

About the portfolio manager

Assets under management USD 46.9 bn; total AuM managed according to ESG principles

Number of inv. profess. 132

Number of inv. profess. dedicated to ESG 50

Participation in shareholder meetings Yes

ESG rating „Sustainable“

ESG consultant Hermes EOS

External data sources

- Sustainalytics
- MSCI
- Bloomberg
- Factset
- ISS
- Boardex Trucost
- CDP

Memberships

Signatory to UNPRI Yes

UNPRI rating A

Others

- Global Real Estate Sustainability Benchmark (GRESB)
- CDP (former Carbon Disclosure Project)
- International Corp. Gov. Network (ICGN)
- Internat. Integrated Report. Council (IIRC)
- CFA - Future of Finance Advisory Council
- Eumedion
- Willis Tower Watson's Thinking Ahead Institute
- Inst. Investors Group on Climate Change (IIGCC)
- UK Investor Forum
- UN Environment Programm Finance Institute
- UN Global Compact
- Aiming for Investor Coalition
- Banking Standards Board
- Better Buildings Partnership

Voting activity

Exercise of voting rights Yes

ESG consultant Hermes EOS

Voting report Yes

Additional information

<https://www.hermes-investment.com/uk/wp-content/uploads/sites/80/2018/03/annual-report-2017.pdf>

Decision making process for exclusion decisions

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. As a general rule, we prefer to engage with companies rather than exclude them from our investible universes. In our view successful engagements can reduce the risks to shareholders, unlock value and reap benefits to wider society.

Consultant for investment guidelines and exclusion criteria

Hermes EOS works with Sustainalytics to provide a list of companies that are either in breach or likely to breach the UN Global Compact Principles. Sustainalytics is the primary source of data of company involvement in controversies. Where appropriate, and where the issue is material, Hermes EOS' engagement professionals may flag additional concerns where they have been able to gain further information through their direct engagements with companies.

Decision making process for exercising voting rights

Proxy voting of shares is undertaken by Hermes EOS, our in-house world class stewardship service, on behalf of clients and all of Hermes' investment teams. We partner with ISS, enabling us to leverage their extensive resource with regard to voting research, recommendations and execution. In terms of process, Hermes EOS undertakes detailed research into the particular circumstances of each company and the items on the general meeting agenda prior to voting its clients' shares. This includes a careful analysis of the company's annual report, meeting agenda, and any other publicly available information to identify particular issues of concern. Our extensive database of company contacts, which includes 10 years of details of all communications with companies, is also key to the decision-making process. All of the other inputs – from advisory agencies, brokerages, portfolio managers, news flow and elsewhere – are then considered in arriving at our voting decisions. We believe that a flexible 'comply or explain' approach to voting is appropriate for most companies. However, to be effective, such an approach requires significant resources at the appropriate level. Our voting recommendations and actions are made by and for experienced and business-oriented investors in order to support companies' sustainability and long-term performance. We believe that the Hermes EOS team is well placed to research and make judgments as to the degree to which companies can reasonably comply with local best practice and where exceptions are appropriate. In cases where we feel it appropriate to vote against management, we will always discuss the issue directly with the company. The aim of this contact, usually by telephone, is to establish the facts and circumstances surrounding the issue and check our interpretation of the resolution.

Engagement

Engagement	Yes
Consultant	Hermes EOS
Additional information	https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2018/03/annual-report-2017.pdf

ESG consultant for engagement activities

Hermes EOS, our in-house stewardship service, is one of the leading providers of corporate engagement, intelligent voting, portfolio screening, public policy engagement and advisory services. Hermes EOS provide a platform for like-minded investors to pool resources, creating a powerful force for positive change.

IST portfolio

Portfolio overview

ESG rating	No
Application of an exclusion list	Yes, provided by IST

Incorporation of ESG factors into the investment process

ESG factors are incorporated into the investment process of the IST mandate in three ways. Firstly, at the point of investment proposal, explicit consideration is given to ESG and is included in the stock note. A summary of the major ESG issues pertinent to the company is included on the front page discussion at meetings with management. Once an investment has been made, a prioritised engagement agenda is created for stocks in the portfolio and delivered by Will Pomroy, the Lead Engager on the team. Secondly, each investment is given an explicit ESG score and this is then input into the monthly portfolio optimisation process. All other things being equal, a company with a higher ESG score will rise up to a higher position within the portfolio. Thirdly, the ESG credentials of the portfolio are then considered holistically, through the proprietary Hermes QESG score and compared to the index (Russell 2500) scores. Portfolio scores have been, and remain, significantly above index scores.



Identification of companies excluded

Hermes operates a firm-wide exclusion policy with respect to pure-play cluster munitions companies and manufacturers of anti-personnel land mines. For individual segregated portfolios, we exclude specific restricted lists as provided by the client. All client investment guidelines are coded into the order management system, and the investment guidelines will be reviewed prior to orders being passed to the dealing desk. 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 entered into the system, they cannot be altered by portfolio managers. If there are restrictions that cannot be coded into thinkFolio, the Compliance team will check these manually on a post-trade basis.