

OUTCOMES
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ENGAGEMENT POLICY

July 2019

INTRODUCTION

This policy sets out the approach to engagement and voting of Hermes Investment Management Limited, Hermes European Equities Limited, Hermes Fund Managers Ireland Limited and Hermes Alternative Investment Management Limited (hereafter “Hermes”). Hermes will comply with the letter and spirit of the EU Shareholder Rights Directive and other relevant rules including the UK Conduct of Business Sourcebook rules and UK Stewardship Code.

Hermes honours its responsibility as a fiduciary for investors and their beneficiaries and seeks always to act in their best interests. Hermes undertakes stewardship and long-term engagement to exercise active ownership of investee companies on behalf of investors, and to deliver our purpose of helping investors achieve their financial objectives. For Hermes, stewardship is both a responsibility and an input to achieving optimal investment performance, in particular over the long-term. Hermes takes a comprehensive approach to stewardship, engaging globally with corporates and key stakeholders, in particular policy makers.

The majority of engagement is undertaken for Hermes by the dedicated stewardship services of Hermes Equity Ownership Services Limited (“Hermes EOS”). Hermes benefits from the long engagement history and established relationships of Hermes EOS in relation to both Hermes investee companies and its broader investable universe.

The implementation of this policy will be reported publicly on an annual basis, including a general description of voting behavior, an explanation of the most significant votes and the use of the services of proxy advisors. Hermes provides additional reporting on its stewardship and engagement to its clients.

How Hermes integrates shareholder engagement in its investment strategy

Research and analysis by our investment teams includes evaluation of performance on strategy, financials, risk, material environmental social and governance ('ESG') factors, and the overlaps between these elements. Engagement with company management, boards, subject specialists as well as other shareholders and stakeholders is a key input into this process and investment strategy. Such engagement is carried out both by our investment teams as well as by Hermes EOS on their behalf. The public equities and fixed income teams have access to reports on shareholder engagement carried out by Hermes EOS with investee companies and the broader investable universe and may take such information into account when making investment decisions. We believe that ESG-aware investors should not rely on ESG data alone, as it is often backward looking and updated infrequently and with a time lag. As such, voting and engagement activities can be used by our teams to provide a forward-looking view of ESG and broader performance of a company.

All our investment activity is supported by our dedicated Investment Office and Responsibility Office, both of which report directly to our CEO. Regular meetings are held between the two offices and with the investment teams to ensure proper coordination and ESG integration, including engagement.

How Hermes monitors investee companies on relevant matters

The investment team continues to monitor the financial and non-financial performance of investee companies throughout the life of the holding.

With regards to monitoring strategy, financial and non-financial performance and risk, and capital structure, this is done through financial analysis of company reports, attendance of analyst meetings, investor presentations, use of media and third-party research and engagement meetings. Each investment team is responsible for looking at the financial performance and risk and the capital structure of investee companies. Where there is a concern this will inform engagement and investment decisions. In addition to external research providers, the investment teams have access to a number of proprietary tools which enable Hermes investment teams to pinpoint environmental, social and governance risks at both the company and portfolio level, which may then inform subsequent engagement and investment decisions. On social and environmental impact and corporate governance issues in particular the monitoring is informed and supplemented by the engagement and voting recommendations provided by Hermes EOS. The investment teams have access to the EOSi platform which records the outcomes of EOS engagement meetings and the progress on specific objectives.

How Hermes conducts dialogues with investee companies

Hermes has a well-established outcomes-based philosophy that underpins our approach to engagement and stewardship. There are clear and well-established protocols for how to identify engagement issues, to escalate and to measure an engagement's effectiveness. The majority of dialogues that form Hermes' engagement with investee companies are conducted by its proxy advisor Hermes EOS. Members of Hermes EOS may be joined by

relevant portfolio managers or analysts from our investment teams. The Responsibility Office ensures that our investment teams and Hermes EOS work closely together with a joined-up approach.

Hermes adopts a systematic approach to identifying companies for engagement. We select companies and tailor the intensity of engagement based on the responsible investment policies of our clients, the size of holdings, materiality of the risks and issues, and feasibility of achieving change through engagement.

Dialogue with investee companies is conducted through in person meetings, calls, letters or emails, either directly or as part of a collaborative group. The nature and frequency of the dialogue depends on the location of the company, stage of engagement, severity of the issue and willingness by the company to engage. In the majority of cases Hermes, both the investment teams and Hermes EOS, uses its own relationship. This is in addition to attending meetings facilitated by intermediaries. The majority of dialogues are conducted with the board of directors, corporate secretary, subject specialists or investor relations. Occasionally the dialogue is with executive teams though only where we believe the concern justifies their time and attention.

We escalate the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue. Generally, our engagement activity becomes more active where we believe engagement will lead to an increase in or prevent/limit a decrease in the value of a company over the long term.

How Hermes exercises voting rights and other rights attached to shares

Shareholder rights are themselves an asset and Hermes views the exercise of these rights as part of its fiduciary duty and a responsibility of effective stewardship.

Hermes' voting and engagement are co-integrated as part of its overarching approach to stewardship. As such our voting decisions as well as our advice to clients on voting decisions are informed by the insights and experience from engagement with the investee company.

Hermes uses the services of Hermes EOS to provide voting research and recommendations that inform Hermes' exercise of voting rights. As such our voting decisions are primarily based on the Hermes EOS Regional Corporate Governance and Remuneration Principles. Please refer to the Hermes EOS website for further information.

Votes are escalated, including to the executive team where needed, where they are especially significant for the company, complex, or where a disagreement or potential conflict of interest arises with the recommendation received from Hermes EOS.

In those limited circumstances where a conflict over our approach to voting (aside from that directed by client specific policies) or engagement arises, the matter will be escalated to an 'escalation group' which reports to an independent sub-committee of the Board of Hermes Fund Managers Limited. The escalation group comprises the Heads of Investment, Responsibility, Client Relations, Compliance and Hermes EOS. The group is guided in reaching its decisions by Hermes' mission to delivering long-term holistic returns, our published Responsible Ownership Principles, voting policies and other appropriate

industry endorsed guidance. If there is no majority view of the group then the CEO will make a final decision. If such an instance were to occur, it would be documented and reported to Hermes' Risk and Compliance Committee – an independent sub-committee of the Hermes Fund Managers Limited Board.

Hermes may attend AGMs of investee companies or arrange for representation at AGMs by Hermes EOS, this can include asking questions or making statements to the board. Hermes may also file or co-file shareholder resolutions.

The exercise of all voting rights is based on an evaluation of materiality and an analysis of costs and value.

How Hermes cooperates with other shareholders

Hermes sees value in both direct and collaborative engagement, and it is the combination of both which leads to the most influence and effective stewardship. Hermes may collaborate with other shareholders when this may be beneficial for the engagement and influencing the actions and governance of investee companies. We seek collaboration where interests are aligned, and the objectives are based on material issues. Any collaboration is done in line with applicable rules on anti-trust, conflicts of interest and acting in concert.

How Hermes communicates with relevant stakeholders of the investee companies

Our stewardship activities may include discussions with relevant stakeholders of investee companies, such as industry bodies, policymakers, regulators, customer groups, employee groups and civil society organisations.

All of our activities are supplemented by our belief in transparency, and our public reporting may also be of value to relevant stakeholders.

How Hermes manages actual and potential conflicts of interests in relation to the firm's engagement

We actively identify, report and mitigate conflicts of interest in our engagement activities. When any staff member recognises a potential conflict of interest with a company in which they are engaging, he or she must raise this with their line manager and Compliance. Potential conflicts of interest may arise in relation to engagement or voting

relating to any holdings in our own shareholders (Federated Investors, Inc (FII) and BT Plc in the case of BT Pension Scheme) or clients or the sponsors of pension fund clients.

We have internal procedures to regulate the processes and restrict the flow of information among, and within, business units so that activities are carried out with the appropriate level of independence. For example, engagement with and/or generation of voting recommendations in relation to BT Plc or FII is delegated to a senior member of the Hermes EOS stewardship team and relevant Hermes investment team members, not the Hermes EOS client relationship director.

In our voting and engagements with companies which are the sponsors of, or in the same group as, our clients, we are careful to protect and pursue the interests of all of our clients by seeking to enhance or protect the long-term value of the companies concerned. In the first instance, we make clear to all pension fund clients with corporate sponsors that we will treat their sponsoring companies in the same way as any other company. In addition, we ensure that in such situations the relevant Hermes client relationship director or manager is not leading the engagement or making the voting recommendation to clients. This same approach would hold true with respect to any engagement with a company with whom Hermes, FII or our clients, have a strong commercial relationship.

We also have policies that seek to avoid any potential conflicts for individual Hermes staff members arising from engagements with companies in which individuals have personal interest or a material personal relationship with a relevant individual. Where a staff member has a personal connection with a company, he or she is required to make this known and is not permitted to be involved in any relevant engagement activities.

Hermes EOS is fully owned by Hermes Fund Managers Limited with the Head of Hermes EOS reporting into the CEO of Hermes. Any conflict which may arise between clients of the Hermes EOS service and other Hermes clients will be addressed in a similar way to conflicts between any of Hermes clients.

Please refer to the Hermes Stewardship Conflicts of Interest Policy for further detail.

Further information

Please refer to the Hermes EOS literature section on the Hermes website as Hermes appointed proxy adviser for further information on our stewardship approach and activities.

HERMES INVESTMENT MANAGEMENT

We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

Our investment solutions include:

Private markets

Infrastructure, private debt, private equity, commercial and residential real estate

High active share equities

Asia, global emerging markets, Europe, US, global, small and mid-cap and impact

Credit

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

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | Denmark | Dublin | Frankfurt | New York | Singapore

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



Hermes Investment Management Limited ("HIML"); Hermes European Equities Limited ("HEEL") and Hermes Alternative Investment Management Limited ("HAIML") are regulated by the Financial Conduct Authority. Hermes Fund Managers Ireland Limited ("HFM Ireland") is regulated by the Central Bank of Ireland. Hermes Equity Ownership Limited ("Hermes EOS") is unregulated and does not engage in regulated activity. BD03907 0006885 07/19