

Annual voting and engagement report
Unipension

2011

2011

www.hermesfundmanagers.com

Within the following pages, we are pleased to report on the engagement and voting work carried out on behalf of Unipension during 2011. This covered a wide range of strategic, environmental, social and governance matters and we worked with companies to address the key risks and challenges that they faced including issues on the environment, human rights and ethics, corporate governance, strategy and risk. The report highlights an engagement case study relevant to each theme¹. We have also provided systematic information on our progress in engagements against objectives.

Contents

- 4 Overview of engagement activity and progress
- 8 Environmental engagements
- 10 Social and ethical engagements
- 12 Governance engagements
- 14 Strategy and risk engagements
- 16 Voting activity

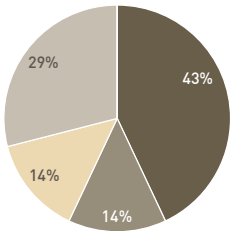
(1) EOS' usual policy is to keep engagements confidential whilst we are making progress. Where the case studies included in this report feature private actions by EOS (such as private dialogues with the senior directors), we have notified the company of our intentions to publish these.

Engagement activity by region 2011

Over the last year EOS engaged with 221 companies in Unipension's portfolios on a range of 802 social, environmental and governance issues. EOS' 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

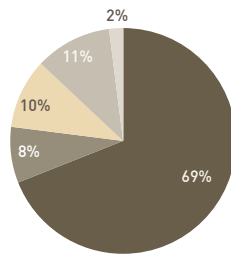
Africa & Middle East

We engaged with four companies over the last year.



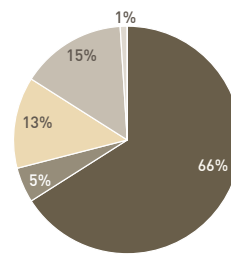
Americas

We engaged with 70 companies over the last year.



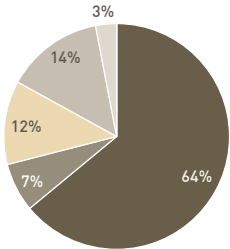
Asia Pacific

We engaged with 37 companies over the last year.



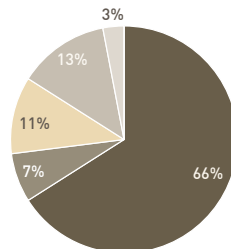
Europe

We engaged with 110 companies over the last year.



Global

We engaged with 221 companies over the last year.

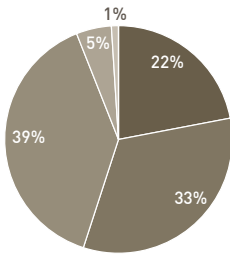


Engagement activity by issue

A summary of the 802 issues on which we engaged with companies in Unipension's portfolio over the last year is shown below.

Environmental and Social

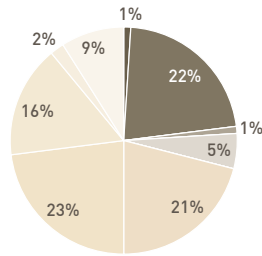
Environmental and Social issues featured in 13% of our engagements over the last year.



- Human rights
- Labour rights
- Environmental
- Corruption
- Controversial weapons

Governance

Governance issues featured in 66% of our engagements over the last year.



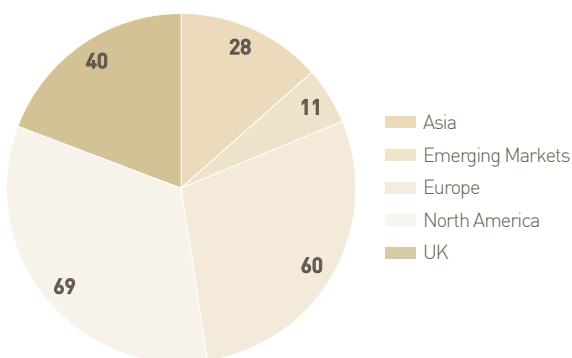
- Accounting or auditing issues
- Board structure
- Related party transactions
- Succession planning
- Business strategy
- Risk management
- Remuneration
- Shareholder communications
- Other governance

Unipension: Engagement activity and progress 2011

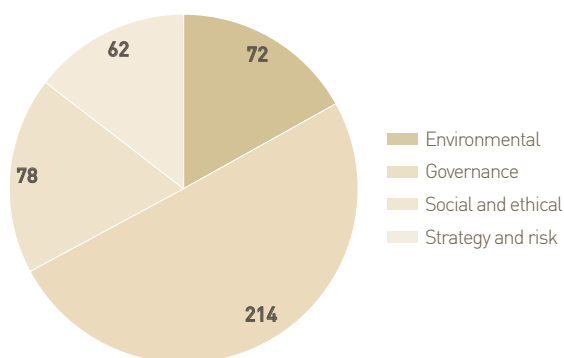
During 2011, Hermes EOS engaged with 229 companies* in Unipension's portfolios and investment universe on a range of environmental, social, governance, and strategic issues. From these, EOS took forward escalated engagements with 208 companies, identifying 426 separate engagement objectives. The information below sets out the current status of these escalated engagements relative to our engagement objectives and our progress against these objectives in the past year.

Global engagement activity

Company engagement by region (208)



Engagement objectives by theme (426)



Approximately 50% of the engagement objectives focused on governance issues. In many cases, achieving success in board change is necessary to deliver beneficial change in ethical, environmental and strategic issues.

Milestone status of engagement

The chart below shows the current milestone status of the EOS' engagement objectives by theme.

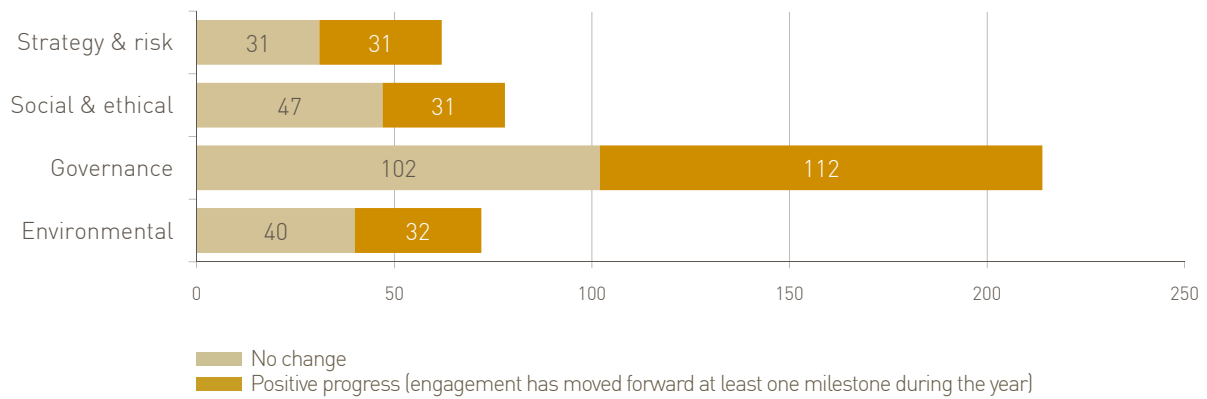
Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Not successful
Environmental	72	1	12	39	14	6	0
Governance	214	8	46	94	47	19	0
Social and ethical	78	4	11	27	31	5	0
Strategy and risk	62	4	12	26	18	2	0
Total engagements	426	17	81	186	110	32	0

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented

*Includes 21 companies where engagement is exploratory and as yet no specific engagement objectives

Engagement progress in 2011

We have made solid progress in delivering engagement objectives across regions and themes. The following chart describes for each engagement objective whether progress has been made through the achievement of new milestones.



Environmental: Engagement progress

In 2011, 32% of engagements with companies in Unipension's portfolios included an environmental objective. Within this section we provide a summary of some of the major environmental themes we have engaged on in 2011 and a case study illustrating a successful outcome to an engagement on environmental issues.

Status of environmental engagement objectives

The table below describes for each engagement objective which milestone has been achieved over the duration of the engagement.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Not successful
Environmental	72	1	12	39	14	6	0

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented

Our activity regarding forestry took major strides forward in 2011. In the first quarter we saw the launch of the second iteration of the Forest Footprint Disclosure Project (FFDP), a programme in which we have been deeply involved as a member of the steering group and also by engaging directly with the companies to encourage their participation – activity which was reflected in the significantly greater results this year. In the third quarter of 2011 we coordinated a letter to companies from investors with \$3.6 trillion in AUM to continue to encourage participation in the FFDP, reinforcing the importance of this issue for climate change and the environment more generally. We also advanced our palm oil engagement work following our joining the Roundtable of Sustainable Palm Oil, helping to establish an investor working group. These activities complement and reinforce our ongoing company-specific engagements.

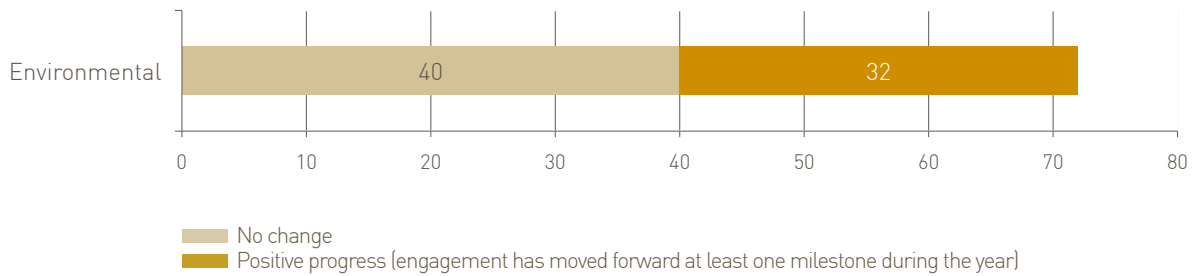
EOS played a significant role in support of an embattled proposal for carbon pricing in Australia, both participating in a general investor communication and making clear our own stronger views through the local media. We worked closely with the Institutional Investors Group on Climate Change and its Australian equivalent the Investors Group on Climate Change to ensure that the

investors' voice was heard in the debate, supporting a joint letter to the government. We then reinforced this with an opinion piece in a conservative newspaper highlighting the risks of wasted investment if carbon intensive industry continues to enjoy the subsidy of externalised costs.

In 2011 we continued to promote better reporting on sustainability and disclosure by companies. As well as successful individual engagements and our work to encourage companies to respond to such programmes as the Carbon Disclosure Project – most notably in Asia – we also promoted these issues at seminars around the world, including in China and Italy, and with regulators, from Mexico to the EU, and many places in between.

This year saw us launch a new thematic engagement on overfishing through a collaboration on the UNPRI clearinghouse. We co-hosted a webinar and invited a broad range of speakers, including SRI analysts, fishery advisers and aquaculture experts, to lay out to investors the current state of science on overfishing and what needs to be done to avoid a collapse of global fish populations. The webinar was very well received and we have highlighted investors' collective concerns to more than 40 public companies.

Progress against environmental objectives



Carbon strategy and board composition: RWE, Germany

We attended and spoke at the AGM of this German utilities company, for which we had filed a counter-proposal regarding the election of the supervisory board. We have engaged with RWE on a number of issues for many years. Over the last couple of years we have intensified our engagement through a dialogue with the chair and other supervisory and management board members, focussing in particular on the composition of the supervisory board. RWE is the single largest emitter of CO₂ in Europe and we have long been pushing the company on putting more focus on reducing its emissions. We have also been sceptical about the strategic importance of nuclear energy in the company's carbon-reduction strategy considering the risks that political support for nuclear power might evaporate. The challenges RWE is facing and the importance of developing a sound strategy became much more apparent following the accident at Japan's Fukushima Daiichi power plant which led the German government to consider re-instating the phase-out of nuclear power and brought opposition to this form of electricity generation to a new high among the German population. In our speech we criticised the company's limited progress in reducing its carbon emissions and expressed our concerns regarding the apparent lack of strategic focus on this important goal. We requested that the management board provide shareholders with a sound and long-term strategy to reduce its carbon emissions.

We also used the speech to gather support for our counter-proposal regarding the election to the supervisory board. We pointed out that, despite their holdings of only 25% of the company's capital, the proposed composition of the supervisory board would leave municipalities with 40% of the shareholder-representative board seats. This is problematic given the potential conflicts of interest that could arise for the municipal representatives due to their different roles and responsibilities. We also raised concerns about the lack of relevant experience of several candidates and the overall lack of balance in terms of age and diversity. In our counter-proposal, we requested that the election of one of the municipal candidates, who holds a large number of board and advisory positions, be opposed. Our speech was well received by the audience.

More importantly, almost 30% of the shareholders present supported our counterproposal and voted against the municipal candidate, a remarkable outcome given the company's shareholding structure. As a result we believe that the position of the independent board members has been strengthened significantly which should lead to improved corporate governance in the future. We will continue our engagement with RWE in 2012 with a particular focus on the company's CO₂-strategy but also pressing for further refreshment of the supervisory board.

Social and ethical: Engagement progress

In 2011, 30% of engagements with companies in Unipension's portfolios included a social and ethical objective. Within this section we provide a summary of some of the major social and ethical themes we have engaged on in 2011 and a case study illustrating a successful outcome to an engagement on social and ethical issues.

Status of social and ethical engagement objectives

The table below describes for each engagement objective which milestone has been achieved over the duration of the engagement.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Not successful
Social and ethical	78	4	11	27	31	5	0

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented

In 2011 EOS began leading a UNPRI working group on controversial weapons, focusing on cluster munitions. The group has written to a number of US companies to encourage public disclosure on their cessation from production of these weapons. This will make it easier for UNPRI members to develop agreed lists of implicated companies.

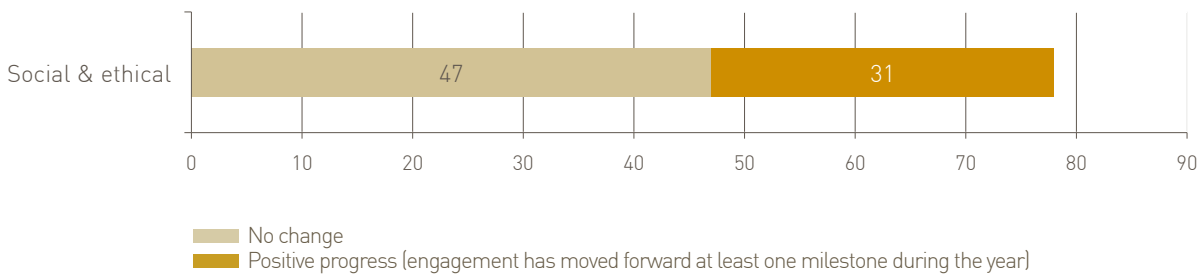
We made progress in our activities in relation to munitions manufacture. We were the only investor participant in a two-day meeting with major arms companies from the US and Europe, helping support the development of industry best practice on ethical and responsible business practices. During 2011 we worked with Oxfam and hosted a meeting for investors with the NGO to discuss the forthcoming Arms Trade Treaty and ways in which investment institutions can support this potential agreement on greater transparency and control over arms exports.

Following the sad events in Japan, we initiated a series of engagements with companies in relation to nuclear safety and risk management in that industry. We held active dialogue during the year with companies from Finland, France, Japan, Spain and UK. On broader health and safety issues we engaged with companies from Canada, Hong Kong/China, South Africa, UK and US, among many others.

EOS pursued a number of engagements with regards to employee relations issues generally arising from allegations about poor treatment of staff in companies' international operations. We also continued to encourage companies to manage effectively their community relations around their sites of operation, again focusing particularly on those which we have faced problems or allegations in recent times.

In 2011 the SEC moved to implement disclosure standards regarding conflict minerals which gives a more pointed context for our ongoing engagements with IT companies in relation to sourcing of metals and minerals from the troubled eastern Congo. On other supply chain issues we held dialogue with companies on cocoa and on phosphate from the occupied Western Sahara. EOS continued to engage with companies which have operations in troubled regions and need actively to manage the risks associated with them. 2011 has also shown again that companies need to manage political risk actively and cannot assume that a convenient status quo will continue. We have had dialogue about specific individual issues, discussing activities in Sudan, the Occupied Territories, Zimbabwe, Pakistan, Myanmar (Burma), Congo and Ivory Coast.

Progress against social and ethical objectives



Integration of access to medicines into business strategy:

Takeda Pharmaceuticals, Japan

EOS initiated a dialogue with Takeda Pharmaceuticals on access to medicines (ATM) when the company achieved a low score in the ATM Index 2010. We regard access to medicines as central to pharma companies' licence to operate and ability to make long-term profits, as well as an opportunity to make an appropriate entry into emerging markets with the opportunities which that may bring. While Takeda was leading various charitable initiatives to provide healthcare and medication in developing countries, it was not clear whether these initiatives were sufficiently integrated into the strategy. Most of Takeda's product pipeline concentrated on developed markets and there was limited information on the company's plans in relation to the developing world.

In 2010 we visited Takeda's headquarters and discussed the financial benefits of increasing Takeda's geographical footprint and serving emerging and less

developed markets. We continued our dialogue in 2011 and asked the company to accelerate its steps to expand its vaccination offerings in the developing world. Shortly after this discussion, Takeda announced its acquisition of Nycomed, a Swiss rival with an extensive network in emerging markets. We welcomed this positive step forward, and also applauded Takeda's announcement in 2011 of the launch of a new global vaccine business and a plan to expand the supply of vaccines, particularly through Nycomed's sales channels in emerging markets. This new division is headed by an individual who has previous experience of vaccines delivery at the Gates Foundation.

On corporate governance, an issue where Japan needs to take particular strides forward, we were also pleased to see the appointment of outside directors to the board. Together, these recent developments have demonstrated Takeda's commitment to integrating ATM into its long-term business strategy as well as pursuing best practice ESG initiatives. EOS continues its constructive dialogue with the company on these and other issues.

Governance: Engagement progress

In 2011, 68% of engagements with companies in Unipension's portfolios included a governance objective. Within this section we provide a summary of some of the major governance themes we have engaged on in 2011 and a case study illustrating a successful outcome to an engagement on governance issues.

Status of governance engagement objectives

The table below describes for each engagement objective which milestone has been achieved over the duration of the engagement.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Not successful
Governance	214	8	46	94	47	19	0

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented

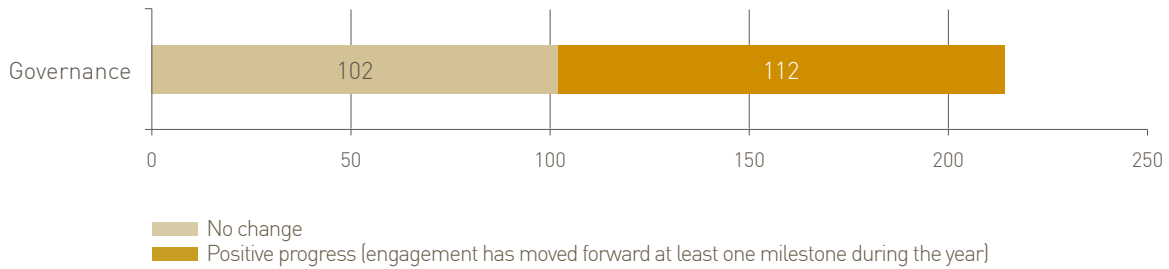
In 2011, EOS continued to encourage companies to separate the joint roles of chair/CEO, reflecting our experience that separation cuts the dominance of one individual on board decision-making and so leads to better decisions. We also engaged on broader issues of succession planning and other issues related to board structure including diversity. Board diversity has become more of a focus for regulators around the world and we have stepped up our engagement efforts, raising this at a wide variety of companies around the world.

We are pleased that the idea of stewardship codes is being picked up around the world. The South African CRISA code has been finalised and our recommended improvements were accepted. Meanwhile, the Dutch governance organisation Eumedion has published its guidelines on best practice behaviours which EOS helped draft. We were delighted to see significant governance reforms planned in the UK which reflected comments we

have made to the FRC and elsewhere: mandatory audit tendering, a refocusing of risk reporting and better audit and accounting disclosure. This model is already picked up elsewhere, including in the US and internationally.

Highlights in the areas of public policy and promoting best practice in governance have included significant steps forward in considering principal/agent problems in the investment process. The OECD has opened a project in the area, and its launch document, like the European Commission's Green Paper on Corporate Governance, referred to the ICGN's Model Mandate Initiative, which an EOS staff member has been leading. The Model Mandate Initiative advanced significantly during the year with approval at the ICGN AGM and consistent interest from a range of global investors. On behalf of EOS clients we responded to the EU Green Paper, advocating various important steps to ensure that the system works more effectively in the interests of the asset owners.

Progress against governance objectives



Shareholder proposal to separate Chair and CEO:

Moody's, United States

Continuing to intensify our engagement with Moody's, in late 2011 Hermes EOS filed a binding shareholder resolution to amend the by-laws to require an independent board chair. Binding resolutions are rare in the US – most shareholder proposals are filed on a 'precatory' basis, under which a company is expected to implement a majority-supported shareholder proposal but is not obliged to do so. This marks an escalation of a programme of engagement with the company since 2009, when we identified Moody's as implicated in some of the behaviours which led to the financial crisis and we noted the lack of independent board governance as one contributor to its approach.

Thus in 2009, following a series of discussions, we filed our first shareholder resolution to separate the roles of chair and CEO. At the 2010 annual general meeting this resolution won 33% support, a notable increase from previous years. We therefore again proposed such

a resolution for the 2011 AGM, and were delighted to see this resolution win majority support – something that is extremely rare for shareholder resolutions in the US – with 56% of shareholders backing it. We believe that the outcome of the 2011 vote demonstrates that the tide is turning in the US and that shareholders increasingly recognise the value that an independent chair can bring in providing effective oversight of management.

In early 2012, following productive discussions with Moody's executive chairman and board of directors, the company agreed to split the roles of CEO and chairman in exchange for the withdrawal of our binding shareholder proposal. The company's decision to adopt a governance structure which promotes the highest levels of independent oversight and management accountability through the appointment of an independent board chairman is a significant and timely change which we believe is in the long-term interests of shareholders. This is a particularly important step in the case of Moody's given the significant influence that its credit ratings have, along with their ability to impact the stability and functioning of global financial markets.

Strategy and risk: Engagement progress

In 2011, 23% of engagements with companies in Unipension's portfolios included a strategy or risk objective. Within this section we provide a summary of some of the major strategy and risk themes we have engaged on in 2011 and a case study illustrating a successful outcome to an engagement on strategy and risk issues.

Status of strategy and risk engagement objectives

The table below describes for each engagement objective which milestone has been achieved over the duration of the engagement.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Not successful
Strategy and risk	62	4	12	26	18	2	0

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented

In 2011 we continued our engagements on strategy with many companies around the world. Often strategic engagements are closely linked with progress on other areas, such as the environment, or they may involve raising questions regarding business strategy where decisions made by the company – for example in M&A situations – appear not to be aligned with shareholders' best interests.

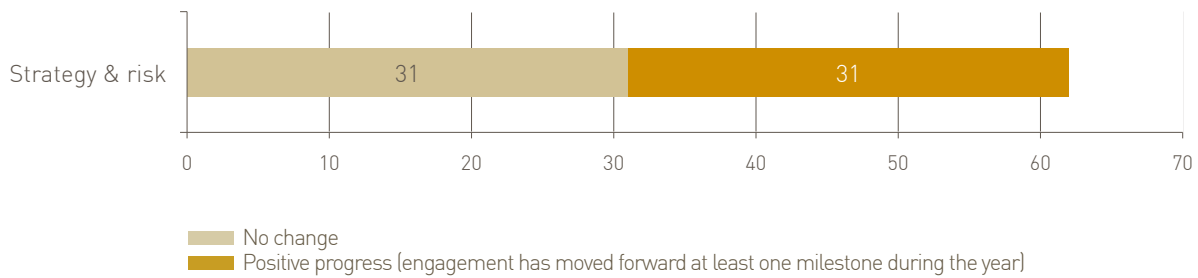
We continued discussions with banks on remuneration and risk management. EOS has had long standing dialogues with large and high-profile banks across the world, to ensure that they have gone far enough to address the risk issues which they face and ensure that the structures in place favour long-term shareholders' interests.

During the year, we progressed our engagement with a major Japanese conglomerate, focusing our discussions on the restructuring of underperforming business segments.

We won a clear commitment from the management regarding the ongoing restructuring of the business and we welcomed the disposal of a unit which had suffered substantial operating losses on which we had sought a resolution for several years. We welcomed the significant improvement in accountability, quality of disclosure and communication with shareholders, a further aim of our engagement.

We continued to engage with a UK based engineering company, talking through the company's strategic priorities and growth plans. We discussed the company's strategic priorities and growth plans. Given that previous acquisition had caused a significant hit to earnings, we pressed the company to explain the criteria the board will use to assess whether acquisition targets will add value. We welcomed the news that the board is now paying more attention to smaller acquisitions that previously would have received board level attention and discussed succession planning for the chair.

Progress against strategy and risk objectives



Integration of sustainability programme into corporate strategy:

Lloyds Banking Group, United Kingdom

Beginning in 2010, we intensified our engagement with the company to discuss the sustainability strategy and governance following our disappointment with the bank's efforts in this direction. We had a frank discussion with the bank about the serious shortcomings we identified. We believed that the governance was flawed, with no direct board responsibility and a split between the oversight of the wholesale bank and that of the rest of the group.

We were also concerned that Lloyds' sustainability programme as articulated to us was too philanthropic in nature and without an overarching sustainability goal linked to the corporate strategy. We expressed our concerns about this in a series of meetings and the bank's strategy now is more cohesive and linked to commercial priorities, including better relationships with potential customers. We suggested this might be achieved through mentoring entrepreneurs and environmental lending to reduce commercial

customers' costs through energy reduction programmes funded by profitable lending, utilising the bank's brand and its staff's skills to improve both staff and customer engagement.

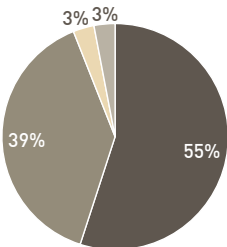
When we met the bank again in 2011, we were pleased to see that the company has acted on the concerns that we raised. Lloyds appointed an executive and a non-executive director to its sustainability steering committee and has unified the previously split responsibilities into one programme under a new head of sustainability who impressed us when we met him in 2011. Further, we suggested a number of improvements that the bank should consider in the near future. These included a better focus on the most important sustainability objectives, identifying why they are important and reporting on progress. The commentary on progress should, we agreed, discuss performance against key performance indicators and the annual corporate responsibility report should also include targets for the future. Whilst reporting has improved we continue to press for further improvements to demonstrate how the company is progressing against its strategic objectives in this area.

Overview

Over the last year, we voted on behalf of Unipension at a total of 847 meetings around the world, analysing 10,700 resolutions in accordance with Unipension's voting policies. At 337 of those meetings we opposed one or more resolutions and we abstained at 21 meetings. We voted with management by exception at 17 meetings, while we supported management on all resolutions at 472 meetings.

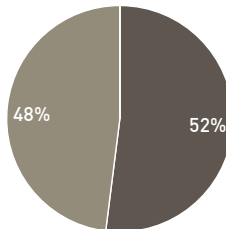
Africa and Middle East

We voted at 31 meetings (403 resolutions) over the year.



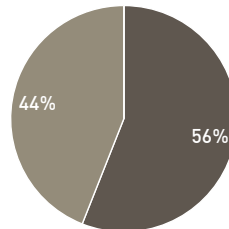
North America

We voted at 86 meetings (875 resolutions) over the year.



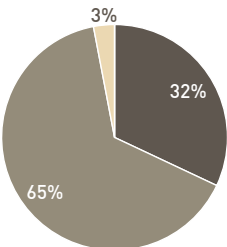
South America

We voted at 16 meetings (84 resolutions) over the year.



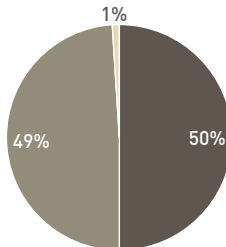
Asia (except Japan)

We voted at 88 meetings (853 resolutions) over the year.



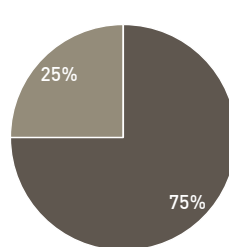
Japan

We voted at 141 meetings (1,810 resolutions) over the year.



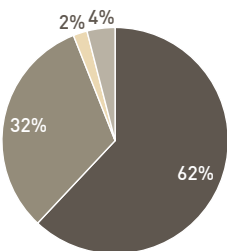
Australia and New Zealand

We voted at 20 meetings (72 resolutions) over the year.



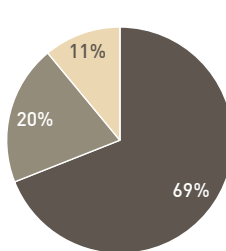
Europe (except Denmark)

We voted at 420 meetings (6,195 resolutions) over the year.



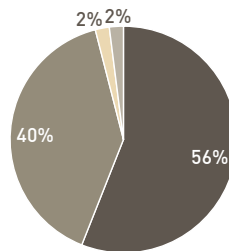
Denmark

We voted at 45 meetings (408 resolutions) over the year.



Global

We voted at 847 meetings (10,700 resolutions) over the year.



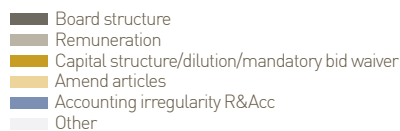
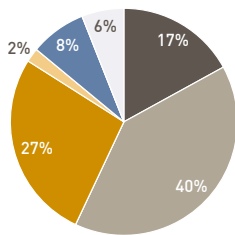
- Total meetings voted in favour
- Meetings where voted against (or voted against AND abstained)
- Meetings where abstained
- Meetings where voted with management by exception

Voting by issue

The issues on which we voted against management or abstained on resolutions, in accordance with Unipension's voting policies are shown below.

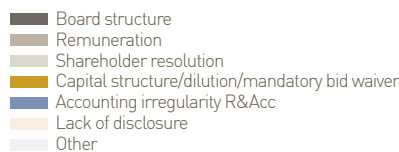
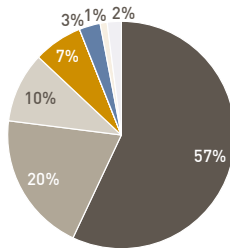
Africa and Middle East

We voted against or abstained on 48 resolutions over the last year.



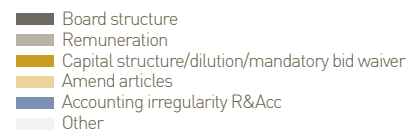
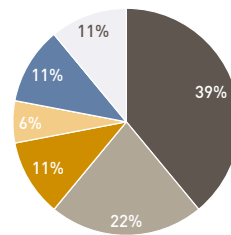
North America

We voted against or abstained on 107 resolutions over the last year.



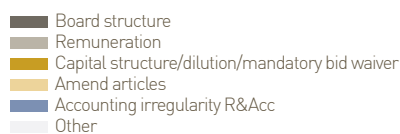
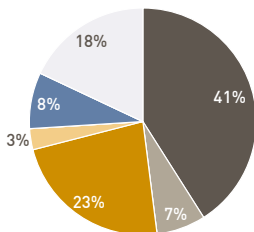
South America

We voted against or abstained on 18 resolutions over the last year.



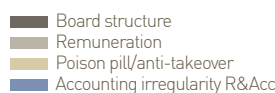
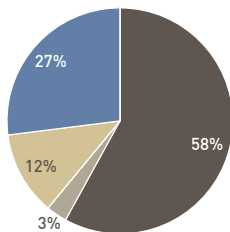
Asia (except Japan)

We voted against or abstained on 153 resolutions over the last year.



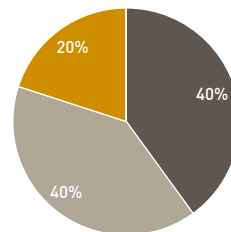
Japan

We voted against or abstained on 131 resolutions over the last year.



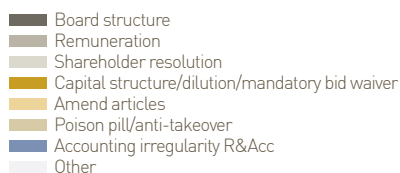
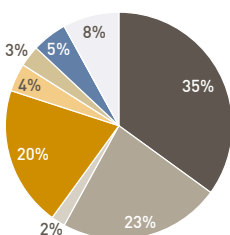
Australia and New Zealand

We voted against or abstained on five resolutions over the last year.



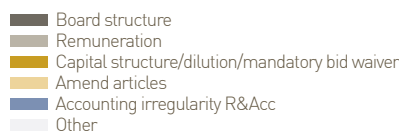
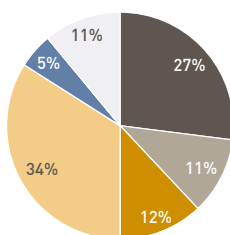
Europe (except Denmark)

We voted against or abstained on 437 resolutions over the last year.



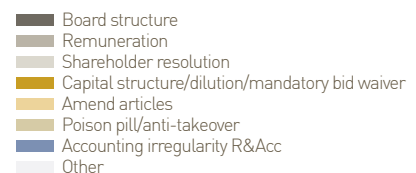
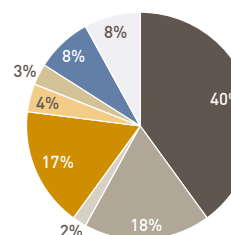
Denmark

We voted against or abstained on 44 resolutions over the last year.



Global

We voted against or abstained on 943 resolutions over the last year.



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