


OUTCOMES
BEYOND
PERFORMANCE }

HERMES GLOBAL EQUITIES

HOW ESG INTEGRATION CAN HELP IMPROVE RETURNS

February 2019

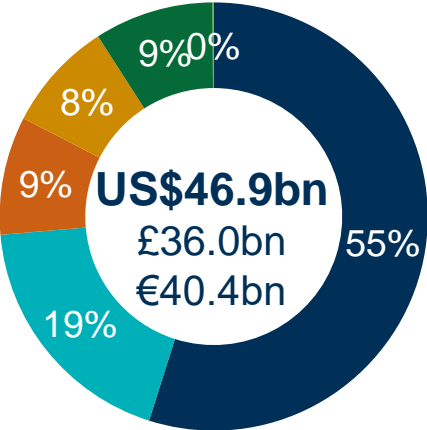
OUTCOMES BEYOND PERFORMANCE



Our approach to holistic returns means we are committed to delivering excellent long-term investment performance and stewardship, while improving the lives of many

Hermes Investment Management

A diversified platform



Total AUM (millions)	USD	GBP	EUR
Equity	25,762	19,755	22,179
Real Estate	8,798	6,747	7,575
Infrastructure	4,198	3,219	3,614
Fixed Income	3,912	3,000	3,368
Private Equity	4,221	3,237	3,634
Other	43	33	37

US\$468.2bn
£359.0bn / €403.1bn
 Under stewardship

470 STAFF

Located in:



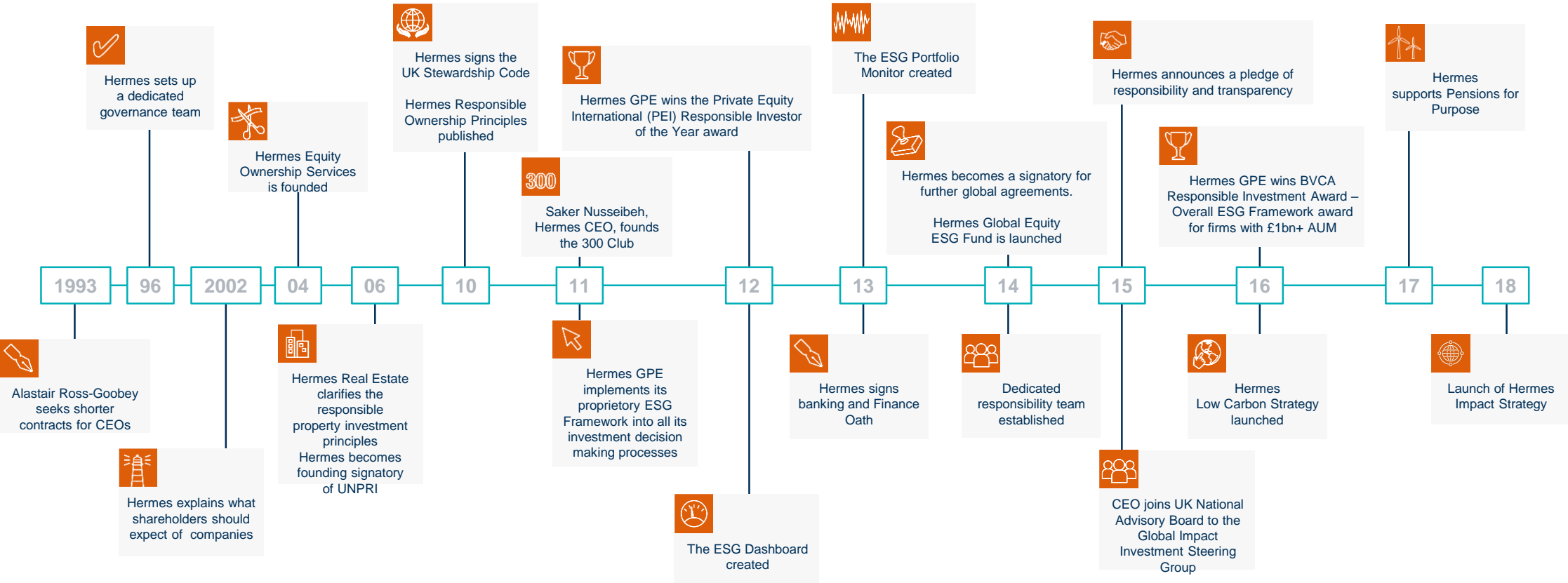
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Investment and
 stewardship staff

Please note the total AUM figure includes US\$8.4bn/£6.5bn/€7.2bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers Limited ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. US\$147.3m/£113.0m/€126.8m of total group AUM figure represents HFM mandates under advice. Source: Hermes as at 30 September 2018 with the exception of two portfolios totalling US\$4.3m/£3.3m/€3.7m valued as at 31 July 2018.

Our heritage

Responsible investment is in our DNA



The Why of Responsible Investment

Reputation

- ▶ Support beneficiaries' beliefs and ethics
- ▶ Reputation management relative to beneficiaries and society more broadly

Risk

- ▶ Management of ESG and other sustainable risks – when they are relevant and material
- ▶ Alignment of companies and policy makers decisions to investors' long term interests
- ▶ Value leakage in investment chain from beneficiaries to intermediaries

Returns

- ▶ Sustainable long term financial returns
 - Positive stakeholder returns leads to superior investment returns and sustainable companies
 - Value opportunities from investing in sustainable products and services

Wider impact

- ▶ Long term sustainability (including social and environment impact) of every investment
- ▶ Incentivise positive externalities and address negative externalities
- ▶ Affordability of goods and services
- ▶ Assist in creating a stable society

Responsible investment and ownership provides the industry's 'social licence to operate'

Optimal approach for each investor will depend on the needs of its beneficiaries and key stakeholders and available resources

What is ESG?













Market still lacks a clear definition



- ▶ Ethics v sustainability
- ▶ Wide range of viewpoints
- ▶ Assessing materiality
- ▶ Level and change – mindset
- ▶ Engagement

Embedded ESG

Sustainability focus is shared and connected across the organisation

<p>Corporate Level Driving responsibility</p>	 <p>Responsible investment policy & strategy A clear vision to unlock hidden value by investing responsibly.</p>	 <p>ESG Integration Founding signatory of UNPRI; all assets under management integrate ESG considerations.</p>	 <p>Sector & public policy engagement Promote best practice & influence the market to implement responsible investment principles.</p>	 <p>Strategy & policy targets provide guidance & structure</p>
<p>Portfolio Level Managing responsibly</p>	 <p>Risk management Managing aggregate exposures to ESG risks</p>	 <p>Tracking ESG Risks Portfolio ESG Monitor highlights the best & worst companies across our holdings</p>	 <p>Independent assessment Regular meetings with Hermes EOS & the Hermes Responsibility team to discuss ESG risks</p>	 <p>Sustainability & responsible investment tools integrated throughout the investment process</p>
<p>Stock Level Investing responsibly</p>	 <p>Stock Selection Avoiding companies with unnecessary ESG risks & identifying companies undergoing positive change</p>	 <p>Systematic assessment ESG embedded in fundamental analysis via the QESG score & ESG Dashboard</p>	 <p>Active ownership Voting & engagement insights from Hermes EOS along with controversial company reports</p>	 <p>Combining insights from Hermes EOS with specialist external research</p>

Generating insights and change from engagement




Using engagement to identify and to promote positive change in companies

- ▶ Successful engagement requires senior experienced practitioners
- ▶ Long term relationships with companies, often local language conversations
- ▶ Two-way collaboration between engagers and portfolio managers
- ▶ Focus both on material ESG issues and also on wider impact issues
- ▶ Voting, engagement and public policy advocacy



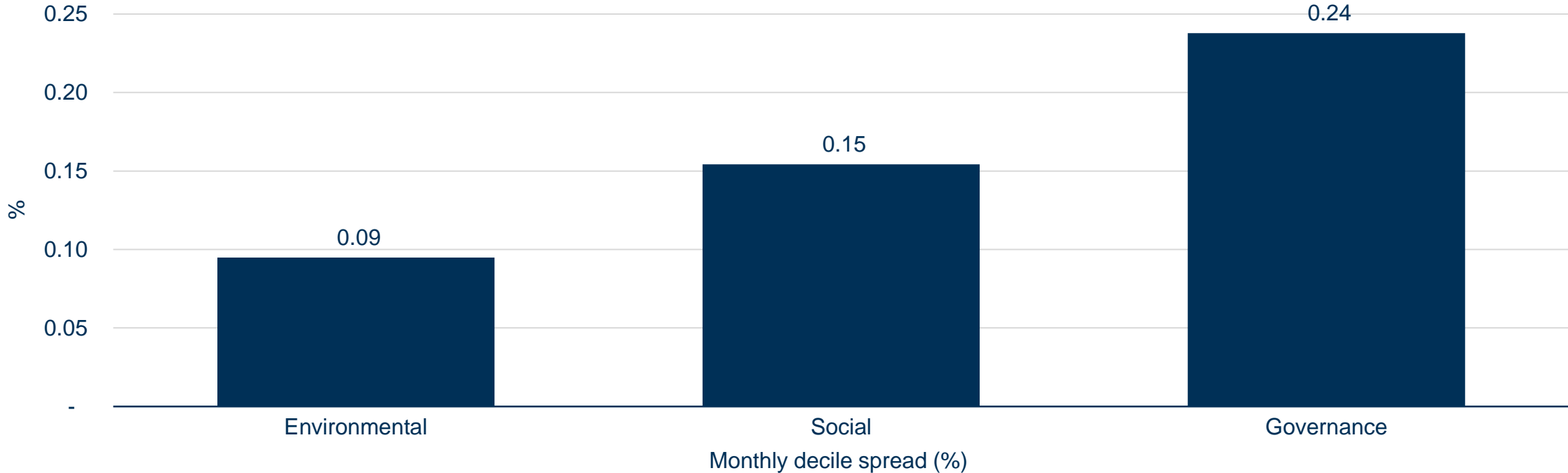
The QESG Score

An early indicator of changing ESG risks

	E Environmental	S Social	G Governance
 Processes Does the company have appropriate policies and procedures?	Water management, quality of disclosure, etc	Health and safety policy, human rights policy, etc	Business ethics policy, remuneration policy, etc
 Reality How is the business performing?	Carbon risk reporting, waste from production, etc	Lost time incident rate, exposure to inequality, etc	Board independence, exposure to controversy, etc
 Trend How is the company changing over time?	Carbon intensity levels, renewable energy targets, etc	Number of fatalities, employee turnover rate, etc	Change in diversity score, engagement progress, etc

Performance from ESG factors

Validating the philosophy



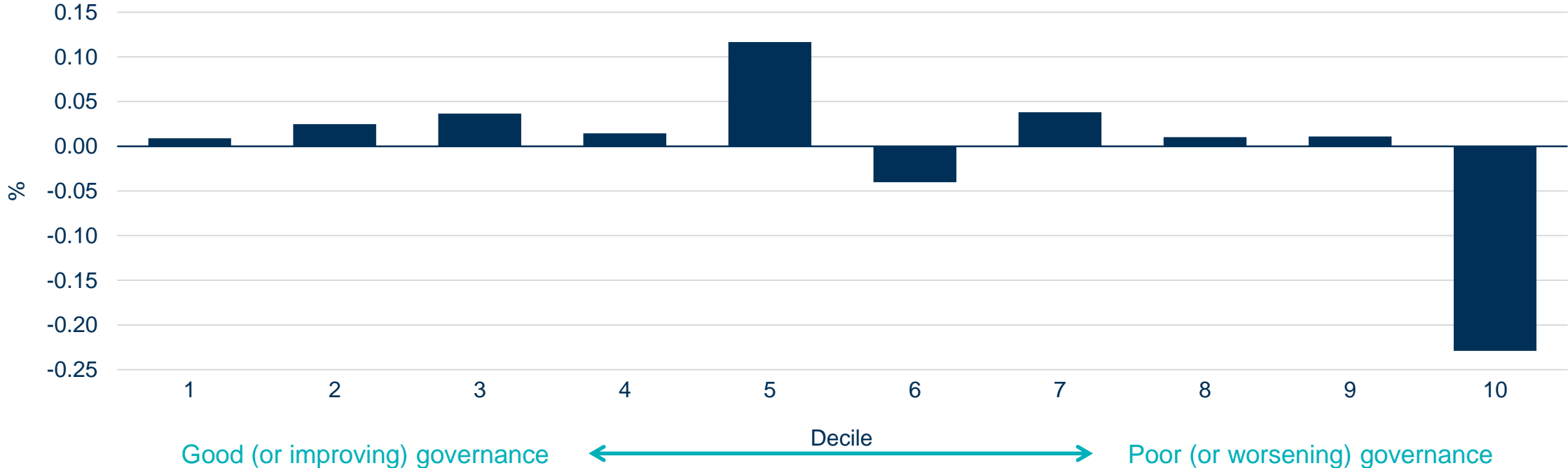
The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.

Source: Hermes Global Equities, 30 June 2018. Note: Monthly decile spread is the average difference in monthly return between companies ranked in the top 10% and companies ranked in the worst 10%. Figures calculated using constituents of the MSCI World index assuming monthly rebalancing.

Poorly governed companies underperform

Performance by decile of governance ranking

Average monthly relative return (%)

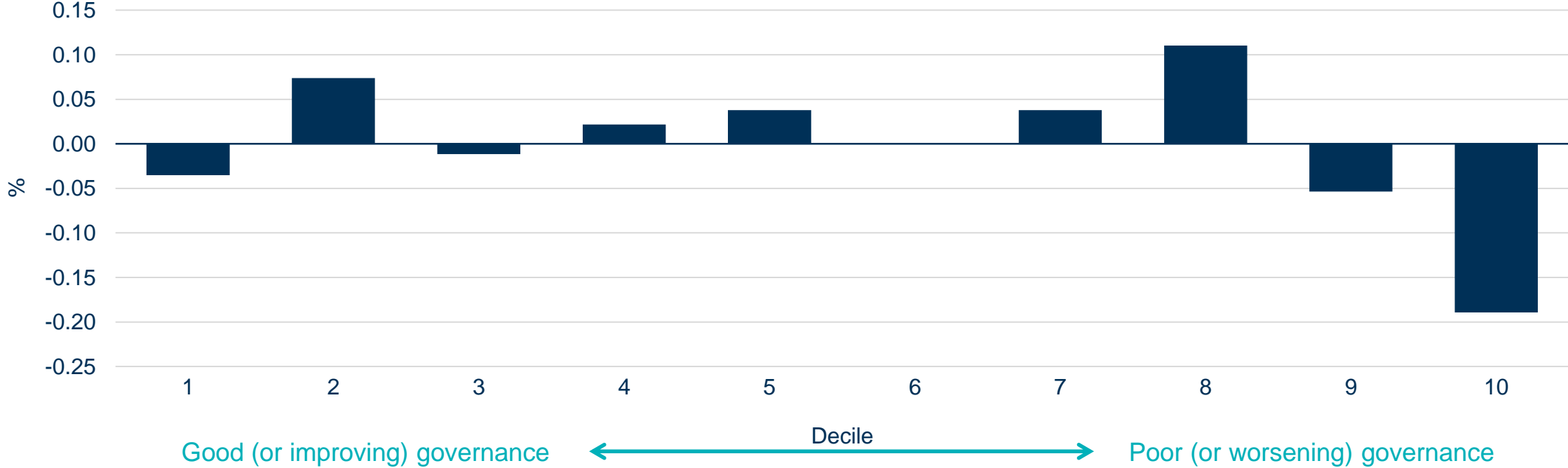


Source: "ESG Investing. A social uprising" by Hermes as at 30 June 2018, calculated using data from 31 December 2008 to 30 June 2018. Note: Calculation based on the monthly return of the Hermes proprietary 'QG' governance score, ranked by decile. Figures calculated using constituents of the MSCI World index assuming monthly rebalancing.

Companies with poor social practices underperform

Performance by decile of social ranking

Average monthly relative return (%)

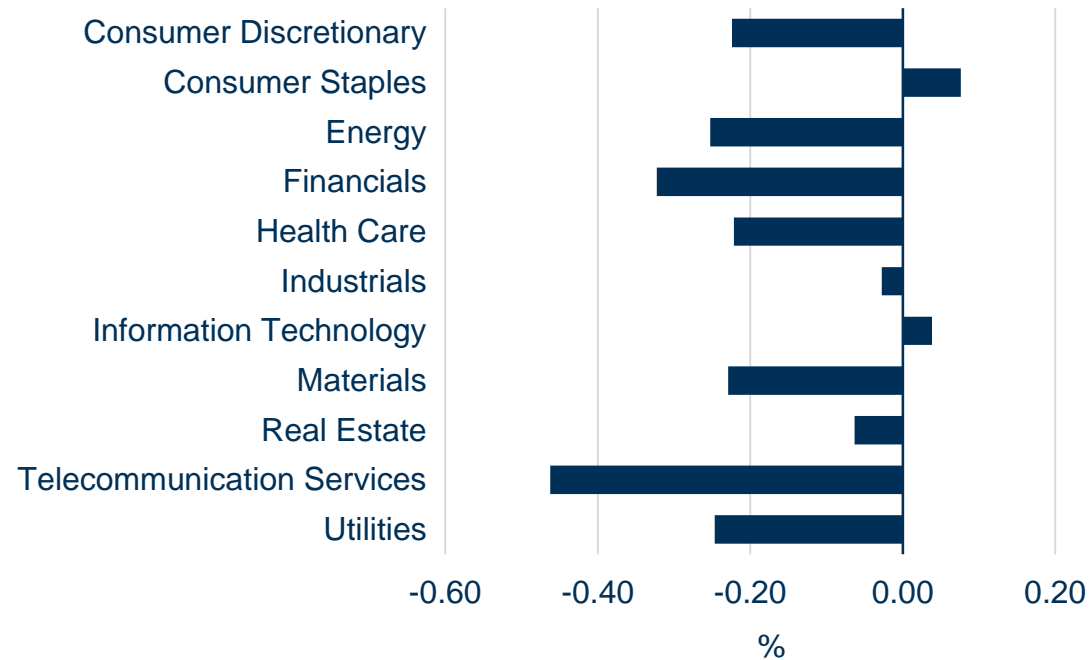


Source: Hermes calculated using data from 31 December 2008 to 30 June 2018. Note: Calculation based on the monthly return of the Hermes proprietary 'QS' social score, ranked by decile. Figures calculated using constituents of the MSCI World index assuming monthly rebalancing.

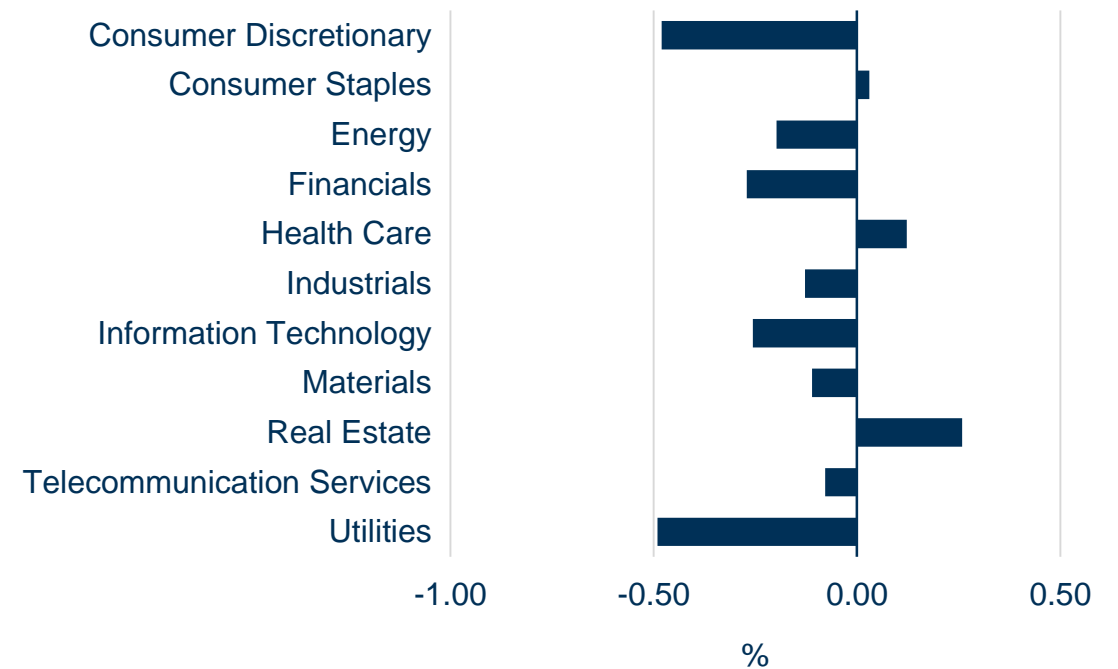
Consistent across sectors

Performance of companies with lowest governance and social rankings

Governance



Social

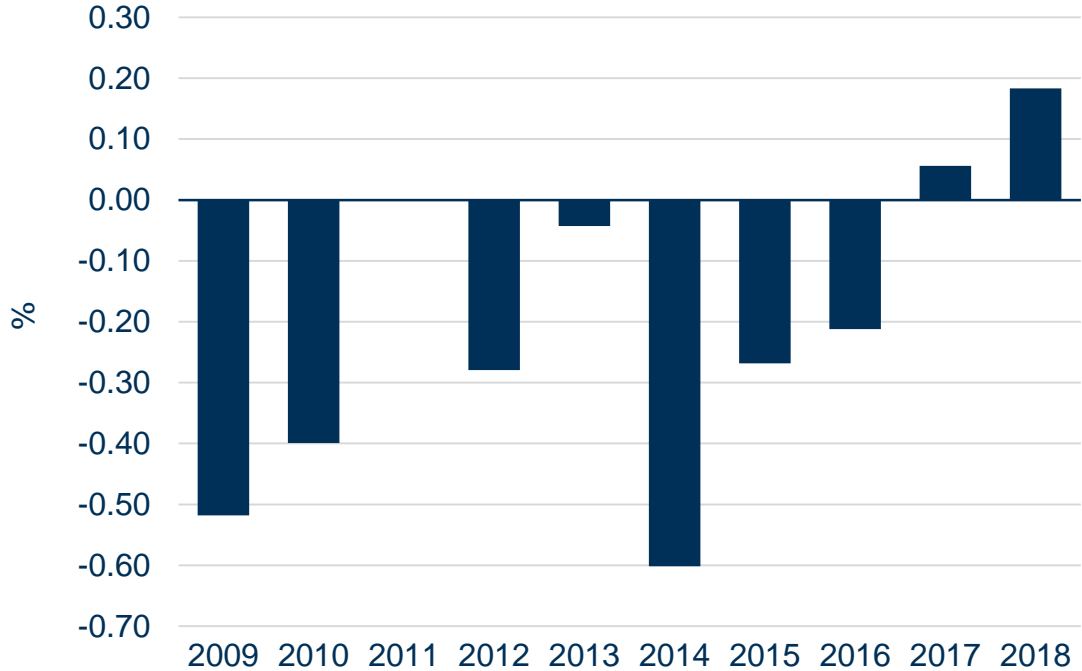


Source: Hermes Global Equities, 31 December 2008 – 30 June 2018. Average monthly relative return of companies ranked in decile 10 (%). Note: Calculation based on the monthly return of stocks with a Hermes proprietary 'QG' governance score and 'QS' social score ranked in the bottom decile. Figures calculated using constituents of the MSCI World index assuming monthly rebalancing.

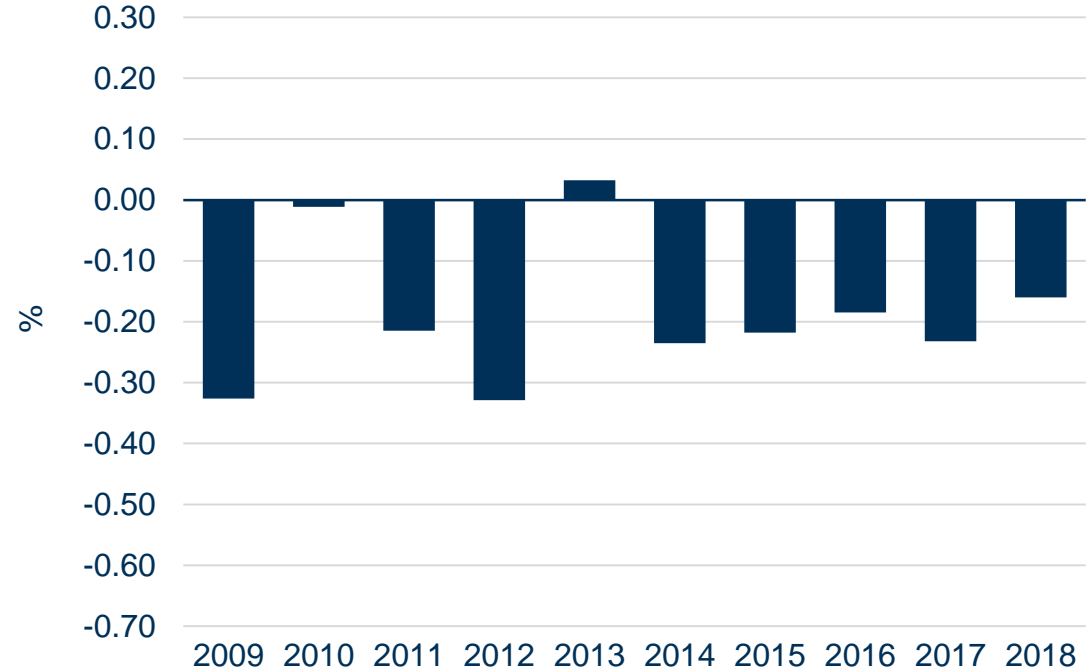
Consistent over time

Annual return of companies with lowest governance and social rankings

Governance



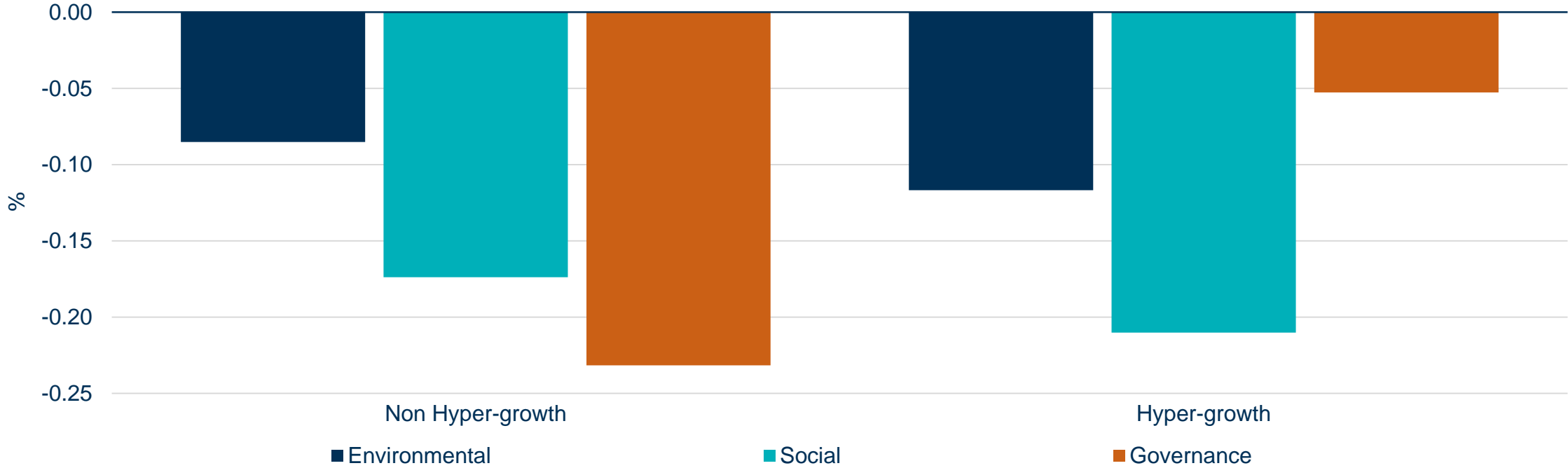
Social



Source: Hermes calculated using data from 31 December 2008 to 30 June 2018. Note: Calculation based on the monthly return of the Hermes proprietary 'QG' governance score and 'QS' score. Figures calculated using constituents of the MSCI World index assuming monthly rebalancing.

Governance less important for hyper-growth

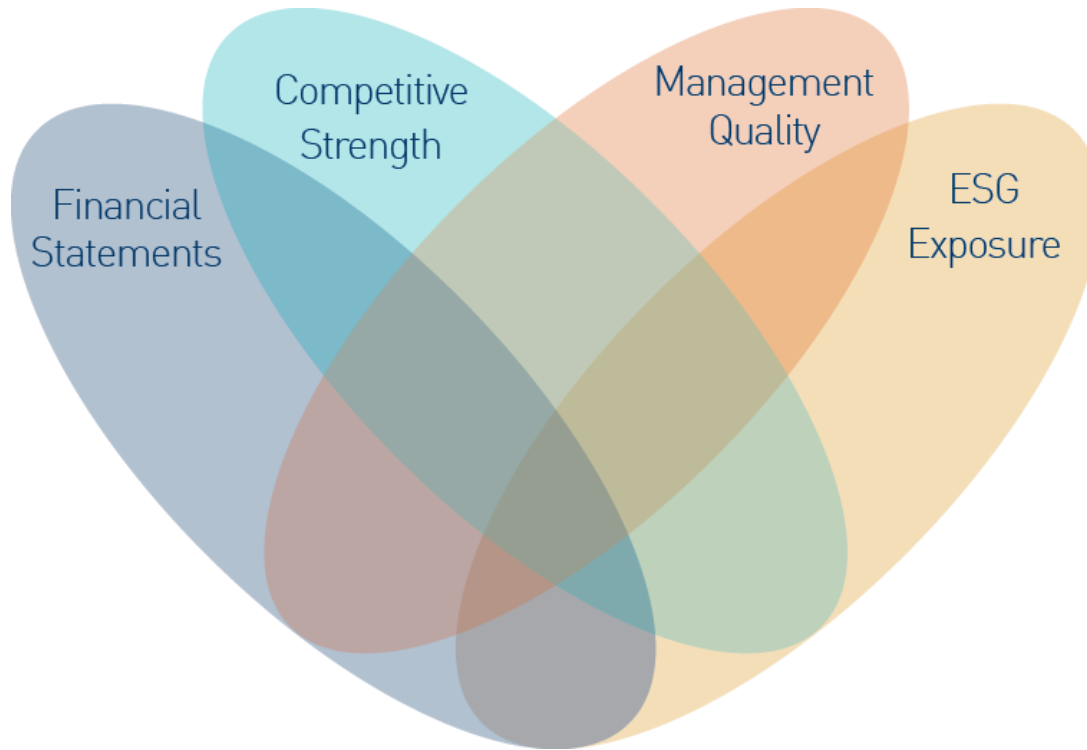
Relative return of companies ranked in decile 10 (%)



Source: Hermes calculated using data from 31 December 2008 to 30 June 2018. Note: Calculation based on the monthly return of the Hermes proprietary 'QG' governance score and 'QS' score. Figures calculated using constituents of the MSCI World index assuming monthly rebalancing.

Implementing the philosophy

Pragmatism over perfection



Ideal

We look for attractively-valued companies with the following characteristics:

- ▶ Impressive financial statements
- ▶ Competitive strength
- ▶ High-quality management
- ▶ Good or improving ESG exposure

Reality

- ▶ Because very few stocks provide this, we identify those with the most attractive combinations of these characteristics and the most compelling valuations

Activity

Integrating engagement and ESG into the investment process

Purchased

Danish utility

- ▶ Danish Utility with a commitment to renewable energy
- ▶ Legacy coal, oil & gas assets
- ▶ Contributing to transition to low carbon economy

UK miner

- ▶ High quality gold miner
- ▶ Industry with significant ESG risks – the company is known as best in class
- ▶ Positive engagement history around succession and remuneration confirm commitment to responsibility

Held

Hong Kong Telecoms company

- ▶ State controlled company with sector wide influence
- ▶ Board level dialogue on board structure and bribery and corruption
- ▶ One of more progressive attitudes to ESG in region

Austrian energy company

- ▶ Good progress on environmental policy with a specific focus on greenhouse gases
- ▶ Strong risk policies in place to combat potential bribery and corruption
- ▶ 'A' rated in the 2015 CDP Climate Change survey

Sold

US food producer

- ▶ Industry leader offering consistent growth at attractive price
- ▶ Top contributor to performance over prior three years
- ▶ Despite positive ESG rhetoric and response to engagement, recurring ESG breaches prompted decision to divest

South African Telecoms company

- ▶ Evasive to engagement attempts regarding data privacy and disclosure in conflict regions
- ▶ Post divestment, received record fine for a telecoms company

For illustrative purposes only. The above information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

Summary

ESG Integration & active ownership is essential for asset owners

Active ownership is expected

- ▶ Governments, regulators and investors expect greater engagement from asset owners and managers
- ▶ Aligned asset managers will achieve higher growth and greater valuations
- ▶ Fully implementing active ownership is complex, time consuming and expensive

Done correctly, ESG integration can improve outcomes

- ▶ Clarity or purpose/definition is crucial
- ▶ Assess level and change
- ▶ Fully embed in every decision across all asset classes
- ▶ Evidence increasingly shows higher risk-adjusted returns

“Hermes practises what it preaches... it invented responsible investing long before it became fashionable”

Daily Mail 8 October 2016

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Hermes Investment Management

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

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

Our investment solutions include:

Private markets

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

High active share equities

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

Credit

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

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | New York | Singapore | Denmark | Frankfurt

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