



This report contains a summary of the responsible ownership activities undertaken by EOS on behalf of its clients. It covers significant themes that have informed some of our intensive engagements with companies in Q3 2013.

The report also provides information on our voting decisions and the steps we have taken to promote global best practice and improvements in public policy as well as collaborative work with other shareholders.

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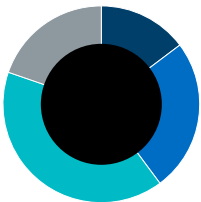
We would be delighted to discuss EOS with you in greater detail.
For further information please contact:
Colin Melvin on +44(0)207 680 2251.

Engagement by region

Over the last quarter we engaged with 123 companies on a range of 319 social, environmental, business strategy and governance issues. Our holistic approach to engagement means that we will typically engage with companies on more than one issue simultaneously. The engagements included in these figures are in addition to our discussions with companies around voting matters.

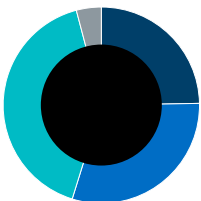
Global

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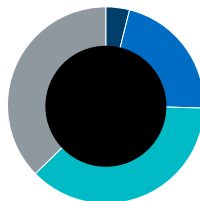
Australia and New Zealand

We engaged with 25 companies over the last quarter.



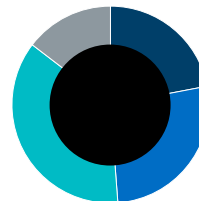
Developed Asia

We engaged with 18 companies over the last quarter.



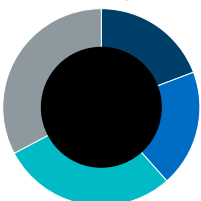
Emerging and Frontier Markets

We engaged with 17 companies over the last quarter.



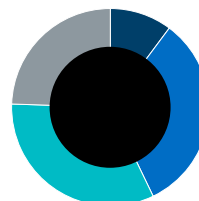
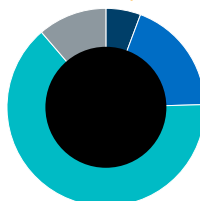
Europe

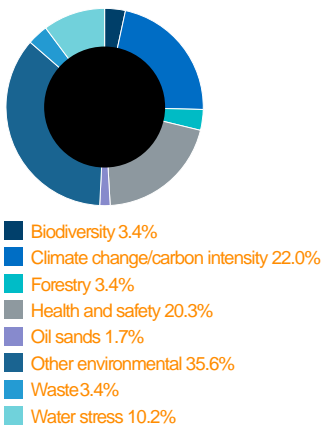
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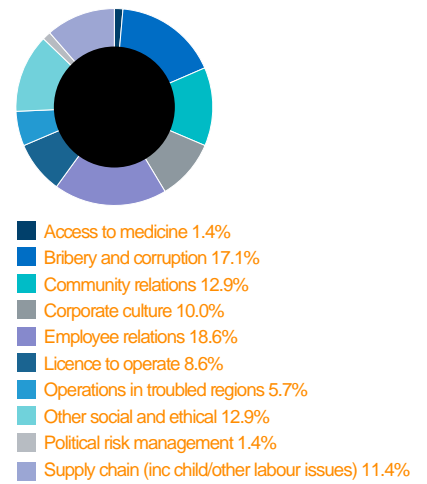
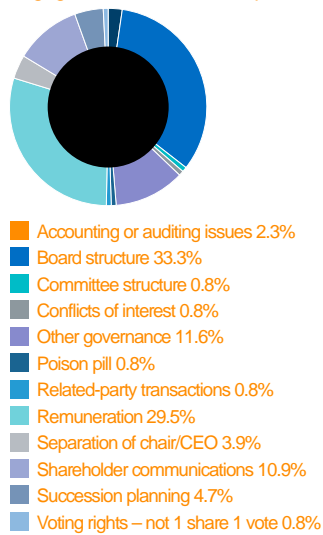
North America

We engaged with 20 companies over the last quarter.

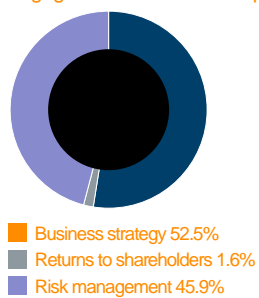




Governance
Governance issues featured in 40.4% of our engagements over the last quarter.



Strategy and risk
Strategy and risk issues featured in 19.7% of our engagements over the last quarter.





Enhancing disclosure of water risk is critical to its management

Overview

Water risk is on the rise globally, partly as a result of climate change. The phrase itself catches exposure of a range of different types, such as water scarcity (including droughts), pollution and flooding. While affected companies in many cases have a measure of disclosure in place, they often publish only aggregate data, which makes it hard for investors to estimate specific risks. The Principles for Responsible Investment (PRI) steering group on water, in which we participate, is trying to address this and to establish an appropriate angle for further engagement with companies.

What is water risk?

The data challenge

Relevance of water risk to investors

How companies handle water risk

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Challenges to effective investor engagement

Michaela Zhirova



Social

Ensuring sound relationships with local communities and indigenous people throughout a project's lifecycle and beyond

Overview

For companies whose operations require the acquisition and exploration of large areas of land, establishing and maintaining good relationships with local communities, including indigenous peoples, is of critical importance. EOS has been actively engaging with companies and regulators around the world on this issue, particularly investment projects in emerging markets. Affected companies include those involved in mining, utilities, industrial farming and plantations.

Why community relations matter

A complex set of risks

Key engagement objectives

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Bruno Bastit

Sachi Suzuki

How can companies benefit from sound
community relations?



Encouraging companies and their boards to be prepared for the growing risk of cyber attacks

Overview

Cyber security is a rapidly evolving issue and we fear many companies and their boards are ill-equipped to deal with the threats posed. Information technology systems are increasingly subject to sophisticated attacks that can damage the value of a business in many ways. Managing this risk is particularly challenging due to its constant evolution through technology, anonymity and international scope. Already the cost of cyber breaches against British businesses has tripled since 2012, amounting to billions annually according to a survey by the UK Government. Cyber crime and cyber spying is costing the US economy \$100bn a year and the global economy perhaps \$300bn annually according to the Financial Times. Globally, regulators are beginning to take steps to challenge companies on their preparedness.

The evolving nature of cyber risk

Boards taking control

Welcome to the real world

Hermes EOS approach

Victoria Barron

The investment risk



Stuck with unburnable carbon

Overview

The publication of the latest report from the United Nations Intergovernmental Panel on Climate Change (IPCC) in September 2013 provided a stark reminder of the threat posed to the planet by greenhouse-gas emissions. According to the study, which is the most comprehensive of its kind, our chance to remain within 2°C of current global temperatures will be gone if we continue to burn fossil fuels at the current rate for the next 30 years. If temperatures rise by this amount there will be catastrophic climate change.

What is 'unburnable' carbon?

Companies need to assess climate risk

Key questions for investors to ask

Tim Goodman



Overview

EOS adopts an holistic approach to engagement combining discussions on business strategy and risk management, including social and ethical risks, with structural governance issues. Our engagements fill the gap left by the investment industry's tendency to focus on the short-term. The result of this tendency is that management too often goes unchallenged in its approach to the long-term future of its business and there is minimal pressure for change. EOS assesses and engages with underperforming companies from a long-term perspective, asking questions which encourage management and boards to think afresh to overturn long-running periods of underperformance. This proven approach is often successful in adding value or ending destruction of value.

Business strategy is also a key feature of other engagements such as those highlighted elsewhere in this report. We are generally most successful in achieving change on environmental, social and other matters where we lead the conversation from a business perspective and focus on these issues as risks to the company's strategic positioning. Companies can become locked into historic patterns where they are overdue for refreshment and new perspectives on the board. Injecting new thinking at the head of the company – an independent chair or change of CEO – is frequently the key to unlocking change and driving renewed operational performance, creating long-term value for shareholders.

Engagements on governance and business strategy may require a series of meetings over months and years. It takes time for board changes to generate the business and strategic changes which improve long-term performance.

Examples of recent engagements

stretching reduction objectives and targets to be set for carbon as well as for the disclosure of an historical overview of spills, gas flaring and health and safety indicators. We welcomed assurances that such targets do exist and urged the company to disclose them in its next round of reporting. Best practice examples will be provided and we will keep working together closely on these issues.

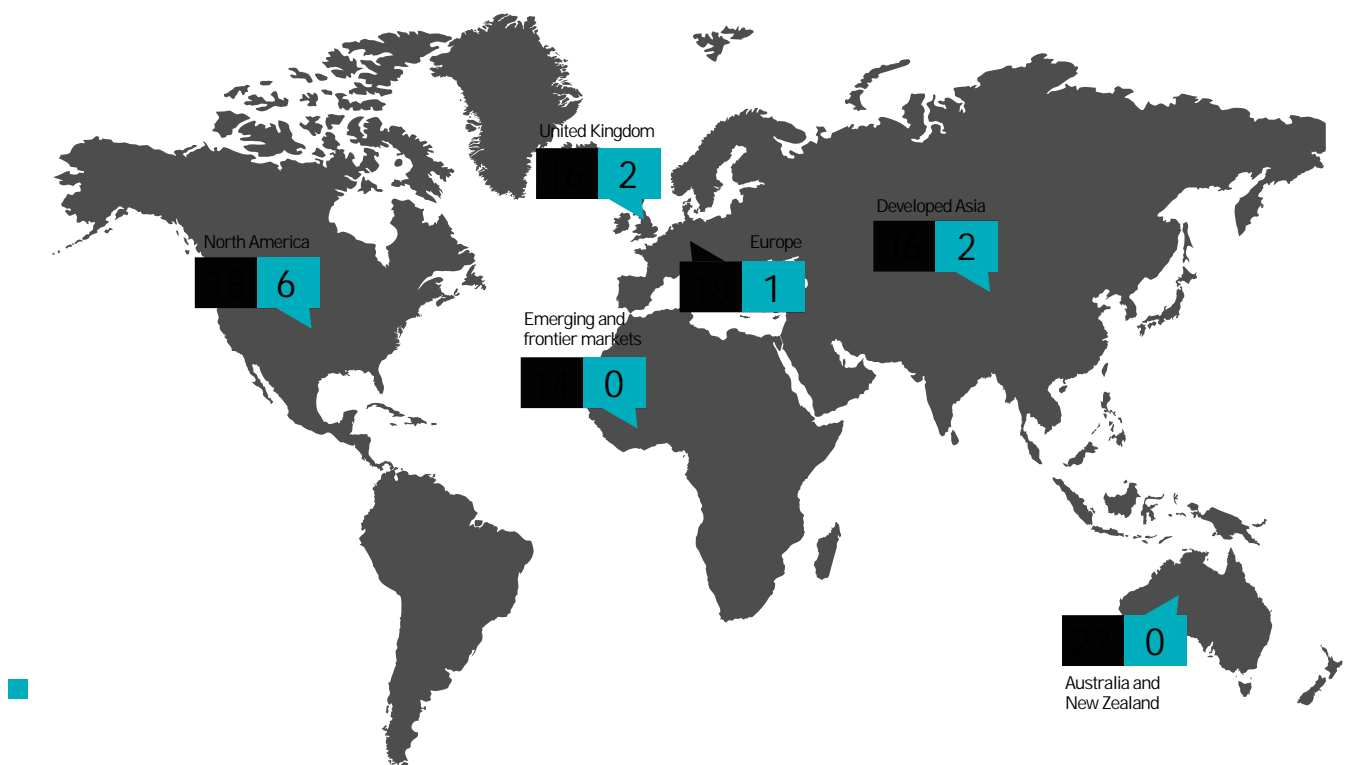
We met with the head of corporate governance and other senior executives at a large telecommunications provider to discuss governance matters. We discussed the appointment of a long-standing board member (who is also chair of three board committees) as a lead independent director, noting that, while we regard the creation of such a position as a positive step, we would have preferred to see a genuinely independent and strong outside candidate in the role. We questioned whether the current arrangement is capable of ensuring an effective counterbalance to the powerful chair/CEO, and discussed the overall levels of independence and the types of skills present on the board, and how they fit with the company's long-term strategy. Discussions were also held on remuneration, and we provided examples of best practice.

We had a detailed discussion with a multinational oil and gas corporation covering a range of governance matters. After noting the 45% vote in favour of implementing majority voting we encouraged the board to implement this standard into the bylaws in order to build investor confidence. In relation to the substantial vote in favour of an independent chair policy, we reiterated some of our suggestions to increase the powers of the presiding director. We also noted that there is an increasing trend towards independent chairs at US companies and that a CEO who steps down from chair to enable an independent chair to be appointed would be viewed as a leader in US corporate

reform. We emphasised that calls for greater transparency were not going to disappear, so the company could position itself more positively by embracing some reform. The company was encouraged to consider a greenhouse gas target per barrel of oil equivalent or per dollar of revenue. Regarding board structure, we gained some reassurance about succession planning.

Along with other investors which are part of the EOS-led engagement group, we met with the chair of a global metals and mining company. We emphasised the need for regular shareholder dialogue with the chair (consistent with the company's peers) and tested whether the corporate culture embedded sustainability into the business. It was interesting to note the emphasis on the sustainability credentials of the two most recently appointed non-executive directors; we requested that the company articulate this information in its public reporting, which it agreed to do. We flagged the perception amongst some stakeholders that the sustainability successes at the company were due to an individual amongst the senior management, and questioned to what extent the chair could correct such thinking. We also had a positive and interactive meeting with the company's new chief sustainability officer. The CSO shares many of his predecessor's sentiments, demonstrating a particular expertise in community relations which is helpful as this is the area in which the company continues to be under scrutiny. It was acknowledged that the company has historically been poor at addressing and replying to campaigns, articles and shareholder concerns, to the detriment of its reputation. The CSO therefore agreed that setting up a reputation risk committee would be beneficial to improve communication channels.

Engagements on strategy





Protecting and enhancing value by promoting better regulations

Overview

We actively participate in debates on public policy matters to protect and enhance value for our clients by increasing shareholder rights and boosting protection for minority shareholders.

This work extends across: company law, which in many markets sets a basic foundation for shareholder rights; securities laws, which frame the operation of the markets and ensure that value creation is reflected in value for shareholders; and in developing codes of best practice for governance, management of key risks and disclosure. In addition to this work on a country-specific basis, we address regulations with a global remit, which are currently in the areas of accounting and auditing standards.

Investment institutions are typically absent from public policy debates even though they can have a profound impact on shareholder value. EOS seeks to fill this gap.

By playing a full role in shaping these standards we can ensure that they work in the interests of shareholders rather than being moulded to the narrow interests of other market participants (particularly companies, lawyers and accounting firms, which tend to be more active than investors in these debates) whose interests may be markedly different.

EU consultation on post-2030 energy policy

Preparation of engagement on water risk via PRI

Roundtable with Japanese companies

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Other work in this quarter included

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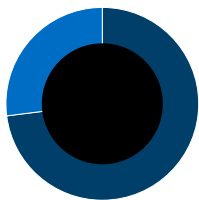
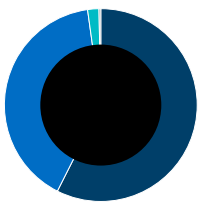
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Hermes votes at general meetings wherever practicable. We take a graduated approach and base our decisions on annual report disclosures, discussions with the company and independent analysis. At larger companies or those where clients have a significant stake, we seek to have dialogue ahead of voting against or abstaining on any resolution.

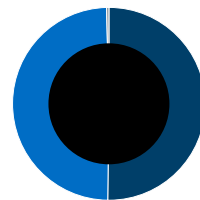
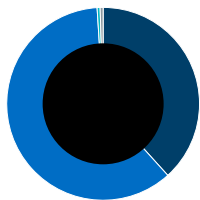
In most cases of a vote against at a company in which our clients have a significant holding we follow up with a letter explaining our concerns. We maintain a database of voting and contact with companies and if we believe further intervention is merited, we include the company in our main engagement programme.



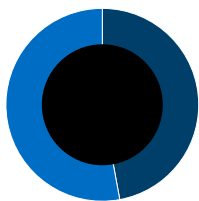
Hermes votes at company meetings all over the world, wherever its clients own shares.



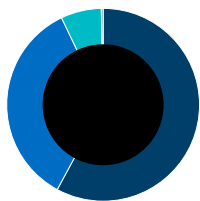
■ Total meetings voted in favour 73.0%
■ Meetings where voted against (or voted against AND abstained) 27.0%



■ Total meetings voted in favour 50.2%
■ Meetings where voted against (or voted against AND abstained) 49.4%
■ Meetings where voted with management by exception 0.4%



■ Total meetings voted in favour 47.1%
■ Meetings where voted against (or voted against AND abstained) 52.9%



■ Total meetings voted in favour 57.9%
■ Meetings where voted against (or voted against AND abstained) 35.0%
■ Meetings where abstained 6.8%
■ Meetings where voted with management by exception 0.3%

