annual-report.pdf>

No