European SRI Transparency Code

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and is designed to cover a range of assets classes, such as equity and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: www.eurosif.org. The Code comes with a Guidance Manual for fund managers on how to best use and respond to the Code. The present version of the Code was approved by the Board of Eurosif in February 2018.

**REVISION OF THE CODE**

In 2017 the Code was updated to better reflect the continuing evolution of the European SRI market. A Working Group was set up to facilitate revision of the Code in line with the latest developments in the industry and in view of the latest work carried out by experts at the European and global level.

Applications to sign up to the Code will now be in line with key elements of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), Article 173 of the French TECV Act and the latest recommendations made by the High-Level Group of Experts on Sustainable Finance (HLEG) in its final report published in January 2018. Questions that are specifically designed to reflect those recommendations/legislation are indicated in the Code with footnotes.

**TWO KEY MOTIVATIONS UNDERPIN THIS CODE**

1. The opportunity for retail SRI funds to provide clarification to investors and other stakeholders about their SRI approach in an easily accessible and comparable format.
2. Proactive strengthening of self-regulation to contribute to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

**GUIDING PRINCIPLE**

Signatories to the Code should be open and honest and should disclose accurate, adequate and timely information to enable stakeholders, especially consumers, to understand the ESG policies and practices of the fund.

**COMMITMENTS BY SIGNATORIES**

- The order and exact wording of the questions should be followed;
- Responses should be informative and clear, and the resources and methodologies used should be described in as much detail and as precisely as possible;
- Funds should report data in the currency that they use for other reporting purposes;
- Reasons preventing the fund from providing all or part of the information to a given question should be clearly stated and, in such cases, signatories should state when they will be able to answer the question;
• Responses should be updated at least on an annual basis and should have a precise publication date;
• Responses to the Code should be easily accessible from the website of the fund and/or of the fund manager. In any case, signatories should make it clear where to find the information required by the Code;
• Signatories are solely responsible for the answers to the questions, and should state this in their response.

Statement of Commitment

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of Hermes Investment Management. We have been involved in SRI since 1993 and welcome the European SRI Transparency Code.

This is our second statement of commitment and covers the period October 2018 to October 2019. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Compliance with the Transparency Code

Hermes Investment Management is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate.

Hermes Investment Management meets the full recommendations of the European SRI Transparency Code without any exceptions.

October 2018

Eurosisf classification of Sustainable and Responsible Investment¹ strategies

¹ Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors and to benefit society by influencing the behaviour of companies. Ref. Eurosif 2016
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1. **List of funds covered by the Code**

### Name of the fund(s): Hermes Global Equity ESG Fund

<table>
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<tr>
<th>Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)</th>
<th>Asset class</th>
<th>Exclusions standards and norms</th>
<th>Fund capital as at 30 September 2018</th>
<th>Other labels</th>
<th>Links to relevant documents See below</th>
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</thead>
<tbody>
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<td>X Best-in-Class Investment section</td>
<td>Passive investing – core benchmark: specify the index tracking</td>
<td>X Controversial weapons</td>
<td>To be filled out with a number of AuM €249.3 million</td>
<td>□ French SRI label</td>
<td>- (KIID)</td>
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<tr>
<td>X Engagement &amp; Voting</td>
<td>Passive investing</td>
<td>X Alcohol</td>
<td></td>
<td>□ French TEEC label</td>
<td>- Prospectus</td>
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<tr>
<td>X ESG Integration</td>
<td></td>
<td>X Tobacco</td>
<td></td>
<td>□ French CIES label</td>
<td>- Management report</td>
</tr>
<tr>
<td>□ Exclusions</td>
<td>ESG/SRI benchmark: specify the index tracking</td>
<td>X Arms</td>
<td></td>
<td>□ Luxflag Label</td>
<td>- Financial and non-financial reporting</td>
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<tr>
<td>□ Impact Investing</td>
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<td>□ FNG Label</td>
<td>- Corporate presentations</td>
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<tr>
<td>□ Sustainability Themed</td>
<td>X Norms-Based Screening</td>
<td></td>
<td></td>
<td>□ Austrian Ecolabel</td>
<td>- Other (please specify)</td>
</tr>
</tbody>
</table>

**Passively managed**
- Shares in a euro area country
- Shares in an EU country

**Actively managed**
- Bonds and other debt securities denominated in euro
- International bonds and other debt securities
- Monetar y assets
- Short-term monetary assets
- Structured funds

**X International shares**
- Nuclear power
- Human rights
- Labour rights
- Gambling

**X Pornography**
- Animal testing
- Conflict minerals
- Biodiversity
- Deforestation
- CO2 intensive (including coal)
- Genetic engineering
- Other (please specify)

**X Global Compact**
- OECD Guidelines for MNCs
- ILO Conventions
- Other (please specify)
2. General information about the fund management company

2.1. Name of the fund management company that manages the applicant fund(s)
Hermes Fund Managers Limited, 150 Cheapside, London, EC2V 6ET.
www.hermes-investment.com
The fund is not subject to a management delegation.

2.2. What are the company’s track record and principles when it comes to integrating SRI into its processes?
Please provide a hyperlink to any of the company’s sustainable investment webpages.

Our primary purpose is helping beneficiaries retire better by providing world class active investment management and stewardship services. We believe this purpose includes 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.

It is this understanding that informs our belief that we have a duty to consider the longer term risk and opportunities when investing. This means extra work in analysing companies; understanding externalities, governance practices, environmental impacts, treatment of workforces and the influence to improve the behaviour of those companies in which we have invested; the operations of the assets that we directly manage, and advocating for systematic improvements to the financial system in which we participate.

Achieving this mission will mean putting the interests of our clients and their ultimate beneficiaries’ front and centre of all that we do. This is a commitment that all Hermes employees are committed to and is embodied in our Pledge of Responsibility.

In the context of our mission as a firm, described above, each of our funds is committed to incorporating ESG considerations into their investment approach in order that portfolio managers are cognisant of the full range of risks and opportunities inherent in any company and are similarly mindful of the impact of a company’s operations on wider society and ultimately are able best able to generate strong and sustainable returns.

In addition our Delivering Holistic Returns document which was authored in January 2018, covers what we do across asset classes and as a responsible investor, owner and firm.

2.3. How does the company formalise its sustainable investment process?
Please provide a link to the sustainable investment policy.
Please provide a link to the voting rights policy.
Please provide a link to the engagement policy.

In line with good corporate governance practice, the Hermes board sets the company’s strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews and holds management accountable for performance within a framework of prudent and effective controls which enables risk to be assessed and managed. The board also sets the
company’s values and standards and ensure that its obligations to its shareholders and others are understood and met.

While the responsibility for implementing our approach resides with all Hermes personnel, we have a number of structures, teams and governance processes which ensure that across the firm we discharge our responsibilities in a consistent and effective manner.

**Portfolio Review Committee**, our Investment Office which reports directly to our CEO, acts as an independent oversight body across all our investment teams. A key element of this is the monthly Portfolio Review Committee which monitors in detail the performance and risk with each fund and strategy and challenges investment teams.

**Responsibility Working Group**, constituted of senior representatives from across the business and chaired by our Head of Responsibility who reports directly to our CEO, is charged with reviewing and recommending policy for decision by our Executive Committee in respect of all matters pertaining to the delivery of holistic returns.

**Dedicated Responsibility Office**, ensures that responsibility is embedded through the business. This extends to Hermes approach to its own governance and practices, as well as the integration of engagement and ESG factors into investment strategies and processes.

### ESG Policy

**Engagement Objectives and Plan**

**Voting**

We view the vote as part of the asset that a shareholder owns and recognise we have an implicit fiduciary duty to exercise, or to recommend the exercising of this right, in a considered and intelligent fashion.

Our regional corporate governance principles provide a clear and transparent framework for our voting policy and we manage our voting via a partnership with proxy advisory firm ISS. While we have developed our own best practice regional principles which are based on local market standards, we benefit from the additional research and vote processing service ISS provide. The research received from ISS is however, only one of several inputs that we utilise in reaching a judgement and making voting recommendations to clients.

**Regional Corporate Governance Principles**

2.4. **How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?**

Hermes’ equity and credit teams employ a long-term investment philosophy (whether value- or growth-oriented) and a process that involves focusing on business fundamentals and long-term franchise value. ESG considerations feature throughout the investment process and a number of proprietary tools supplement the investment team’s processes to enhance their fundamental analysis and result in better investment decisions.

In addition to making use of best-in-class third party research provided by ISS, MSCI, Sustainalytics, Trucost, and others, our investment teams incorporate ESG factors into their investment process by using a range of in-house proprietary tools which include:

**ESG Dashboard**

The proprietary Hermes ESG dashboard ensures that all companies (subject to the availability of the data) can be compared against their peers on a sector, regional or global basis with respect to a range of ESG considerations. Our proprietary QESG score captures how well a company manages its ESG risks, and importantly whether this is improving or not. The QESG score not only incorporates third party research indicators but also the insights of our voting and engagement activity. The change in score can provide an early warning signal or suggest that management is successfully
grappling with an issue. This stock specific analysis is a valuable input to the investment process as well as ongoing monitoring of, and, where appropriate, engagement with companies.

**Portfolio Monitor**

Through the use of our Portfolio ESG Monitor we are able to observe the aggregate ESG risk across our portfolios in both absolute and benchmark-relative terms, subject to the availability of data and company disclosures. Investment teams are able to break these measures down into the constituent environmental, social or governance risks and view the ESG metrics for each portfolio company with the best and worst performers identified.

**Climate change analytics**

Our portfolio managers strive to understand all components of risk and return within their investee companies. This analysis extends beyond the financial numbers to include a company’s greenhouse gas (GHG) emissions, energy efficiency, exposure to water stress and their potential impact upon a company’s future prospects within different climate change scenarios. To do so effectively, it is crucial that analysts have straightforward access to fundamental ESG and engagement data, which are relevant and material.

Hermes investment teams can see in real-time and in detail, the level and intensity of carbon across their portfolios; which portfolio companies are the greatest emitters and most at risk. We look at the data through multiple lenses to identify those companies whom may be better or worse placed and where additional research or engagement may be necessary. Analysts are subsequently able to see the progress of ongoing engagement towards mitigating the potential risk – we have a firm-wide commitment to engage with the highest emitting stocks in each of our funds. The ability to test-out ‘what-if’ scenarios ensures that we remain forward thinking and mindful of the impact our investee companies have on the world around them in addition to the opportunity or risk of the investment.

We believe that ESG-aware investors should not rely on data alone, as it is often backward looking and updated infrequently and at a time lag. As such, active ownership is an important pillar of our investment approach. The voting and engagement activities of our stewardship team can promote positive change within companies, unlocking hidden value and also providing a forward-looking view of ESG and broader performance that can lead to opportunities.

Hermes’ investment teams also benefit from the expertise of our specialist in-house stewardship team, Hermes EOS, which was established in 2004 and boasts one of the largest stewardship resources globally, composed of an effective group of highly and diversely skilled, multi-national professionals, all committed to influencing leading businesses on governance and sustainability matters. Hermes EOS alerts Hermes equity teams of any ESG issues affecting stocks that are included in the portfolios and votes at the general assembly meetings of companies held in the portfolios. This enables Hermes investment teams to incorporate corporate social performance and responsibility considerations into their investment process in a seamless, complementary and risk-aware manner, and further strengthens the alignment and transparency with our clients.

When the investment teams identify an issue with a company, they will not necessarily choose not to invest in it, as long as its business case is strong, the valuation already reflects the risks, and they believe in management’s ability. When this is the case, the team relies on Hermes EOS to undertake engagements with the company due to their expertise and the significant influence they wield through their many clients (Hermes EOS often has multiple clients invested in the stocks the team chooses). The aim of these engagements is to protect the value of clients’ investments by limiting risk or unlocking value or to voice clients’ concerns. Members of the investment team will often join their stewardship colleagues in these meetings with companies.

Managing climate and carbon risks remains a key priority for Hermes as the economy decarbonises, in particular by investing in opportunities that can deliver new growth areas and job creation. We are confident that by expanding on the work we already carry out in measuring carbon risk to include scenario analysis will help us, other investors and the assets themselves understand much better the scale of the carbon opportunity and more specifically on how to deliver on it. At Hermes, we will continue to manage our carbon risks, challenge the current economic and financial models to encourage the
change required to meet the scientifically guided climate change objectives and identify opportunities to improve the long-term financial performance of our assets.

We are committed to engaging with all of the highest emitting companies across each of our public markets portfolios in order to drive up disclosure levels, promote scenario testing and ensure operations are as energy efficient as is practicable. Additionally, we have actively managed down the energy efficiency of our real-estate assets for many years with detailed disclosures provided annually of performance against targets. We are members of, among other initiatives, the Portfolio Decarbonisation Coalition, the Aiming for A coalition of investors and the Institutional Investors Group on Climate Change. In our public policy engagement with the UK and European governments we call for a clear policy framework to enable the scaling up of low carbon and energy efficiency investments. In addition to our ISO 14001 accreditation and in continuation of our corporate citizenship policy, we offset our own carbon emissions by partnering with Trees for Cities. We publish our carbon risk management strategy on an annual basis and in support of the FSB Taskforce for Climate-Related Financial Disclosures (TCFD) recommendations will be enhancing the level of relevant public disclosures we provide as a firm.

As mentioned above, we aim to be ESG aware and actively incorporate relevant considerations into our investment process across all strategies and asset classes. Having a focus on each of responsible investing, responsible ownership and policy advocacy across all of our strategies, while also behaving responsibly as a firm, is, we believe, integral to delivering holistic returns. Behaving as a responsible business ourselves is critical to giving us the credibility with which to be able to fulfil these ambitions.

2.5. **How many employees are directly involved in the company’s sustainable investment activity?**

As mentioned previously, while the responsibility for implementing our sustainable investment approach resides with all Hermes personnel, we have a number of teams and personnel across the business who are directly involved in ensuring we discharge our responsibilities in a consistent manner:

**Hermes EOS Engagement team**: 27
Provide active engagement of those companies and assets in which we are invested and those we directly manage.

**Responsibility Office**: 7
Ensures that responsibility is embedded throughout the business.

**Dedicated ESG analysts/portfolio managers**: 10
Leads the ESG and responsible investment research strategy within their respective strategies

2.6. **Is the company involved in any RI initiatives?**

At Hermes we believe it is our responsibility to lead and participate in discussion and debate about the fiduciary responsibilities of institutional investors to their clients, their stakeholders and ultimately, society at large. In a similar vein we have a proud history of leading thinking around corporate governance and the purpose and responsibilities of companies and their directors towards both their shareholders and wider stakeholders. Ultimately, it is our belief that the financial system should operate in the interests of its ultimate beneficiaries.

That’s why, in addition to the thought-leadership work we do directly as a firm, we actively contribute to a wide variety of investor associations and collaborative initiatives. Of particular importance is the Principles for Responsible Investment (PRI) for which we chaired the drafting committee and became founding signatories. In addition, our Chief Executive founded the 300 Club in 2011, an independent group of leading investment professionals from across the globe, in order to respond to an urgent need to raise uncomfortable and fundamental questions about the very foundations of the investment industry and investing. In addition to relevant trade associations, we have supplied below a list of the key bodies that Hermes is actively involved with.
A full list can be found in the Delivering Holistic Returns document on page 19. Of particular importance is the Principles for Responsible Investment (PRI) for which we chaired the drafting committee and became founding signatories.

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<thead>
<tr>
<th>General Initiatives</th>
<th>Environmental/Climate Initiatives</th>
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<tr>
<td>□ EFAMA RI WG</td>
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<tr>
<td>□ ICCR – Interfaith Center on Corporate Responsibility</td>
<td>□ IIGCC – Institutional Investors Group on Climate Change</td>
<td>□ Other (please specify)</td>
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<tr>
<td>□ National Asset Manager Association (RI Group)</td>
<td>□ Montreal Carbon pledge</td>
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<tr>
<td>□ PRI - Principles For Responsible Investment</td>
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<tr>
<td>□ SIFs - Sustainable Investment Fora</td>
<td>□ Portfolio Decarbonization Coalition</td>
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<td>□ Other (please specify)</td>
<td>□ Other (please specify)</td>
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</table>

2.7. What is the total number of SRI assets under the company’s management?

3. General information about the SRI fund(s) that come under the scope of the Code

At Hermes we aim to be ESG and impact aware and actively incorporate relevant considerations into our investment processes across all strategies and asset classes. As at 30 September 2018 our specialist, high conviction investment teams manage €40.4bn in assets across our entire responsible investing spectrum which includes, equities, credit, infrastructure, private equity, private debt and real estate.

A full range of our funds can be found at the below link.

https://www.hermes-investment.com/ukw/products/

3 Reference to Article 173 of the French TECV Act and the HLEG recommendations on INVESTOR DUTIES
4 Reference to Article 173 of the French TECV Act and the TCFD recommendations (risks and opportunities section)
3.1. **What is (are) the fund(s) aiming to achieve by integrating ESG factors?**

The fund aims to achieve capital appreciation by investing in worldwide equity securities with favourable or improving ESG characteristics. Taking into account ESG criteria does not just provide a ‘feel-good factor’ but also improves returns. Essentially, the global equities team believes the best way to generate superior returns is to combine a systematic approach that minimises behavioural biases with disciplined subjective analysis with ESG considerations embedded within the process.

3.2. **What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?**

**Internal**

- The fund is managed by the Global Equities team. Geir Lode, Head of Global Equities, has overall responsibility. Geir is closely supported by two portfolio managers, Lewis Grant and Louise Dudley, and two analysts, Matt Shoreson and Andrew Hurley. Paul Dalton, Product Specialist, provides marketing and client servicing support to the team.

- Hermes EOS has a team of 27 engagement specialists with 10 years of experience. The Global Equity team used Hermes EOS’ expertise when building the proprietary ESG Dashboard and Portfolio Monitor mentioned earlier as well as the QESG Score, which assesses a company’s current ESG characteristics and how they are changing.

- Our dedicated Responsibility team is comprised of seven full-time ESG experts.

**External**

- As well as the voting and engagement insights that are used in the QESG Score, ESG Dashboard and ESG Portfolio Monitor, a range of data from best-of-breed external providers such as Sustainalytics, MSCI, Trucost and Bloomberg is also used.

- We manage our voting via a partnership with proxy advisory firm ISS. We benefit from the additional research and vote processing service ISS provide. The research received is, however, only one of several inputs we utilise in reaching a judgement and making voting recommendations to clients.

- Data is also sourced from CDP, WRI, Factset and the World Bank.

3.3. **What ESG criteria are taken into account by the fund(s)?**

The team seek investments with good or improving ESG characteristics, which should contribute to outperformance over the long term. In 2013 the team developed its own proprietary scoring system to identify companies with attractive or improving ESG performance. The aim was to build an objective measure of corporate ESG performance, assessing where the company is today and anticipating where it will be tomorrow. The result is our ESG Scoring Methodology, the QESG Score, which is an objective process that uses market-leading data and voting and engagement insights from Hermes EOS to identify companies with the best or most improving ESG risk profiles. In late 2017 we upgraded our bespoke ESG Dashboard tool to reflect more recent developments within ESG investing and the availability of more information including, but not limited to: alignment with the UN Sustainable Development Goals (SDGs), company classification, a new scoring mechanism that compares companies directly against the KPIs of the industries to which they are exposed, a water scarcity metric, inequality metric, geographic revenue exposure and transparent remuneration.

This bespoke quantitative scoring methodology considers environmental, social and governance matters, evaluating each company’s current ESG characteristics and identifying positive change. Companies are assessed relative to their sector and geographic peers to remove any biases in the results. Key ESG risk factors that are included within the QESG score include:
### Environmental factors:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Metric</th>
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<tbody>
<tr>
<td>Carbon footprint</td>
<td>Exposure to litigation</td>
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<tr>
<td>Water usage</td>
<td>Impact ratio</td>
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<tr>
<td>Waste management</td>
<td>UN Global Compact Watchlist</td>
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<tr>
<td>Pollution</td>
<td>GHG targets</td>
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### Social factors

<table>
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<th>Factor</th>
<th>Metric</th>
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<tbody>
<tr>
<td>Human rights</td>
<td>Fatalities</td>
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<tr>
<td>Controversial products</td>
<td>Health &amp; safety management system</td>
</tr>
<tr>
<td>Employee turnover</td>
<td>Supply chain monitoring</td>
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<tr>
<td>UN Global Company signatory</td>
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</table>

### Governance factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Metric</th>
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<tbody>
<tr>
<td>Board independence</td>
<td>Combined CEO/Chair role</td>
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<tr>
<td>Poison pills</td>
<td>Risk management</td>
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<tr>
<td>Remuneration</td>
<td>Business ethics</td>
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<tr>
<td>Independent directors</td>
<td>Proxy voting</td>
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</table>

### 3.4. What principles and criteria linked to climate change are taken into account in the fund(s)?

Concerning climate change, do you take the following risks and opportunities into account? If so, how?

- Physical risks, defined as exposure to the direct physical consequences of climate change;
- Transitional risks, defined as exposure to the consequential developments/trends of transitioning to a low-carbon economy;
- Opportunities benefitting a low-carbon economy.

Our principles are based off the following:

- Avoid companies that are unable or unwilling to mitigate contributions to the threat of climate change
- Re-weight portfolio, favouring companies that are focusing on climate change management
- Support a low-carbon transition: allocate capital towards lower carbon intensive assets
- Engage with companies and support efforts to limit climate change through public policy

Further information can be found here: [https://www.hermes-investment.com/ukw/blog/perspective/equitorial-a-climate-for-change/](https://www.hermes-investment.com/ukw/blog/perspective/equitorial-a-climate-for-change/)

From a portfolio perspective, measurement of power generation green revenue versus brown revenue exposure is measured and assessed versus a 2 degrees benchmark. This is in addition to the measurement metrics used in the ESG Portfolio Monitor and the Hermes Carbon Tool.

Concerning climate change, describe the screening methodology applied to issuers. For the approach chosen, please specify if applicable:
- Compatibility with the international goal of limiting global warming (issuers’ contribution to the energy/environmental transition, use of the 2°C scenario at sector level etc.);
- The effects of climate change and extreme weather conditions; N/A
- The changing availability and prices of natural resources and their use in accordance with climate action and environmental goals; N/A
- The consistency of the issuers’ investment expenditures with a low-carbon strategy. In particular, in the case of issuers linked to the use of fossil fuel reserves, compatibility with a low-carbon strategy of the underlying assumptions behind investment expenditures to develop such reserves;
- The measurement of greenhouse gas emissions in the past, present and future that are directly or indirectly associated with the issuers.

In addition to the environmental metrics described above and in Question 3.3, company exposures to climate change through carbon risk and carbon impact risk are also assessed. Both a business and a geographic lens is used. On the ESG Dashboard, companies are analysed using industry specific environmental KPIs. Examples include green transportation, environmental harm and energy efficiency.

The risk exposure is also identified using a Climate Change Risk Framework. This explicitly defines issues which are aligned to the TCFD Framework Recommendations and ranks these based on absolute risk.

Opportunities are highlighted based on alignment to sustainable investable themes including climate change and natural capital based on revenue. These investable themes are linked to the UN SDGs.

3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

Our proprietary ESG dashboard ensures that all companies in the investible universe (subject to the availability of the data) can be compared against their peers on a sector, region or global basis with respect to a range of ESG considerations.

The ESG Dashboard amalgamates Hermes EOS’ records on voting and engagement on ESG issues with data from a range of carefully-evaluated external providers. It gives transparent access to key ESG-related information on every company across a global universe. The risk factors which each company is measured by are either generic, such as board structure, or sector specific, focusing on the major risks in their respective industries, such as carbon dioxide emissions and fleet consumption for the automobiles industry, paper sourcing for media and energy efficiency for airlines.

The QESG Score is a ranking applied to each company, distilling the information collated on the ESG Dashboard into a single number. Not only does this score capture how well a company manages ESG risks, but also the trend in its exposure to these risk. The score is weighted 50% to governance factors, 25% to environmental factors and 25% to social factors. Following research into the growing impact of ESG factors, the team found, in particular, a significant correlation between governance and stock performance.

The QESG Score is designed to capture a company’s behaviour on various ESG issues as well as observed change in its ESG behaviour. A change in a company’s ESG profile would be highlighted by a change in the QESG Score, which would be flagged to the portfolio managers. Any such significant change would be questioned, firstly to validate, but also to inform the investment case on a stock.

The quantitative rating, importantly, is complemented by a fundamental bottom-up review of ESG issues, which critically leverages on our direct contact with companies which provides the investment teams with greater colour and more up to date picture of the current positioning of a company with respect to its ESG performance. The outcome from the subjective analysis may lead to a company being removed from the trade list depending upon the materiality of the issue and also the anticipated change as demonstrated by the company.
The Portfolio ESG Monitor delivers a portfolio perspective of ESG risk exposures. It reports on the ESG characteristics of holdings, both in absolute and benchmark-relative terms, and highlights companies with potentially controversial practices. The monitor captures thematic ESG risks as well as identifying the best and the worst companies according to various ESG metrics.

We have developed an internal Carbon Footprint tool, to enhance our ability to integrate ESG into our investment strategies. In particular, we want to bring together ESG, financial, and our in-house QESG rating and engagement data into a multi-faceted approach. Also our focus is not only on aggregate positioning relative to the benchmark but also on identifying outlier companies through various lenses. For instance, among other applications, we can identify companies that may have lower carbon efficiency than industry peers, lower returns, deteriorating QE score, with an engagement that is not progressing, which then may be more at risk and thus less attractive.

3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

Our QESG Scores are designed to capture a company’s behaviour on various ESG issues as well as observed change in its ESG behaviour, as a result ratings will be continually updated as new information is made available.

A significant change in a company’s ESG profile would be highlighted by a large change in the QESG Score, which would be flagged to the portfolio managers, or a communication from our ESG specialists, Hermes EOS. Any such significant change would be questioned, firstly to validate, but also to inform the investment case on a stock. The ESG Portfolio Monitor is run and reviewed on a monthly basis.

The investment team closely monitor companies in their portfolio and formally speak with colleagues in our stewardship team in order to stay abreast of the latest insights gleaned from ongoing engagements with companies in the portfolio. The team continues to research new data sources as they become available and will incorporate these into its systems as appropriate and following a robust testing process.

Hermes operates a firm-wide exclusion policy with respect to pure-play cluster munitions companies and manufacturers of anti-personnel land mines.

Implicit within our mission is also a recognition that the investment decisions we make will have impacts wider than the returns they generate. As a result, we question a company’s purpose, how and where it generates its profits and whether these come at the expense of externally imposed costs. The answers to these questions inform our investment decisions. Each of our investment teams has the flexibility to form their own judgements based upon their own detailed analysis, however, each team is expected to have documented their considerations and be able to justify any investment decision both internally to our Portfolio Review Committee as well as, importantly, to clients.

A very negative ESG profile (as indicated by a low QESG Score) would not necessarily exclude a stock from investment. From a quantitative aspect, governance is only one of several measures going into the Corporate Behaviour factor, meaning that a very negative figure would tilt the resulting score, but not entirely negate it. During the subjective analysis that follows the modelling, a portfolio manager would consider the impact of very negative remarks and how they may change the investment case. However, if the negative remarks were fully understood and other factors as shown by the Alpha Score compensated for the ESG issues, an investment may still be considered.

At Hermes, we prefer to engage with companies rather than divest. In our view, successful engagements reduce risks to shareholders, unlock value, and benefit wider society. We believe investors should be involved shareholders, encouraging responsible behaviour and effecting positive change. Alongside communicating with senior management and board members, we undertake filing or co-filing shareholder proposals, where appropriate, and voting proxies in accordance with investors’ views and policies, supporting transparent and effective governance structures that encourage stakeholder dialogue. We believe that working with firms to mitigate ESG risks – while reserving the option to sell down where a company is unable or unwilling to improve – can provide the greatest holistic benefits. As such, we seek investments with good or improving ESG characteristics, which should contribute to outperformance over the long term. While ESG issues are important in themselves, we recognise that helping a company to lift its ESG performance can both benefit society and realise financial gains for investor.
A recent example would be Facebook. The position in Facebook was held as it offered a number of attractive investment characteristics including strong profitability, above peer growth and an ability to generate significant cashflow, which had led to strong share price performance. We recognised, like many of the younger tech names that had enjoyed exponential growth, that its governance standards lacked compared to more mature peers. For example, its share structure was perhaps not in the best interests of existing shareholders. Mark Zuckerberg as CEO/chairman had in excess of 60% of the voting rights and therefore exerts excess control over the company. Having said that, Facebook had taken some steps to improve its governance structure, such as the appointment of a lead independent director and the removal of concerns around related party transactions. Elsewhere, Facebook had adequate human rights policies and risk mitigation procedures which are important as a people centric business. On environmental metrics the company was outperforming peers, in particular they were highlighted as exemplary based on energy initiatives with specific targets for renewables.

One of Facebook’s main risks was its exposure to issues around data privacy and security which was a focus of the conversations that we were having with the company. In a meeting in February 2018, Facebook acknowledged that there may be as many as 200 million fake accounts on its platform and in March 2018, revelations about the use of personal data held by Facebook by Cambridge Analytica to try and influence voter opinion in the US elections and the Brexit referendum emerged. This led to a sharp fall in the stock price. Contact was again made with the company in the immediate aftermath to request a meeting to discuss the issues and we were encouraged that they seemed willing to engage with us. Meanwhile, at its AGM, we voted for a shareholder resolution that requested, among other things, a report on the controversy and we also voted against the re-election of the chair of its governance committee.

The Fund’s position in the lead up to the scandal was trimmed, although this was due to the rise in the share price, which left the company looking expensive, especially in the light of declining growth expectations and continued concerns over its governance structures. Following the event, we reduced the holding further, so that the Fund held an underweight position, while we sought further clarity on the situation and how it would affect the company going forwards. At its earnings update in July, the company reduced guidance and, while growth was still healthy, it appeared that the ramifications of the scandal could last a long time. The position was subsequently closed in August 2018.

4. Investment process

4.1. How are the results of the ESG research integrated into portfolio construction?

Assessment of the ESG characteristics of a company is a vital part of the team’s investment approach and the team uses ESG research in both proprietary models and in discussion with Hermes’ ESG experts, Hermes EOS.

The team has built a bespoke quantitative assessment of the most important Environmental, Social & Governance (ESG) issues, the QESG Score, which evaluates a company’s ESG characteristics and identifies positive ESG change. The team believes that companies less exposed to ESG risks than peers will outperform over the long term. Further, it believes that companies that are improving their ESG profile through positive change can unlock significant shareholder value.

The QESG Score is designed to capture a company’s behaviour on various ESG issues as well as observed change in its ESG behaviour. The score combines data from Hermes EOS, Sustainalytics, Trucost, FactSet and Bloomberg which is shown in the ESG Dashboard and is weighted 50% Governance factors, 25% Environmental factors and 25% Social factors. The weightings used are based on the expertise of the Hermes EOS team. Following research into the growing impact of ESG factors, the team found a significant correlation between governance and stock performance.

**QE Score**

Rationale: Environmental factors are used to identify companies that operate sustainably, with robust policies and procedures in place. The score captures companies which are exposed to less environmental risk relative to industry peers. The factors take into consideration the historical performance of the company as well as the current level, favouring companies with an adequate level of disclosure around environmental risk exposures highlighting a proactive, risk-focused approach.
Example factors: Carbon footprint relative to peers, trend in environmental impacts, disclosure related to environmental targets

**QS Score**

Rationale: Social factors identify companies which act responsibly towards all stakeholders including members of their supply chain, customers and employees. The team favours companies that act in a transparent and fair way, and contribute towards a better society through enhanced due diligence and health and safety standards.

Example factors: Supply chain audits, fatalities, employee turnover, fair marketing practises

**QG Score**

Rationale: The team favours companies with good corporate governance structures and policies in place. It believes companies with lower and deteriorating standards of governance are more likely to experience negative surprises. It prefers companies that are able to demonstrate adherence to local standards of corporate governance and exhibit shareholder-friendly policies.

Example factors: Disclosure, breaches of UN Global Compact, board independence, poison pills, independence of directors, remuneration, business ethics

In all of the team’s strategies the QESG Score is considered as part of the subjective overlay and conversation with Hermes EOS, such that all of the team’s investments are analysed from an ESG perspective. The QG Score is fully integrated into the Alpha Model and therefore all investments are also systematically evaluated on governance, as described earlier. The QE and QS scores are systematically integrated into the stock-selection stage in the Hermes Global Equity ESG Strategy.

The Portfolio ESG Monitor offers a portfolio perspective on ESG exposures. This tool reports on ESG characteristics of portfolio holdings (both in absolute and benchmark-relative terms) including voting and engagement data from Hermes EOS. The Monitor also highlights companies with potential controversies and ESG concerns. The tool acts to promote discussion on thematic ESG risks, as well as to identify the best and the worst companies according to various ESG metrics. By thoroughly rating companies on these extra-financial criteria, businesses (and investment managers) can be steered towards greater consideration of the ESG issues. This incentive is complemented by direct dialogue with businesses that is made possible through Hermes EOS.

**4.2. How are criteria specific to climate change integrated into portfolio construction?**

Climate change criteria are integrated into portfolio construction via our QE Score as described above. In addition the portfolio is subjectively assessed from a top down and from a bottom up perspective. From a top down perspective on environmental issues this could present itself as a concentration in a single risk factor which we would look to avoid or minimise. From a bottom up perspective the QESG Score and the ESG Dashboard are used along with fundamental analysis from the investment team and the EOS team on management of pertinent environmental issues.

**4.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?**

*Please specify how much the funds can hold.*

All companies within the Hermes Global Equity ESG fund are subject to an assessment of their ESG characteristics. The team incorporates ESG factors into their investment process by using a range of in-house proprietary tools as mentioned above.

**4.4. Has the ESG evaluation or investment process changed in the last 12 months?**

The investment process has remained broadly the same since the strategy’s inception, although the team always strives to improve it as the market environment and the sources and quality of data available changes. As such, the process has continually evolved since inception, both with regards to identifying additional alpha sources and to how the team quantifies risk.

An example of this evolution is the incorporation of a measure of governance as part of the Corporate Behaviour category of factors, providing a different perspective on a company’s management quality.
This followed research on the effectiveness of ESG investing, which found that companies that score very poorly on governance significantly underperform their better-governed peers. A copy of the report written as a result is available on request.

A further example of enhancements to the team’s stock-selection models is the development of the “hyper-growth” model, which is used to value companies in the early stage of their lifecycle, typically companies developing disruptive technologies and that need to be valued with more emphasis on forward-looking growth prospects rather than historic asset-based valuation metrics.

The team also continues to develop tools to assist in the qualitative part of the investment process, such as a function assessing the portfolio’s country exposure by revenues rather than listing. This is currently used in the subjective part of the investment process and informs the team of risks that may not otherwise be apparent, both from a macro perspective but also from an ESG viewpoint.

In addition, the ESG Dashboard and QESG Score have been enhanced to reflect new data availability and to increase the emphasis on forward-looking attributes. The latest developments on the ESG Dashboard include the addition of proprietary water and inequality exposure scores, further analysis of the discrepancies between the commercial providers of ESG data and the identification of companies aligned with the UN Sustainable Development Goals.

The team continues to research new data sources as they become available and will incorporate these into its systems as appropriate following a robust testing process.

4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?

The QESG Score is designed to capture a company’s behaviour on various ESG issues as well as observed change in its ESG behaviour and has a 25% weighting to Social factors. Social factors identify companies which act responsibly towards all stakeholders including members of their supply chain, customers and employees. The team favours companies that act in a transparent and fair way, and contribute towards a better society through enhanced due diligence and health and safety standards.

The portfolio exposure to companies with revenues aligned to the social themes basic needs and empowerment which are aligned to the UN SDGs is measured.

4.6. Does (do) the fund(s) engage in securities lending activities?

If so,

(i) is there a policy in place to recall the securities so as to exercise the voting rights?

(ii) does the process for selecting the counterparty(ies) integrate ESG criteria?

No.

4.7. Does (do) the fund(s) use derivative instruments?

If so, please describe

(i) their nature;

(ii) their objectives;

(iii) potential limits in terms of exposure;

(iv) if appropriate, their impact on the SRI nature of the fund(s).

No.

4.8. Does (do) the fund(s) invest in mutual funds?

If so, how do you ensure compatibility between the policy for selecting mutual funds and the SRI policy of the fund(s)? How many funds can be held?

No.
5 Reference to Article 173 of the French TECV Act see paragraphs 3 and 4 of Article D.533-16-1 of Chapter III of the French Legal Code:
https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI00031793697
6 Reference to Article 173 of the French TECV Act and HLEG recommendations on DISCLOSURE
7 Reference to Article 173 of the French TECV Act and the TCFD recommendations (delivering on investor and stakeholder demands for climate-related information)

5. ESG controls

5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?§
All of our investment activity is supported by our dedicate Investment Office and Responsibility Office both of which report directly to our CEO. The Investment Office provides a robust and transparent risk framework. On a look back, real time, and forward-looking basis the team actively monitors fund risk and helps to deliver sustainable risk adjusted alpha, while acting as an early warning system to identify potential problem areas. It has overall responsibility for the consistency of performance and thus ensures that investment teams stay true to their processes, this includes oversight of ESG and engagement integration. A key element of this is the monthly Portfolio Review Committee which monitors in detail the performance and risks with each fund and strategy and challenges investment teams.

We have established a Responsibility Working Group, which meets on a quarterly basis and is constituted of representatives from across the business, including Hermes’ CEO. This group is charged with reviewing and making recommendations to the Hermes Executive Committee (ExCo) with respect to our policy and approach to all matters related to the delivery of holistic returns to the beneficiaries of Hermes’ owner and clients and to share best practice across the organisation.

The Hermes Global Equity team integrate risk management into the portfolio construction process at multiple stages. The Portfolio ESG Monitor offers a portfolio-level perspective on ESG exposures. It reports on the ESG characteristics of portfolio holdings and highlights companies with potential controversies, capturing the most up to date information from Hermes EOS.

The Hermes Compliance team monitors fund guidelines, including objectives and constraints; the firm-wide exclusion policy with respect to cluster munitions and anti-personnel land mines. These automated checks for compliance with fund guidelines and constraints are conducted by thinkFolio, our trade order management system. Pre-trade portfolio parameters, counterparty limits and other guidelines are coded into the system. Coding is undertaken via a robust rule summary process and is always subject to further review by a senior member of the Compliance team. Once client risk limits have been input into thinkFolio, they cannot be overridden by portfolio managers. thinkFolio is also coded to ensure that any trade with a prohibited counterparty or jurisdiction is prevented before execution.

Finally, while Hermes receives an annual independent external assurance on our internal controls which includes those relating to our proxy voting processes, we have committed to obtaining independent assurance over the policies and procedures which underpin our stewardship policy statements in line with the AAF 01/06 Stewardship Supplement for FY 2018. We are also continuing to review what further external assurance we can obtain on our ESG integrations processes to supplement the periodic reviews that are undertaken by our internal audit function.

6. Impact measures and ESG reporting

6.1. How is the ESG quality of the fund(s) assessed?
We believe that companies with strong governance and astute management of their environmental and social responsibilities, such as emissions control or labour rights, not only make a more positive contribution than those that do not, but also provide greater long-term value for shareholders.
In the context of the increasing evidence and our responsibility as a fiduciary for our clients, we seek to:

- integrate awareness of ESG risks into our investment decision processes;
- ensure we remain cognisant of these risks within individual investments and across our portfolios;
- actively engage as appropriate, with those companies in which we, and our clients, have invested, and utilise our rights as investors in a considered and informed fashion to promote long-term success, and;
- work with policy makers to promote responsible investment and advocate for a global financial system that operates in the interests of its ultimate beneficiaries, not its various agents.

We believe that our focus on responsible investing, responsible ownership, policy advocacy and behaving responsibly are integral to delivering holistic returns.

6.2. What ESG indicators are used by the fund(s)?

Our proprietary ESG dashboard ensures that all companies in the investible universe (subject to the availability of the data) can be compared against their peers on a sector, region or global basis with respect to a range of ESG considerations.

The ESG Dashboard amalgamates Hermes EOS’ records on voting and engagement on ESG issues with data from a range of carefully-evaluated external providers. It gives transparent access to key ESG-related information on every company across a global universe. The risk factors which each company is measured by are either generic, such as board structure, or sector specific, focusing on the major risks in their respective industries, such as carbon dioxide emissions and fleet consumption for the automobiles industry, paper sourcing for media and energy efficiency for airlines.

The QESG Score is a ranking applied to each company, distilling the information collated on the ESG Dashboard into a single number. Not only does this score capture how well a company manages ESG risks, but also the trend in its exposure to these risk. The score is weighted 50% to governance factors, 25% to environmental factors and 25% to social factors. Following research into the growing impact of ESG factors, the team found, in particular, a significant correlation between governance and stock performance.

The QESG Score is designed to capture a company’s behaviour on various ESG issues as well as observed change in its ESG behaviour. A change in a company’s ESG profile would be highlighted by a change in the QESG Score, which would be flagged to the portfolio managers. Any such significant change would be questioned, firstly to validate, but also to inform the investment case on a stock.

The quantitative rating, importantly, is complemented by a fundamental bottom-up review of ESG issues, which critically leverages on our direct contact with companies which provides the investment teams with greater colour and more up to date picture of the current positioning of a company with respect to its ESG performance. The outcome from the subjective analysis may lead to a company being removed from the trade list depending upon the materiality of the issue and also the anticipated change as demonstrated by the company.

The Portfolio ESG Monitor delivers a portfolio perspective of ESG risk exposures. It reports on the ESG characteristics of holdings, both in absolute and benchmark-relative terms, and highlights companies with potentially controversial practices. The monitor captures thematic ESG risks as well as identifying the best and the worst companies according to various ESG metrics.

We have developed an internal Carbon Footprint tool, to enhance our ability to integrate ESG into our investment strategies. In particular, we want to bring together ESG, financial, and our in-house QESG rating and engagement data into a multi-faceted approach. Also our focus is not only on aggregate positioning relative to the benchmark but also on identifying outlier companies through various lenses. For instance, among other applications, we can identify companies that may have lower carbon efficiency than industry peers, lower returns, deteriorating QE score, with an engagement that is not progressing, which then may be more at risk and thus less attractive.

Our QESG Scores are designed to capture a companies behaviour on various ESG issues as well as observed change in its ESG behaviour, as a result ratings will be continually updated as new information is made available.
The investment team closely monitor companies in their portfolio and formally speak with colleagues in our stewardship team in order to stay abreast of the latest insights gleaned from ongoing engagements with companies in the portfolio.

The team continues to research new data sources as they become available and will incorporate these into its systems as appropriate and following a robust testing process.

6.3. **What communication resources are used to provide investors with information about the SRI management of the fund(s)?**

Our publicly-available annual report and accounts has evolved to include details and statistics on responsibility and ESG. We now report on corporate social responsibility-related activities, such as our carbon footprint, with our future targets also outlined. This is included alongside our engagement activities and financial reporting.

Additionally, Hermes EOS produces quarterly public engagement reports and voting disclosures, which are distributed to clients and available to view on our website. These reports give a detailed insight and analysis of the stewardship activities undertaken by Hermes EOS during the previous quarter, including their results.

Our investment teams also provide take notes and whitepapers, all of which are made available via our website and distributed directly to Hermes’ clients.

We also provide clients voting and engagement information for each fund on a quarterly basis. This includes statistics on voting across geographical regions, as well as highlights of engagement relating to investee companies. In addition, we provide examples of how ESG factors were incorporated into investment decision making. We aim to continuously improve our reporting so that our clients can fully understand our approach to responsible investing.

6.4. **Does the fund management company publish the results of its voting and engagement policies?**

*If so, please include links to the relevant activity reports.*

As mentioned above, Hermes EOS produces quarterly public engagement reports and voting disclosures, which are distributed to clients and available to view on our website. These reports give a detailed insight and analysis of the stewardship activities undertaken by Hermes EOS during the previous quarter, including their results. These reports can be found at the following link [https://www.hermes-investment.com/stewardship/eos-litterature/](https://www.hermes-investment.com/stewardship/eos-litterature/)

Please provide a link to the latest report on exercise of the voting policy, the latest report on engagement and the latest report on internal evaluation of the voting policy.

Hermes EOS Public Engagement Report Q3

Hermes EOS Voting Disclosure Q2

Hermes EOS Annual Voting and Engagement Report

We do not have a report on our internal evaluations of our voting policies. Our policies are updated at least annually, typically following the voting period.
8 Reference to Article 173 of the French TECV Act
9 Reference to Article 173 of the French TECV Act
10 Reference to Article 173 of the French TECV Act and the HLEG recommendations on GOVERNANCE