

Inaugural Corporate Governance Conference 2018, Bangkok

Building Trust in a Transforming Economy

Driving Strategy for Long-term Success while Facing Short-Term Needs



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DRIVING STRATEGY FOR LONG-TERM SUCCESS WHILE FACING SHORT- TERM NEEDS

2018

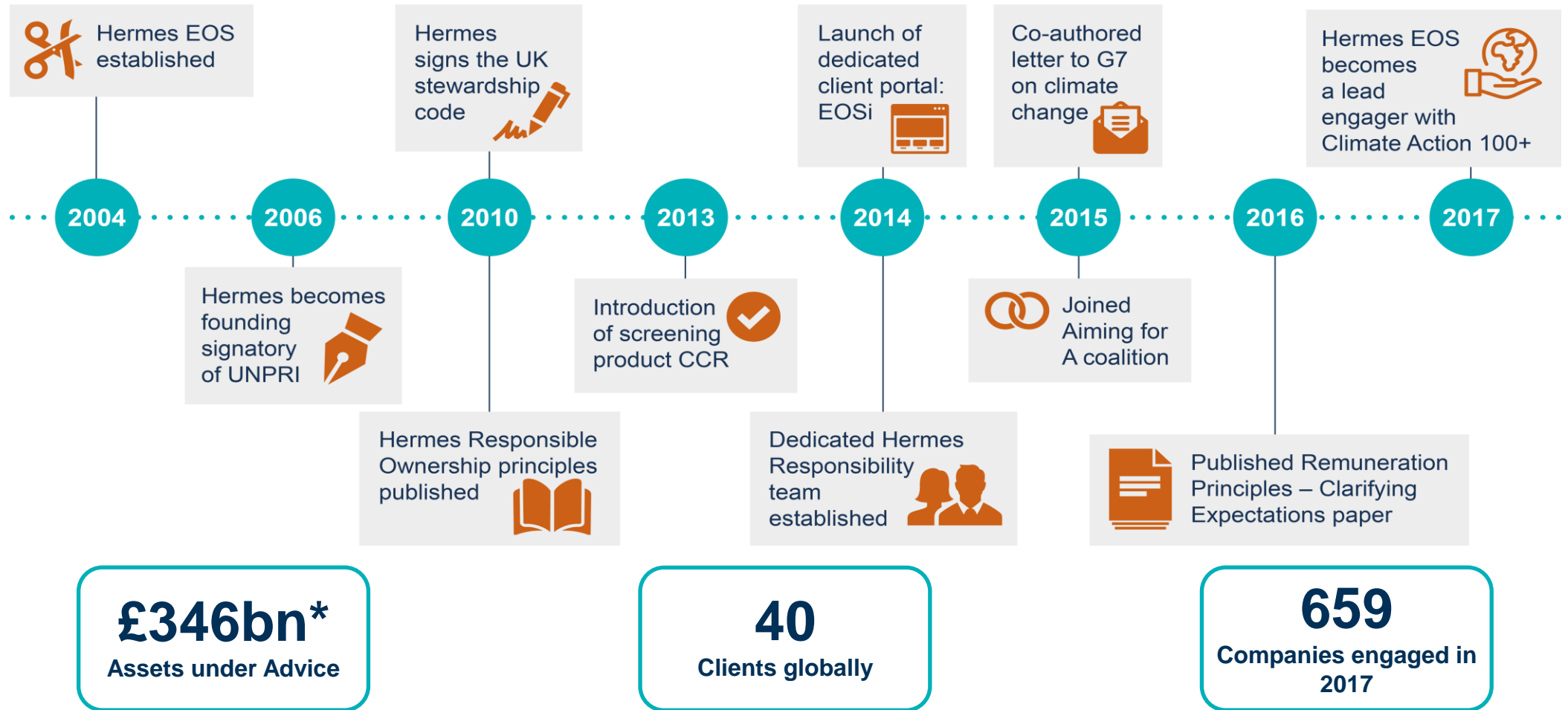
For professional investors only



HERMES
EOS

Who we are

A global stewardship provider

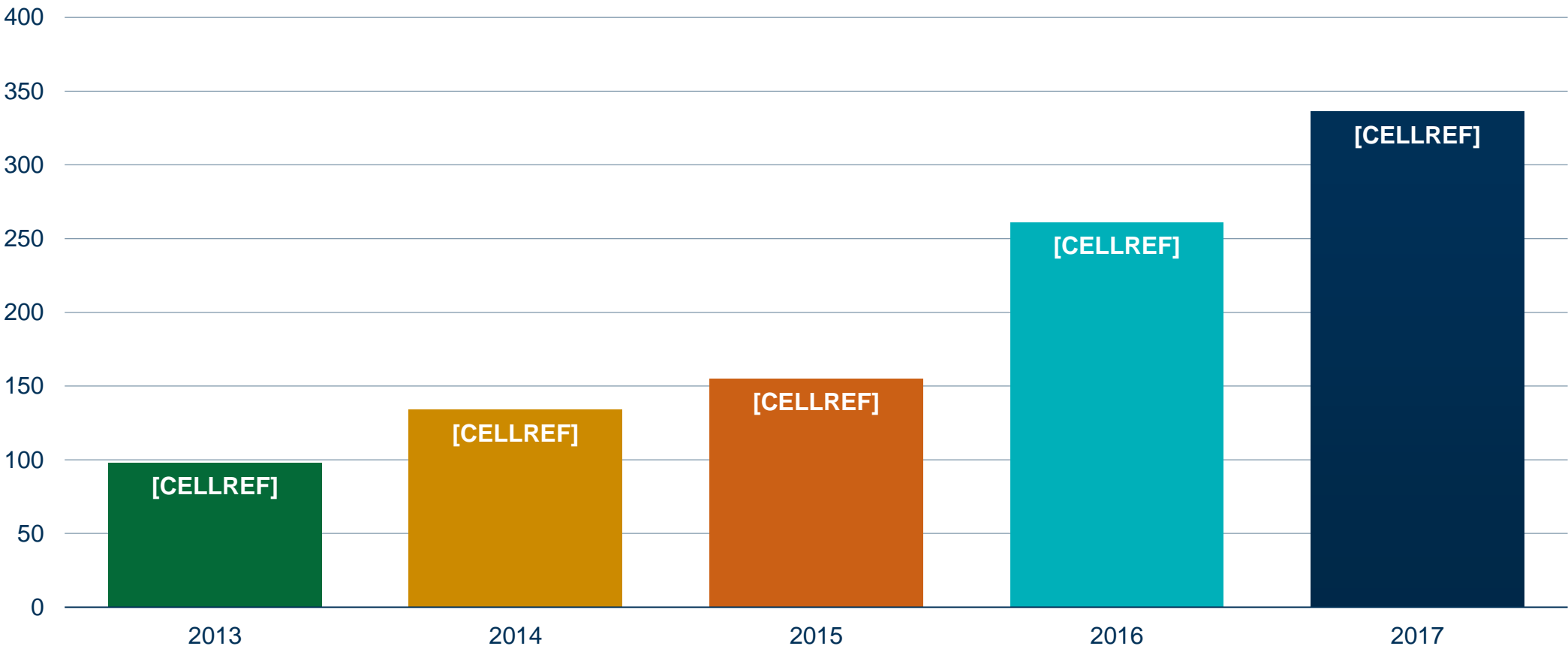


£ 346.3/€392.6/\$455.2 billion* in assets under advice as at 30 June 2018

Stewardship Assets

Continued growth by pooling assets

Assets under Advice (£)



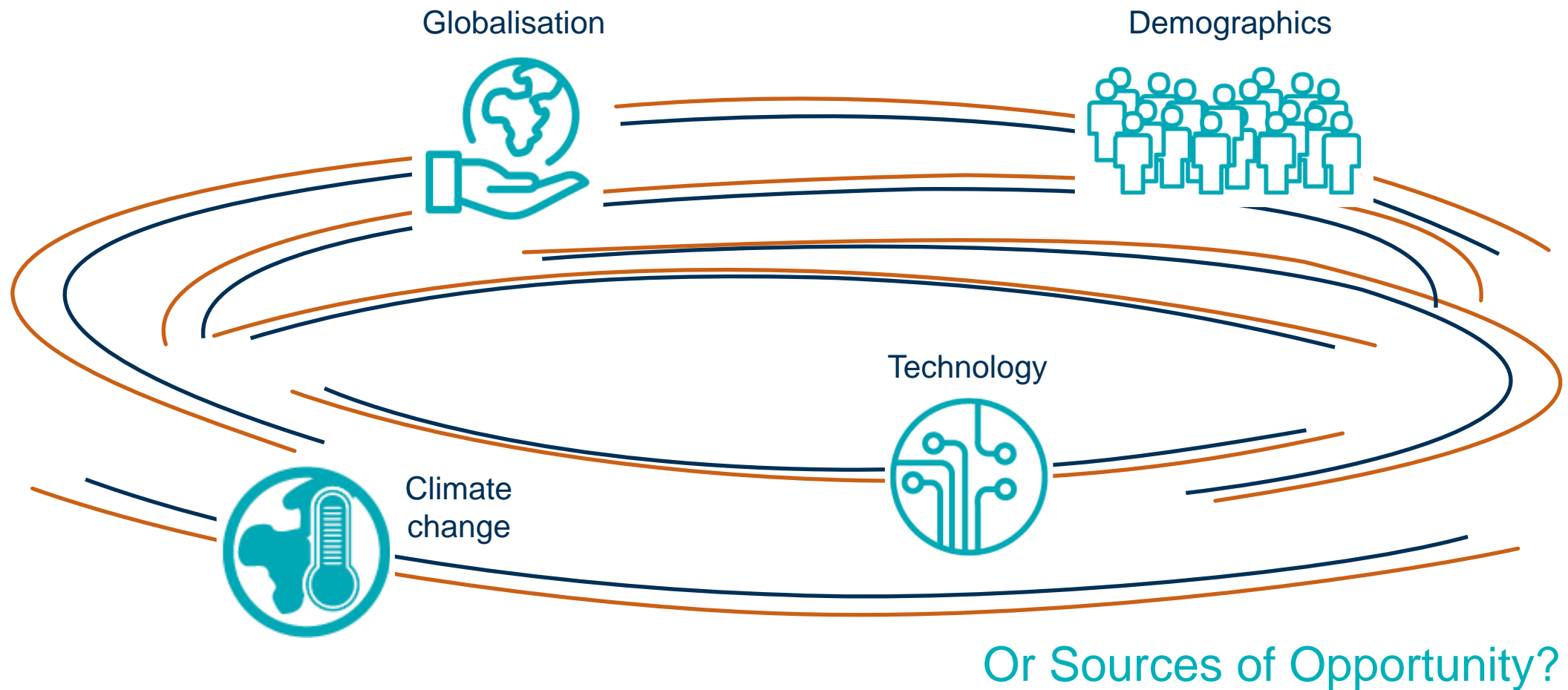
Hermes EOS

Integrated stewardship capabilities



A World in Transition

The Four Riders of the Apocalypse?



Strategy for the Long Term

Meeting Short Term Needs

Long term vision and strategy

Globalisation (or not?!)

Climate Change

Technology

Demographics

Capital allocation

M&A

Capital structure

Dividend policy

Disclosure

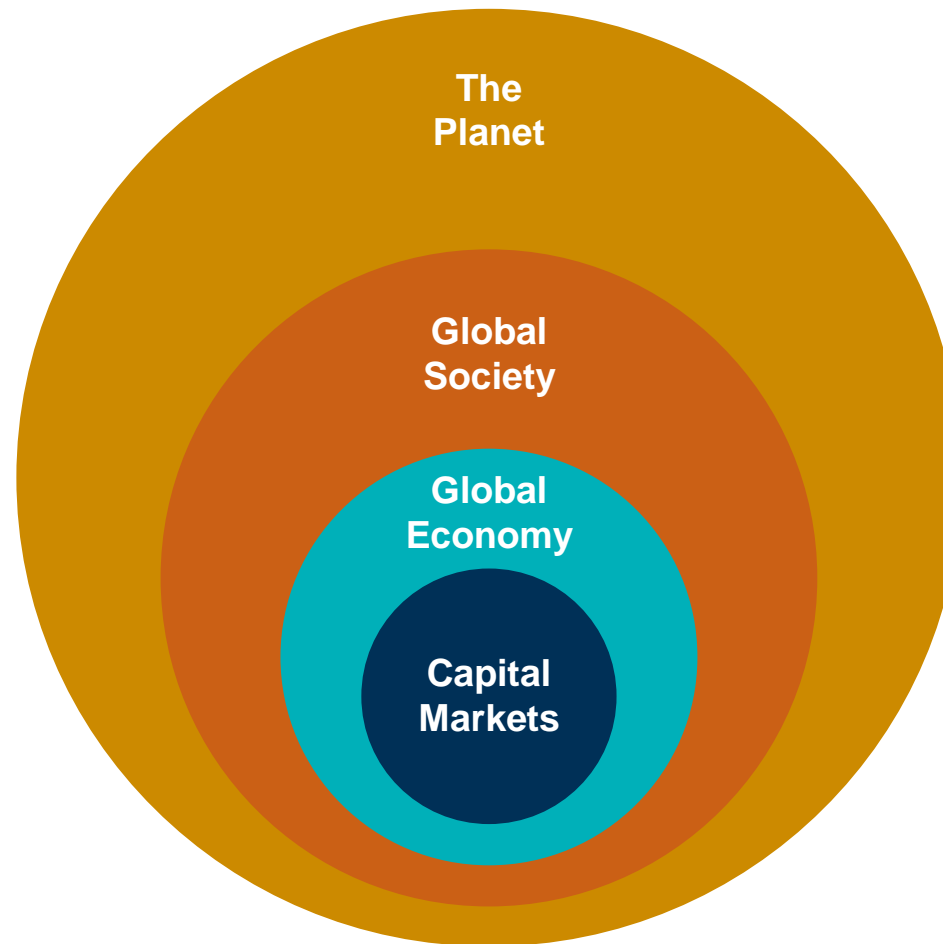
ROIC/WACC
ESG (or GES?)

Accounting practices
Share buyback

A complex, interconnected system

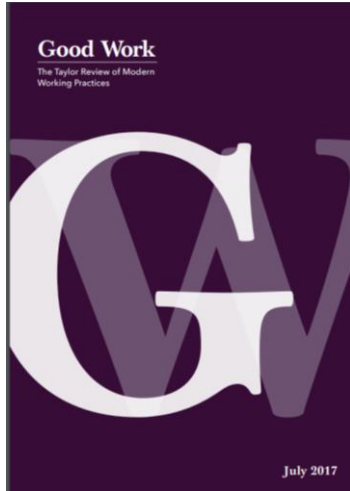
A system-level perspective

- ▶ Long-term vision
- ▶ Short term volatility
- ▶ Medium-term decisions
- ▶ Collaborative
- ▶ Global partnership
- ▶ Sustainable
- ▶ Prosperous society
- ▶ Technology enabled



Globalisation

Paradox of Progress



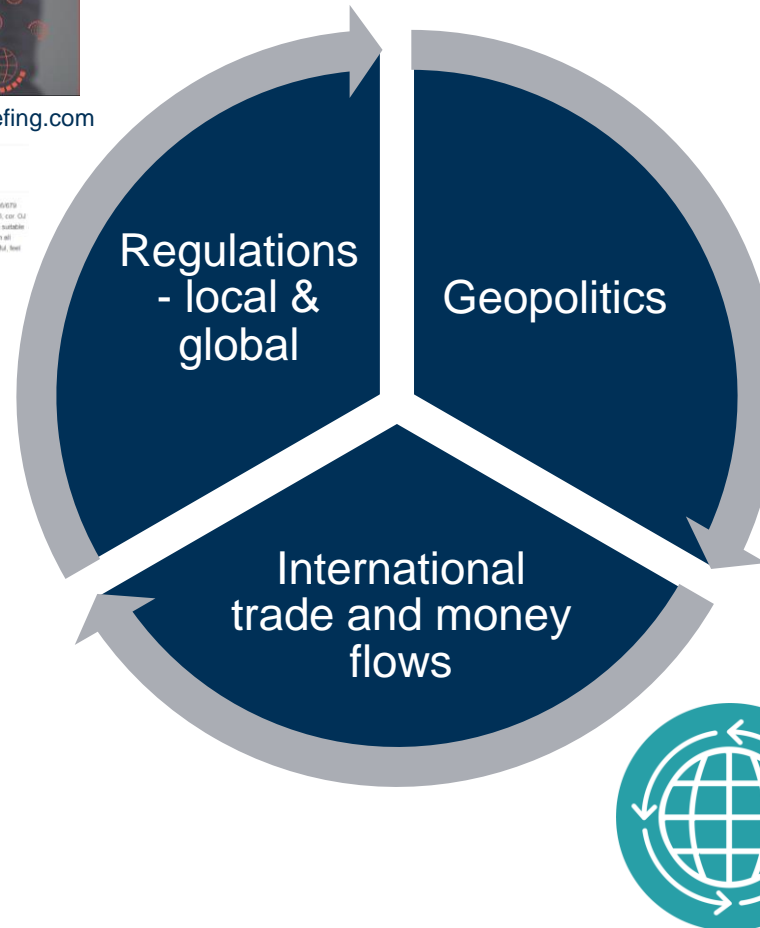
Source: The UK Government



Source: www.china-briefing.com

General Data Protection Regulation GDPR

Welcome to gdprinfo.eu. Here you can find the official PDF of the Regulation (EU) 2016/679 (General Data Protection Regulation) in the current version of the OJ L 119, 04.05.2016, cor. OJ L 127, 22.5.2016 as a neatly arranged website. All Articles of the GDPR are linked with suitable symbols. The European Data Protection Regulation is applicable as of May 2018, 2018 in all member states to harmonize data privacy laws across Europe. If you find the page useful, feel free to support us by sharing the project.



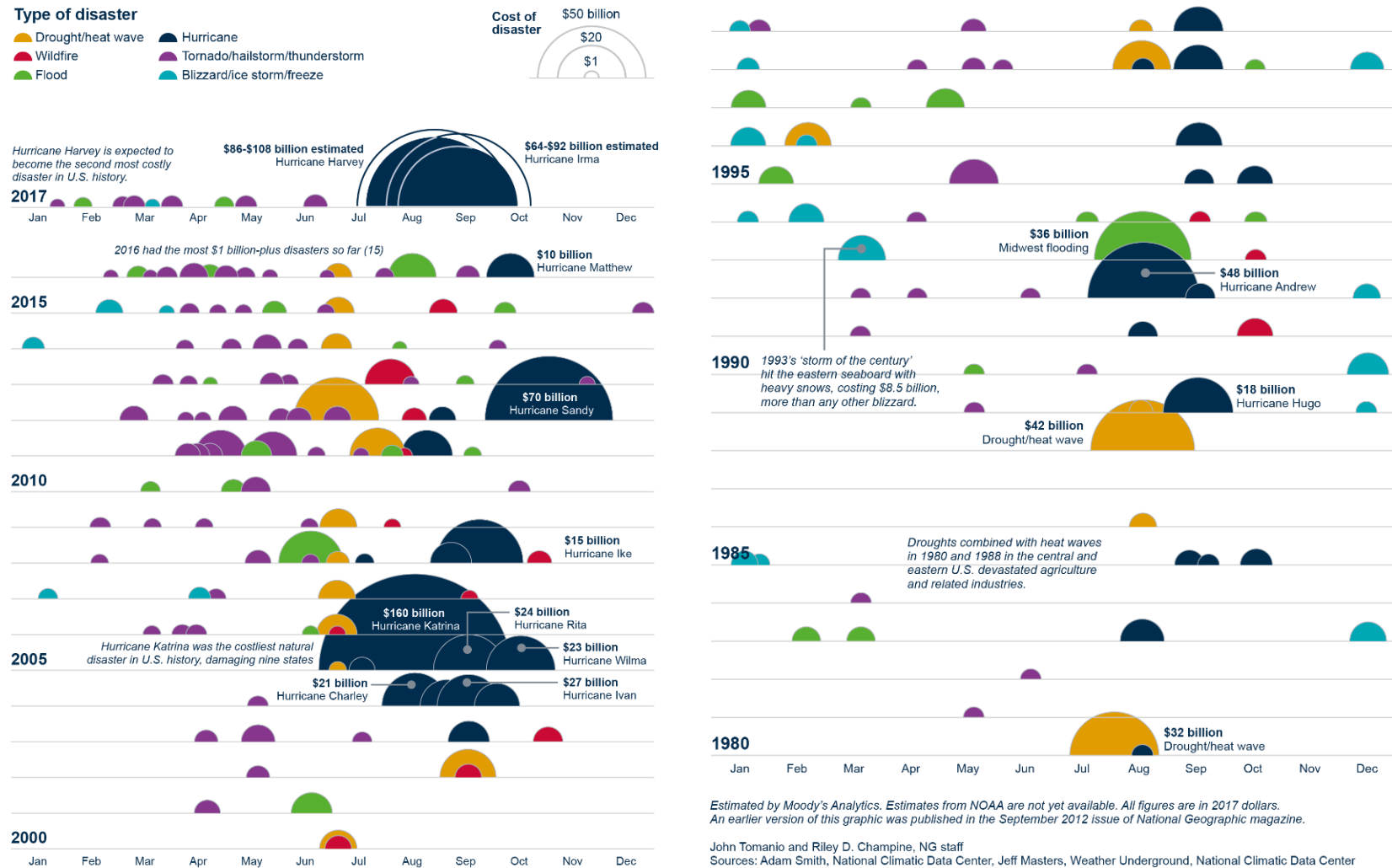
Source: The Economist



Source: Interpol.

Climate

Increase in cost, frequency & unpredictability



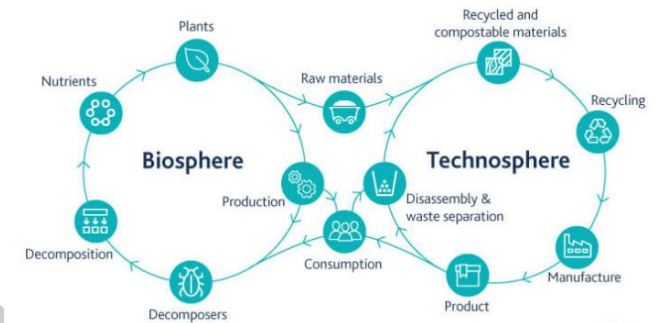
Demographics Drive Behaviour

Shifting investor, employee and customer expectations



Responsible investment & stewardship

Zero-waste: linear vs. circular



Human Capital

Shared economy



Technology

Enabling the Previously Impossible



Public policy and market best practice

In 2017 we recorded 210 public policy interactions



Corporate Governance

- ▶ Working group on Japan of the **International Corporate Governance Network**
- ▶ **CEO Investor Forum** in US
- ▶ Responded to consultation of AfeP-Medef on the revision of **French corporate governance code**



Environment

- ▶ Provided investor perspective to **CDP training seminar** in China
- ▶ Signatory of letter to G7 and G20 requesting continued commitment from governments to **2015 Paris Agreement**



Sector and Issue coverage

- ▶ **Banks:** Board structure, culture change, compensation, risk, company structure
- ▶ **Extractives:** stranded assets, carbon emissions, health and safety
- ▶ **Retail:** Supply chain, labour rights, indigenous population



Social

- ▶ Round table on UK **living wage**
- ▶ Met with UK All-Party Parliamentary Corporate Responsibility Group to discuss **bribery and corruption**.
- ▶ Co-signed petition to US SEC to change disclosure rules on **human capital management**



Stewardship

- ▶ Response to consultation FRC **UK Stewardship Code**
- ▶ Explained **investor stewardship** to non-executive directors and investors - Germany
- ▶ Hosted roundtable on **implementation of stewardship codes** in Asia




Engagement plan themes 2018-2020



Alignment with SDGs

From Risk to Opportunities, from short term to long term

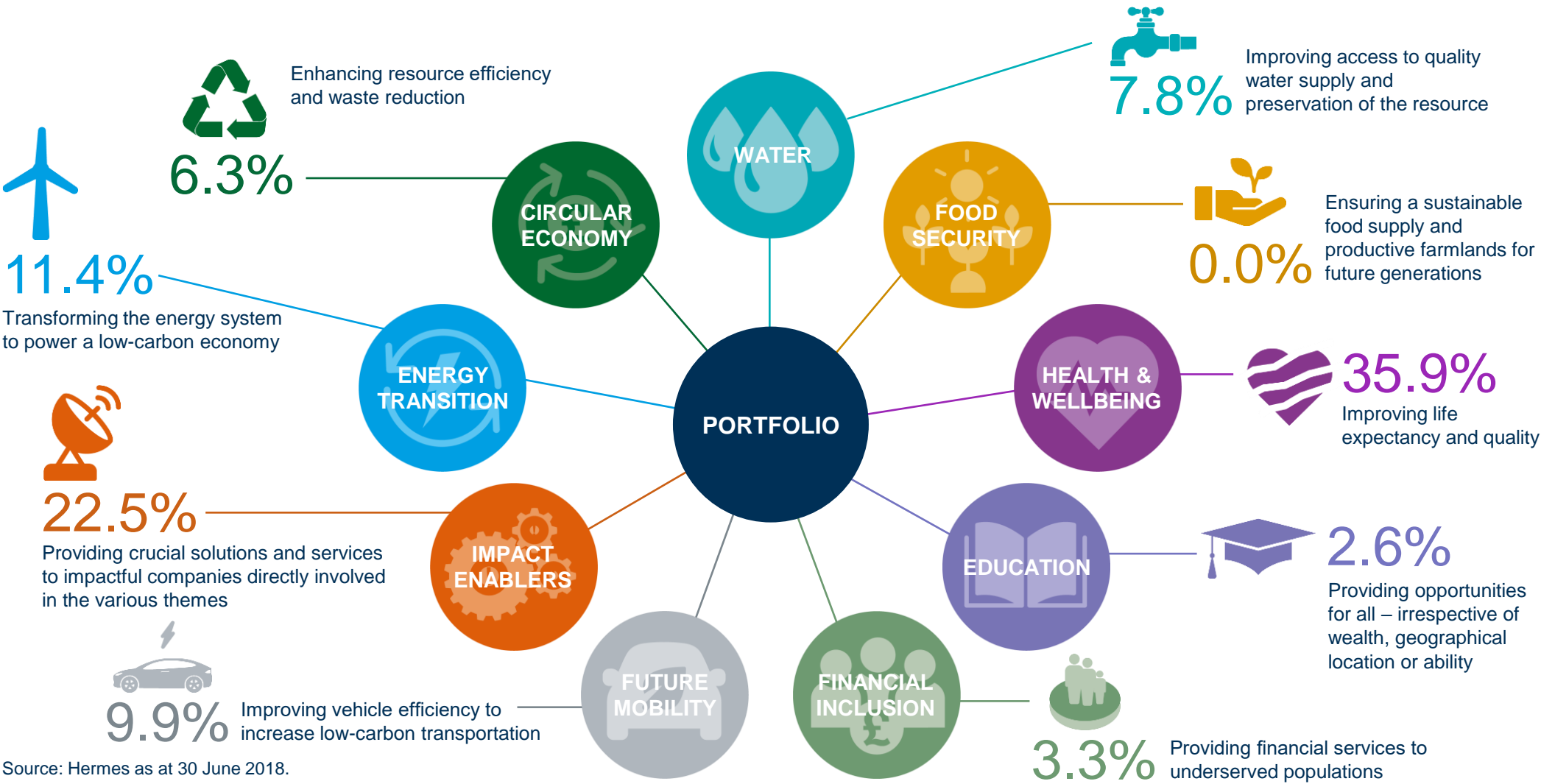
Alignment of UN SDGs with the themes of Hermes EOS' engagement programme:

		Environmental and social engagement themes									
		Climate Change	Pollution & Waste Management	Water	Bribery & Corruption	Conduct & Culture	Cyber Security	Diversity & Human Capital Management	Human Rights	Labour Rights	Supply Chain Management
1	No poverty								✓	✓	
2	Zero hunger	✓		✓							✓
3	Good health and well-being		✓						✓		
4	Quality education							✓	✓		
5	Gender equality							✓	✓	✓	
6	Clean water and sanitation	✓	✓	✓							
7	Affordable and clean energy	✓	✓								
8	Decent work and economic growth		✓					✓	✓	✓	
9	Industry, innovation and infrastructure	✓	✓	✓			✓				
10	Reduced inequalities							✓	✓	✓	
11	Sustainable cities and communities	✓	✓	✓							
12	Responsible consumption and production	✓	✓	✓							
13	Climate action	✓									
14	Life below water		✓								✓
15	Life on land	✓		✓							✓
16	Peace, justice and strong institutions				✓	✓	✓	✓	✓		
17	Partnership for the goals	✓									

✓ Direct Influence (✓) Indirect Influence

Source: UN Sustainable Development Goals, Hermes EOS analysis

A thematic approach to idea generation

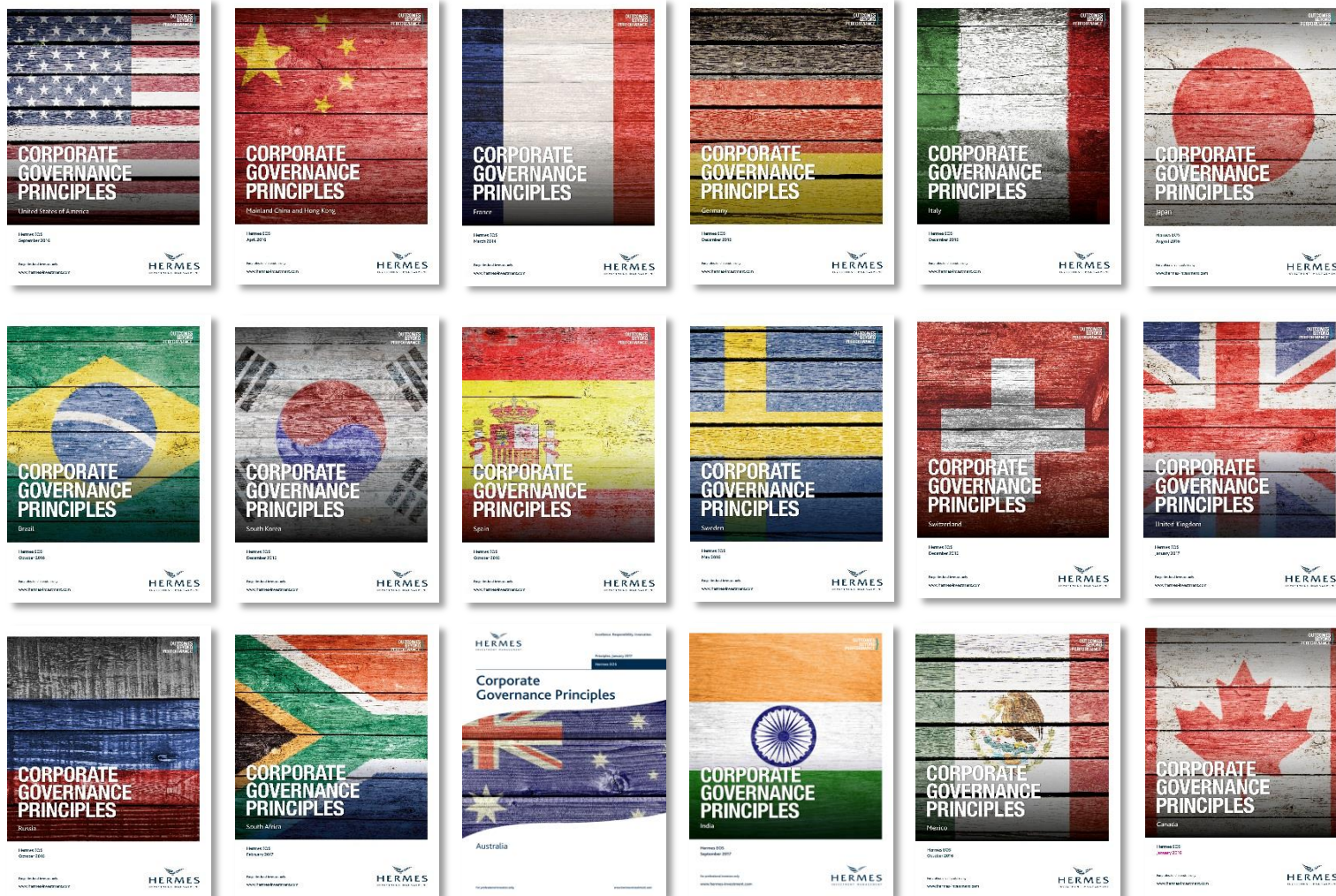


DRIVING STRATEGY FOR LONG-TERM SUCCESS WHILE FACING SHORT-TERM NEEDS

Appendices

Hermes EOS Corporate Governance Principles

Regional principles cover 18 markets



Source: Hermes.

Demonstrating engagement value

Recent academic evidence suggests...



ESG factors can enhance corporate value¹

- ▶ ESG factors associated with lower costs of capital and drive higher stock value
- ▶ Well-governed companies outperform companies with poor governance standards by an average of over 30bps per month
- ▶ 80% of relevant studies support ESG factors associated with driving higher stock value



Link between engagement and improved long-term value²

- ▶ Research programme with universities on link between our engagement, long-term value and company characteristics
- ▶ Engaged companies generate 2.4 - 4.4% higher annualised returns and that successful engagement leads to reductions in downside risk
- ▶ Similar results obtained on a competitor engagement programme



Engagement-specific factors have a major influence on engagement success³

- ▶ High level voting rights are no necessary condition for engagement success
- ▶ Contact with the chair is a condition present in most successful engagements
- ▶ On average, personal meeting increased change of engagement progress by about 5 percentage points

¹ Hoepner, Oikonomou, Sautner, Starks, Zhou (2018): ESG shareholder engagement and downside risk (working paper). ² Hermes Credit and Hermes EOS (2017): Pricing ESG risk in credit markets. ³ Wolff, Jacobey, Coskun (2017): Talk is not cheap – the role of interpersonal communication as a success factor of ESG engagements (working paper).

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Hermes Investment Management

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

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

Our investment solutions include:

Private markets

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

High active share equities

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

Credit

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

Multi asset

Multi asset inflation

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | New York | Singapore

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