

## Shareholder or shareowner?

Hermes believes that companies with active and informed investors achieve superior returns over the long-term and, accordingly, has been a leader in promoting better stewardship at investee companies for over a decade. Passive fund management should include active ownership and our index-tracking funds benefit from such an approach. Furthermore, our forty person team involved in governance and engagement covers all of our equity investments from 'focus funds' to indexed portfolios. Following the Myners Report, all institutional investors are required to take an active role in monitoring company performance. To that end, the Institutional Shareholders Committee (ISC) has published guidelines for trustees and their agents. Hermes welcomes the guidelines as a benchmark for the fund management industry and an endorsement of its stewardship activities.

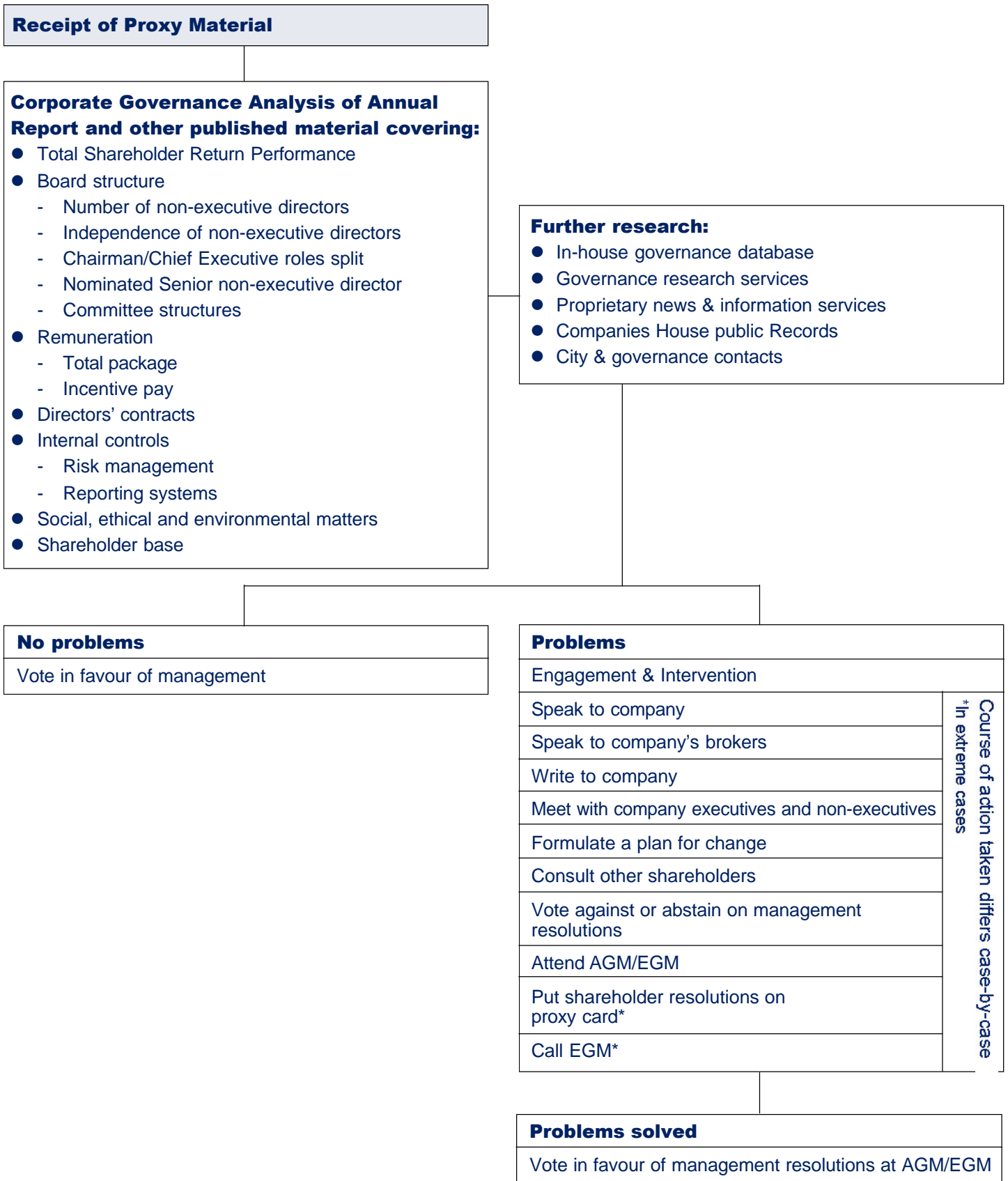
With our fully integrated approach to corporate governance and investment management, including our ownership of the only institutional shareholder engagement (Focus) fund, we believe that we are uniquely positioned to meet the letter and the spirit of the guidelines (see table). Additionally, our expertise in the field of engagement is available to investors with portfolios managed by third party managers for mutual clients. We welcome the opportunity to carry out governance and intervention activities on behalf of our existing and future clients.

Myners/ISC requirements	Hermes' approach
<p><b>Statement of activism policy</b> Owners should be clear about what they expect from companies:</p> <ul style="list-style-type: none"> <li>- it should be clear, consistent &amp; comprehensive</li> <li>- it should be well-communicated</li> </ul>	<p>Published and sent to all UK investee companies:</p> <ul style="list-style-type: none"> <li>- Corporate Governance &amp; Proxy Voting Statement</li> <li>- Hermes Principles on strategy and performance</li> </ul>
<p><b>Monitor performance of and have dialogue with investee companies</b> Owners should have a systematic process which:</p> <ul style="list-style-type: none"> <li>- reviews company performance</li> <li>- undertakes core ownership duties (voting and engagement/dialogue)</li> <li>- identifies situations where further intervention is merited</li> </ul>	<p>See chart overleaf. Votes clients' shares at all UK general meetings. Graduated approach: proxy voting decisions based on annual report disclosures, discussions with company and independent analysis. Database of contact &amp; vote. Companies included in "core engagement programme" or "focus funds" if further intervention merited.</p>
<p><b>Intervene where necessary</b> Owners should be able to explain reason for, objective of and measures of success of intervention</p>	<p>Company-specific. Companies included in "core engagement programme" on basis of formal proposal approved by Corporate Governance Committee who oversee engagement process. Similar but more detailed approach for "focus funds".</p>
<p><b>Escalate intervention on a case-by-case basis</b></p> <ul style="list-style-type: none"> <li>- Meetings with management, board, advisers</li> <li>- Intervene jointly with other investors</li> <li>- Public statements in advance of AGM</li> <li>- Call EGM/put shareholder resolutions at AGM</li> </ul>	<p>Regularly meets with executive and non-executive directors on both company-specific and general governance and performance issues. Works with other investors as appropriate. Prefers not to take public route unless all other alternatives exhausted but when necessary will use press and general meetings to drive change.</p>
<p><b>Evaluate impact of activism and report to clients</b></p> <ul style="list-style-type: none"> <li>- Auditable process</li> <li>- Agree format of reports to clients</li> </ul>	<p>Records steps in process on bespoke database. Monitors progress in-house. Reports progress to clients on regular and ad-hoc basis as requested by them.</p>
<p><b>Adequate resources and expertise</b> Owners should ensure they have adequate resources and expertise available to carry out this process</p>	<p>Has staff of 40 focused on governance and stewardship activities. Broad range of backgrounds/expertise including corporate (plc board-level), investment, legal, financial, strategic management consultancy and forensic accountancy.</p>



# Hermes' Voting Process

Universe: c.800 UK public companies



## Further Information

For further information about Hermes please contact Colin Melvin on: 020 7702 0888 or email: [c.melvin@hermes.co.uk](mailto:c.melvin@hermes.co.uk)

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