

2014

Annual voting and
engagement report
Unipension

Within the following pages, we are pleased to report on the engagement and voting work carried out on behalf of the Unipension during 2014. 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, social and ethical matters, corporate governance, strategy and risk. The report highlights an engagement case study relevant to each theme*. 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 [Public policy work](#)

18 [Voting activity](#)

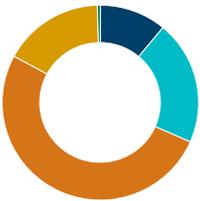
*Hermes EOS' usual policy is to keep engagements confidential while they are in progress. When the case studies included in this report feature private actions by Hermes EOS (such as private dialogues with senior directors), we have notified the company of our intention to publish them.

Engagement activity by region 2014

In the last year Hermes EOS engaged with 275 companies in Unipension portfolios on a range of 776 environmental, social and ethical, governance, strategy and risk issues. Hermes 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.

Global

We engaged with **275** companies over the last year.



- Environmental 11.0%
- Social and ethical 20.6%
- Governance 51.3%
- Strategy and risk 16.6%
- Stewardship 0.5%

Australia and New Zealand

We engaged with **11** companies over the last year.



- Environmental 17.5%
- Social and ethical 31.6%
- Governance 49.1%
- Strategy and risk 1.8%

Denmark

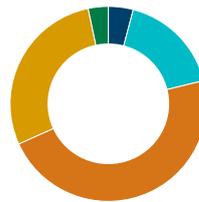
We engaged with **seven** companies over the last year.



- Environmental 8.3%
- Social and ethical 16.7%
- Governance 33.3%
- Strategy and risk 41.7%

Developed Asia

We engaged with **45** companies over the last year.



- Environmental 4.1%
- Social and ethical 17.1%
- Governance 47.2%
- Strategy and risk 28.5%
- Stewardship 3.3%

Emerging and Frontier Markets

We engaged with **15** companies over the last year.



- Environmental 12.8%
- Social and ethical 25.6%
- Governance 38.5%
- Strategy and risk 23.1%

Europe ex Denmark

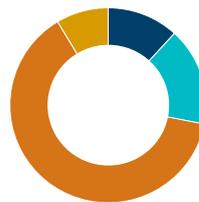
We engaged with **81** companies over the last year.



- Environmental 11.7%
- Social and ethical 23.0%
- Governance 46.0%
- Strategy and risk 19.3%

North America

We engaged with **116** companies over the last year.



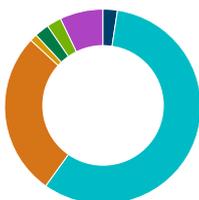
- Environmental 11.8%
- Social and ethical 16.3%
- Governance 63.3%
- Strategy and risk 8.6%

Engagement activity by issue

A summary of the 776 issues on which we engaged with companies in Unipension portfolios over the last year is shown below.

Environmental

Environmental issues featured in **11.0%** of our engagements over the last year.



- Biodiversity 2.4%
- Climate change/carbon intensity 57.6%
- Environmental management 27.1%
- Forestry 1.2%
- Oil sands 2.4%
- Waste 2.4%
- Water stress 7.1%

Social and ethical

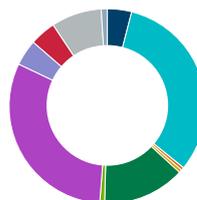
Social issues featured in **20.6%** of our engagements over the last year.



- Access to medicine 3.1%
- Bribery and corruption 17.5%
- Community relations 13.8%
- Corporate culture 12.5%
- Customer relations 3.8%
- Employee relations 8.1%
- Health and safety 15.0%
- Licence to operate 7.5%
- Munitions manufacture 1.3%
- Operations in troubled regions 3.1%
- Political risk management 2.5%
- Supply chain management 11.9%

Governance

Governance issues featured in **51.3%** of our engagements over the last year.



- Accounting or auditing issues 4.0%
- Board structure 31.9%
- Committee structure 0.5%
- Conflicts of interest 0.5%
- Other governance 13.6%
- Poison pill 0.8%
- Remuneration 30.9%
- Separation of chair/CEO 4.3%
- Shareholder communications 4.3%
- Succession planning 8.3%
- Voting rights – not 1 share 1 vote 1.0%

Strategy and risk

Strategy and risk issues featured in **16.6%** of our engagements over the last year.



- Business strategy 43.4%
- Capital structure 3.1%
- Reputational risk 4.7%
- Returns to shareholders 2.3%
- Risk management 46.5%

Stewardship

Stewardship issues featured in **0.5%** of our engagements over the last year.



- Reporting/disclosure 50.0%
- Stewardship code 50.0%

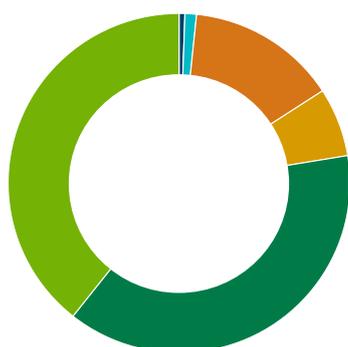
Engagement progress in 2014

Using our proprietary milestone system, we had ongoing engagements with 183 companies regarding 542 separate engagement objectives on behalf of Unipension.

In this section we provide an overview of our global engagement activities.

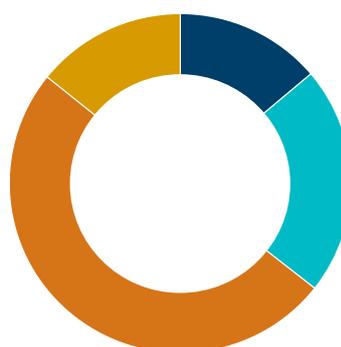
Global engagement activity

Ongoing company engagement by region (183)



- Australia and New Zealand 1
- Denmark 2
- Developed Asia 26
- Emerging and Frontier Markets 12
- Europe ex Denmark 70
- North America 72

Engagement objectives by theme (542)



- Environmental 75
- Social and ethical 118
- Governance 272
- Strategy and risk 77

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 environmental, social, governance and strategic issues.

Engagement methodology and progress in 2014

Our proprietary milestone system allows us to track progress in our engagements relative to objectives set at the beginning of our interactions with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective. They can broadly be defined as follows:

- Milestone 1 Concern raised with company at appropriate level
- Milestone 2 Acknowledgement of the issue
- Milestone 3 Development of a credible strategy or plan to address the concern
- Milestone 4 Implementation of a strategy or measures to address the concern

The information below sets out the current status of these engagements relative to our engagement objectives and our progress in the past year.

Milestone status of engagement

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

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Environmental	75	7	11	30	14	10	3
Social and ethical	118	16	10	28	44	18	2
Governance	272	13	55	73	69	55	7
Strategy and risk	77	5	10	22	29	4	7
Total engagements	542	41	86	153	156	87	19

Engagement progress in 2014

We made solid progress in delivering engagement objectives across regions and themes for Unipension. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



Environmental: Environmental progress

In 2014, 14% of our engagements on behalf of Unipension included an environmental objective. In this section we summarise some of the major environmental themes on which we engaged in 2014 and a case study illustrating a successful outcome to an engagement on environmental concerns.

Status of environmental engagement objectives

The table below shows which milestones have been achieved in the course of related engagements.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Environmental	75	7	11	30	14	10	3

Corporate engagement

We seek disclosure of relevant environmental indicators and encourage companies to develop plans for managing their environmental footprint, set appropriate targets, monitor and disclose progress. In addition, we encourage companies to disclose explicit and practical examples of how they manage environmental risks and press for board involvement in overseeing progress.

In 2014, we concentrated on the management of the risks arising from carbon emissions, the use of global water resources and pollution impacts while supporting economic growth at the same time.

Many of our environmental engagements related to climate change. Stranded assets were a key focus, particularly with companies in the oil and gas and mining sectors. We pressed companies to assess and disclose their exposure to the risk of stranded assets. In addition, we addressed carbon taxation and carbon capture and storage.

Furthermore, we spoke to companies in the oil sands industry on a visit to see these operations in Canada. On the ground, we also met a representative of the region's aboriginal peoples, local to the oil sands developments, and a doctor acting on their behalf. As the oil sands industry called for a higher price on carbon than the one currently in place in the region, we began our dialogue with provincial and national government officials following the site visit.

In our engagement with companies, we encouraged sustainable water management and addressed water stress, water contamination and water distribution. We also sought better management of the risk of air pollution in line with local regulatory requirements.

We engaged on the plantation of genetically modified trees with one company and continued our engagement on sustainable palm oil with various others. To that extent, we welcomed the Sustainable Palm Oil Manifesto which was signed by seven palm oil growers and traders.

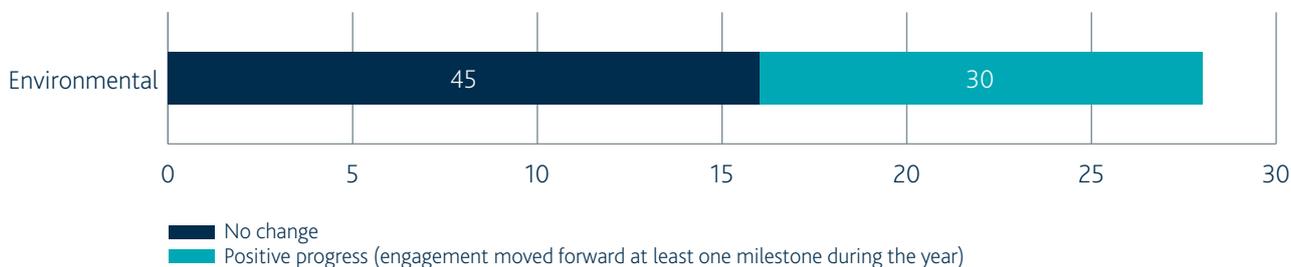
Public policy and best practice

We engaged equally intensively on carbon emissions in the public policy sphere. We supported several investor announcements made at the New York Climate Summit, including the Global Investor Statement, which was backed by 360 signatories with \$24 trillion in assets under management. The statement voiced an international ambition to accelerate investment in low carbon assets, carbon foot-printing and portfolio decarbonisation. The Institutional Investors Group on Climate Change (IIGCC) – of which we are a member – also met several representatives of the European parliament and the UK's permanent representative in Brussels to discuss the EU 2030 Climate and Energy Policy Package.

Furthermore, we outlined the contribution that investor engagement can make in addressing the issue of stranded assets and climate change in a discussion on the merits of divestment from fossil fuel companies arranged by the IIGCC. Overall, we took part in several workshops, seminars and conferences on carbon policies and stranded assets.

After two years of collaboration with fellow investor signatories to the Principles for Responsible Investment (PRI), we welcomed the PRI's investor guidance document for collaborative engagement on water risks in agricultural supply chains. We were part of the steering committee that identified companies for a collaborative engagement to focus on the water risks in agricultural supply chains and therefore played a part in creating the document.

Progress against environmental objectives



Case study: Kuala Lumpur Kepong



A Q&A with Sachi Suzuki, sector lead for industrials at Hermes EOS, about Malaysian multi-national conglomerate Kuala Lumpur Kepong

Q: Why is Hermes EOS engaging with Kuala Lumpur Kepong?

A: Our engagement was sparked by allegations of illegal logging of an Indonesian peat forest in violation of a two-year moratorium by a subsidiary of Kuala Lumpur Kepong. In addition, a contractor of Kuala Lumpur Kepong was accused of operating slave labour like conditions at its palm plantations, allegations which Kuala Lumpur Kepong has denied. Most recently, the company has been accused of failing to respect the rights of community groups in Papua New Guinea and Liberia. We feel that – due to their long tenure – the independence of some of its directors is also questionable.

Q: What did Hermes EOS do in response to the allegations?

A: During our engagement, we have been pressing the company to implement better labour standards in its supply chain. While the company denied the allegations of labour abuses by one of its contractors, it confirmed that it has terminated its contract with the contractor concerned and provided us with a document intended for its customers explaining its labour practices. We welcomed its efforts to reduce the use of contract workers, improve communications with customers and engage with NGOs.

We were also encouraged by the significant amount of time the board spent discussing these issues and the visits to the estates by directors to gain first-hand experience. However, we noted the company’s lack of public disclosure of this and other sustainability issues and urged it to publish a policy commitment, emphasising the significance of reputational risks faced by palm oil producers. We continued our discussion on its progress in obtaining certification from the Roundtable on Sustainable Palm Oil (RSPO) for all of its plantations, to ensure that the company was on track to meet its targets.

Q: How successful has the engagement been to date?

A: In July 2014, the company – together with several other palm oil growers and traders – published the Sustainable Palm Oil Manifesto, which commits the companies to refrain from deforestation of high carbon stock (HCS) forest, to create traceable and transparent supply chains and to protect peat areas. This was followed by an announcement that these companies would halt development of potential HCS areas while an HCS study is underway. In addition, Kuala Lumpur Kepong informed us that it obtained RSPO certification for all of its plantations and mills in Malaysia and that it is on track to achieve its 2015 target for Indonesia. We also welcomed the news that the company published its first sustainability policy and intends to engage with its contractors and suppliers to ensure their adherence to the policy.

Prior to this, in 2013, we were delighted with the company’s appointment of a non-executive director, a former chief executive of the country’s Employees Provident Fund, to replace another one who had been on the board for 14 years. This provides an important counter-balance to the family dominating the business.

Social and ethical: Engagement progress

In 2014, 22% of our engagements on behalf of Unipension included a social and ethical objective. In this section we summarise some of the major social and ethical themes on which we engaged in 2014 and a case study illustrating a successful outcome to an engagement on social and ethical matters.

Status of social and ethical engagement objectives

The table below describes which milestones have been achieved during their respective engagements.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Social and ethical	118	16	10	28	44	18	2

Corporate engagement

We engaged extensively with retailers on their supply chains. Our engagement on the issue culminated in a trip to the supplier factories of four global retailers in Bangladesh. We gained first-hand impressions of the lives and working conditions of their factory workers and noticed that the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety initiatives that were launched in the wake of the 2013 Rana Plaza building collapse appear to have greatly improved building safety in the country. However, questions remain around the future of building safety once the five-year mandates of both initiatives run out.

Ensuring adequate health and safety standards was a priority in our engagements across a number of sectors. Apart from high level dialogue with company board members, we undertook site visits to operations to see how safety measures are implemented on the ground.

Several companies improved their risk management and disclosure in relation to bribery and corruption following our engagement and even began to address the issue publicly. As bribery and corruption erodes investor confidence and damages the reputation of companies, we strive to encourage the elimination of those crimes.

In addition, we engaged on labour and community relations, including those involving disputes with labour unions, and were pleased about the reassurances we gained in the dialogues we held on these issues with companies.

Following a number of data thefts at companies, cyber security and data privacy was another issue we discussed with companies across a variety of sectors in 2014. We spoke about how to mitigate the risk and respond to any breaches that have occurred. This includes training of staff and good quality management.

Access to medicine was a core engagement objective with several companies, and we are pleased with the progress some of them made on this issue during 2014.

We welcomed several companies signing up to the Investor Statement on Board Oversight of Biosimilar Issues. By signing the statement, the companies support the three principles contained therein, thus guiding their decision-making on biosimilars, which are cheaper, subsequent versions of already approved biopharmaceutical products.

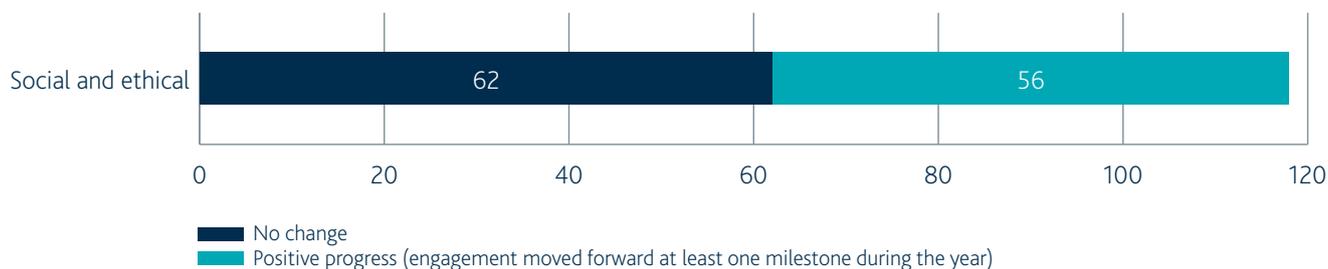
Public policy and best practice

Complex supply chains can leave businesses vulnerable to association with human rights abuses and supply chain mismanagement can cause serious reputational damage, which has an impact on long-term shareholder value. Therefore, we co-signed a letter backing the UK government's commitment to include proportionate supply chain reporting requirements in the Modern Slavery Bill.

We also co-signed a letter calling on the EU to strengthen and harmonise its regulation of conflict minerals with that of the US to enable more consistent risk management and disclosure of the issue. This will help companies and investors better manage this human rights risk.

During our trip to Bangladesh, we attended the first ever Dhaka Apparel Summit, which included participants from a number of different stakeholders. However, worker representatives were absent from the conference. We feel the views of workers could be further included in the industry collaboration between the buyers, producers, donors and NGOs to help mitigate future disasters and sought to address this in our corporate and public policy engagements.

Progress against social and ethical objectives



Case study: Wal-Mart



A Q&A with Tim Goodman of Hermes EOS about retailer Wal-Mart

Q: Why is Hermes EOS engaging with Wal-Mart?

A: As the world's largest retailer, Wal-Mart faces social issues in relation to its supply chain. These received greater prominence following the 2013 Rana Plaza building collapse in Bangladesh in which 1,300 garment workers died. Allegations of bribery in Mexico and other countries meanwhile have led to questions about its ethical standards and governance. The company has also been targeted by trade unions and NGOs over its labour practices, particularly in the US.

Q: What did the engagement entail?

A: Our engagement picked up in intensity in 2013 when we filed a shareholder proposal calling for an independent chair at the company. Ultimately we spoke at its AGM, having not been satisfied with progress until then. We focused on the fact that our clients are long-term owners of Wal-Mart shares and the need for the company to demonstrate that it is living up to the spirit of its founding principles.

We were given far greater access to senior management than previously, and as a result of this greater cooperation, we settled our shareholder proposal in 2014. We enjoyed one-to-one conversations with Wal-Mart's heads of compliance and ethics and with its corporate secretary. During all of these discussions, we sought to be helpful to the company as it develops a path forward in its anti-bribery and corruption work and in better overseeing the risks in its supply chain. We also participated in joint investor calls on anti-bribery and corruption as well as on Bangladesh which we had encouraged the company to hold.

Wal-Mart asked us to comment on its sustainability report published in 2014 and we had a detailed conversation with its sustainability advisers on how to improve its performance. We drew

attention to areas where the company should, in our view, consider improving its reporting. This, we believe, will in turn encourage better management of the most important issues it faces.

As we are pleased with Wal-Mart's developing work on environmental matters, we have not sought particular changes in this respect. Its bold plans to improve the resilience of its supply chain to the effects of climate change and its targets to reduce its direct environmental impact are impressive. We welcomed the CDP's acknowledgement of Wal-Mart's progress through inclusion of the company in its leadership index in 2014.

The recent phase of our engagement culminated in December 2014 when Wal-Mart participated in our visit to garment factories in Bangladesh. As well as meeting its local representatives and visiting one of its suppliers, the company assisted us in arranging meetings with other stakeholders, such as the Alliance for Bangladesh Worker Safety. We were delighted that we were the first investor representative to visit the company there on a one-to-one basis.

We were equally pleased that Wal-Mart took part in a UN Global Compact company and investor conference on anti-bribery.

Q: What results have you seen so far?

A: It is evident that the company has worked very hard and continues to focus on reducing the human rights risks in its Bangladeshi supply chain. Nevertheless, there is much more work to do in the country, some of which requires a more committed response from the government. Wal-Mart has also developed a much more robust anti-corruption programme than existed previously. This ought to reduce risk in this area and provide mitigation should there be any settlement or enforcement action over the various allegations that have surfaced in the past couple of years. We believe that it needs to demonstrate better that it manages its human resources in a way that better develops its people and optimises long-term value to Wal-Mart. We are optimistic that the company's dedication to ethical behaviour and supply chain integrity will encourage it to do so. Its announcement in February 2015 to increase the pay of many of its US staff and to invest substantially in staff training and career development suggests grounds for our optimism.

Governance: Engagement progress

In 2014, 50% of our engagements on behalf of Unipension included a governance objective. In this section we summarise some of the major governance themes on which we engaged in 2014 and a case study illustrating a successful outcome to an engagement on governance themes.

Status of governance engagement objectives

The table below describes the objectives of each engagement and the milestones reached in pursuing them.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Governance	272	13	55	73	69	55	7

Corporate engagement

Through our engagement work, we seek reassurance that companies have an appropriate board structure in place. Board members should be equipped with the right set of skills, a sufficient level of independence and ideally be a balanced mix of backgrounds. In addition, board evaluations should be held regularly. Several companies made substantial changes to their board structure in 2014, in line with what we had called for.

Proxy access and the enhanced disclosure of board structures and individual board members can be problematic in certain markets. But due to the strong relationships we have built with companies, we were able to gain access to the board members of a number of high profile emerging markets companies.

We advocate that the roles of chair and CEO be undertaken by separate individuals. However, where this is not possible we call for a lead independent director to be in place to provide some counterbalance. Several companies in our engagement programme appointed such individuals in 2014.

Executive remuneration continued to be a contentious issue, particularly in the UK and the US. We engaged with regulators, industry bodies, company boards and remuneration committees to implement longer-term executive remuneration structures which align the interests of executives with those of long-term investors. We paid particular attention to this issue in the financial services sector.

In addition, the rights of shareholders – including those of minority shareholders – ought to be protected. We promote equal shareholder rights through the implementation of single class share structures and to that extent, co-sponsored a shareholder proposal at News Corp requesting the elimination of its dual class share structure. The proposal received an astounding 47% support from investors, close to 90% when accounting for the independent votes only.

We believe that reporting on material sustainability factors is just as important as on traditional financial criteria. To avoid silo reporting, we push for integrated reporting and in 2014 welcomed the first integrated reports by several companies.

Public policy and best practice

Corporate governance in Asia gained in momentum in 2014. Japan launched its Stewardship Code, the *Principles for Responsible Institutional Investors*. Shortly after, Malaysia introduced its own equivalent, the *Code for Institutional Investors*. We were actively involved in the development of both comply-or-explain codes and were among the first signatories to each.

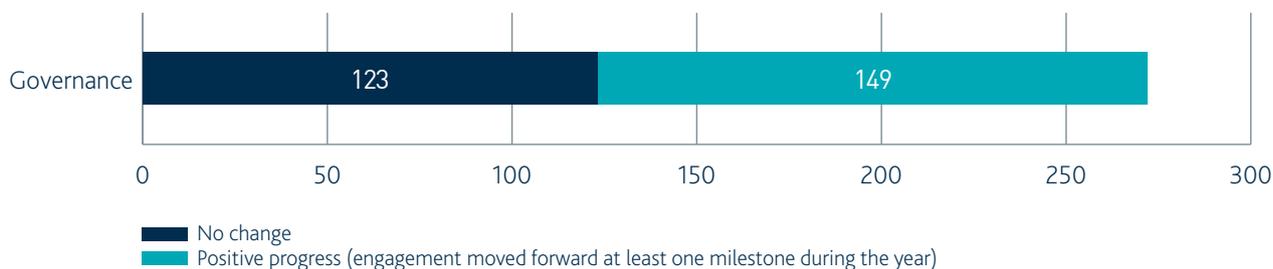
In late 2014, Japan followed up its Stewardship Code with the publication of the draft of its first ever Corporate Governance Code, something we had long been pushing the country's regulators for.

We participated in the working group of key stakeholders that aims to develop a Stewardship Code in Singapore. Stewardship guidelines are also being considered in Taiwan, and we discussed plans with the country's stock exchange and Financial Services Commission.

After lobbying the Indian regulators to make enhancements to corporate governance requirements over the last five years, we were pleased to note that many of our recommendations were incorporated into the new listing rules by the Securities Exchange Board of India. We believe that this will facilitate greater transparency around decision-making and succession-planning, particularly at companies with a strong family influence.

We also co-signed a letter to the US Securities and Exchange Commission (SEC) on the proposed amendments to Section 1504 of the Dodd Frank Act, which focuses on transparency and disclosure. The purpose of the letter was to encourage the SEC to ensure an appropriate mandatory reporting standard in the extractives sector that is complimentary to the Extractives Industries Transparency Initiative and aligned with equivalent standards in the EU and Canada.

Progress towards governance objectives



Case study: Novartis



Q&A with Roland Bosch of Hermes EOS about Swiss pharmaceutical company Novartis

Q: Why is Hermes EOS engaging with Novartis?

A: We have been engaging with the company on governance issues for several years, especially on remuneration disclosure. In early 2013, it emerged that the board of directors had agreed to grant the former chair and CEO, under whose leadership the Novartis group was created, a non-compete payment worth nearly CHF72 million (€66.7 million). The agreement to make such a payment and the board's subsequent and repeated failure to follow best practice and disclose full and meaningful information to shareholders – although there was no legal obligation to reveal more than the board had disclosed – who were asked to approve the company's compensation system at the AGM in February 2013 raised concerns about the board's stewardship of shareholder interests and its judgment on this matter.

Q: What progress has the company made?

A: Over the last two years, Novartis has made a number of changes to its board and compensation committee. Following our engagement, Novartis was receptive to implementing these changes. First and foremost, a new chair was appointed in the summer of 2013, who subsequently introduced some changes to how the board works. The refreshment of the company's committees, particularly of those directors that were on the compensation committee, was a helpful step to rebuilding shareholder confidence in the company.

In a meeting with the chair and the chair of the compensation committee, we obtained considerable reassurance that the

changes we have seen at the company over the last couple of years have led not only to the substantial strengthening of the board but also to improvements in how it operates, not least with regard to stakeholder communications. Structural changes made at the board level, such as the introduction of a dedicated committee for research and development (R&D), are important, as the dedicated R&D committee, for example, provides the board with more visibility on this crucial function, strengthens the ability of the board to review the performance with regard to the innovation metrics and increases the accountability of the executives.

We are also pleased that the company decided to introduce a non-binding vote on the remuneration report, which we had long encouraged. This is in addition to the introduction of a binding vote on the quantum of pay at its 2015 AGM, which was in response to the Swiss say-on-pay law, the Ordinance Against Excessive Remuneration at Listed Companies.

Novartis has clearly listened to the concerns of investors and, building on the number of governance changes introduced by its new chair, has been working on winning back their trust ahead of the 2015 shareholder meeting.

Q: What are the next steps?

A: While we need more interactions with the company to come to a firm conclusion, leadership and culture at the top of the company have significantly changed since the departure of the former chair/CEO. We have already raised questions about the length of relevant performance periods in relation to remuneration given the long product lifecycle in the pharmaceutical industry.

Overall, Novartis has done a considerable amount of work and continues to make an effort to interact with shareholders to jointly identify what is in the best interest of the company. We look forward to monitoring the success of the new board, the company's progress on key initiatives and undertaking further dialogue on remuneration.

Strategy and risk: Engagement progress

In 2014, 14% of our engagements on behalf of Unipension included a strategy and risk objective. In this section we summarise some of the major strategy and risk themes on which we engaged in 2014 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 the objectives of each engagement and the milestones reached in pursuing them.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Strategy and risk	77	5	10	22	29	4	7

Corporate engagement

We welcomed the appointment of independent directors at several companies in Japan, especially where there had previously been reluctance to see the merits of such appointments and where the experience of the candidate filled an important skills gap.

We were equally pleased about the publication of the candidates' names ahead of the AGM of an emerging markets company, something we had long pressed for. The disclosure of nominees representing minority shareholders alongside the other candidates increases the transparency of the election process and signalled improvements in corporate governance practices in the country.

We also spoke at the AGMs of several companies after having built a relationship with company management, to advance our engagement on the objectives we have set and reiterate our messages. We believe this is an effective escalation mechanism for our engagements in some cases.

In addition, we discussed business strategy and culture change programmes, particularly in the financial services sector. Encouragingly, more companies began incorporating sustainability into their business strategies and generally improved their shareholder communications.

In our engagements with companies on audit meanwhile we pressed for improved audit reporting to enable more meaningful conversations between companies and their investors.

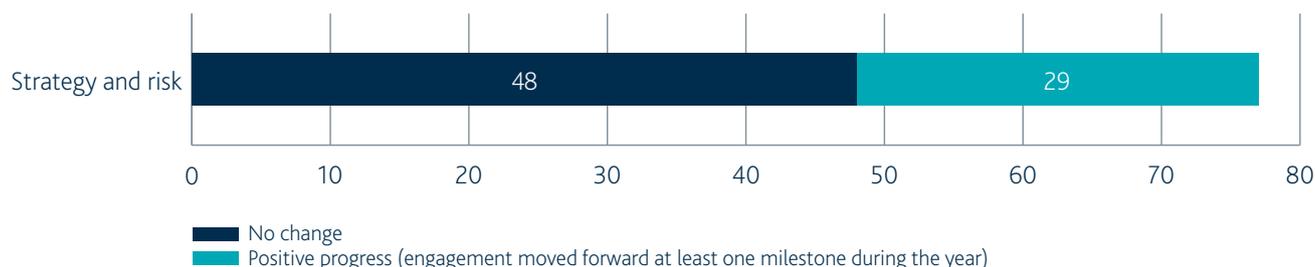
In the light of various geopolitical crises, we also began to engage more intensively on political risks. We urged companies to seek to control such risk wherever possible to minimise the chances of asset losses and destruction of shareholder value.

Public policy and best practice

In 2014, the European Parliament adopted a new framework seeking to improve the quality of audit and reinforce the independence of statutory auditors across the EU. Among other items, it requires audit reports to be more detailed and informative and include meaningful data for investors. Therefore, we intensified our engagement with audit firms to see how they have responded to the new audit rules. We pressed them for greater clarity on how materiality thresholds are set and how quality is ensured across the firms globally, as well as for more willingness to report on key judgements and opinions rather than just process.

Most South Korean companies ask their shareholders to approve unaudited financial statements at their AGMs, a practice that deviates significantly from good governance principles and globally recognised norms. Following our co-signing of a letter to South Korean companies requesting that they provide audited financial statements ahead of their AGMs earlier in 2014, we were pleased to see that many of them have begun to do so.

Progress against strategy and risk objectives



Case study: PetroChina

Hans-Christoph Hirt meets PetroChina executives



Q&A with Hans-Christoph Hirt, director at Hermes EOS, about Chinese energy company PetroChina

Q: Why is Hermes EOS engaging with PetroChina?

A: PetroChina has long been controversial among investors because of the exploration and production activities of its state-owned parent company, China National Petroleum Corporation, in troubled regions. A number of controversies, ranging from oil spills to health and safety incidents, caused us to intensify our engagement with the Chinese oil and gas giant on risk management and disaster preparedness. In recent years, there have also been a number of compliance incidents and concerns about the board nomination process.

Q: What did the engagement entail?

A: We have had a series of regular interactions with senior representatives including the secretaries of the board of PetroChina since 2012. In 2014, our engagement culminated in a meeting with the company's president and a two-day site visit. We encouraged the company to enhance the transparency of its 'indirect' operations in troubled regions although PetroChina denies any operations in these areas. In the wake of the BP oil spill in the Gulf of Mexico, we assessed PetroChina's health and safety management and encouraged a move towards best international practice, not least with regard to disaster preparedness.

More recently, we called for an overhaul of the company's compliance system, pro-active management of and reporting on its key sustainability challenges and the establishment of a board nomination committee. We raised all of the issues constructively and made specific proposals on the company's next steps. These included, for example, suggesting setting up a sustainability committee of key stakeholders to support the company's thinking and future efforts in this regard.



Q: What progress have you seen to date?

A: We escalated PetroChina to an intensive engagement in 2014 and are now actively working with the company's senior management on a number of the concerns we have identified. We have had some early results: In the extremely rare meeting at the company's headquarters in Beijing mentioned above, the president confirmed the launch of an initiative aimed at improving the company's sustainability strategy and reporting. Moreover, our relationship with PetroChina allowed us to gain a unique insight into its health and safety management programme, through meetings with the responsible senior executives as well as site visits. From these meetings we have obtained some reassurance about the improvements the company has made in recent years. However, the company acknowledged that more work is required on its compliance management system. Last but not least, it is considering making improvements to its board nomination process. We are encouraged by these early results and intend to continue our constructive work with PetroChina over the next couple of years.

Public policy work

During 2014 on behalf of our clients we formally responded to 14 consultations (or a proactive equivalent to this) and held 298 discussions to press our views with relevant regulators. The breakdown of these was:

Region	Consultations or proactive equivalent*	Meetings and discussions
Global	6	58
Australia and New Zealand	0	1
Developed Asia	2	67
Emerging and Frontier Markets	2	53
Europe	0	23
North America	1	34
UK	3	62
Total	14	298

*for example a letter in absence of regulatory reform

Our key activities and achievements in the year were:

Global

- Reacting to our consultation response, the International Corporate Governance Network (ICGN) made significant changes to its **Global Governance Principles**. This resulted in a better balance between the principles for companies and investors, the re-introduction of the overriding corporate objective and the addition of references to other ICGN guidelines. We are pleased that our response contributed to a substantially improved policy document.
- We responded to the consultation by the UN-backed Principles for Responsible Investment (PRI) on the draft scope for the **PRI Governance Review**. While agreeing with much of the draft scope, we encouraged that the review also explicitly consider a single rather than a multiple governing bodies' structure. A single governing body, an independent chair, clear responsibilities for the board and committees and formal reviews by the board were announced in early 2015.
- We participated in discussions of the **PRI vote confirmation group**, which strives to improve transparency in the proxy voting chain. Improved transparency is likely to contribute to increased accountability and boost vote participation.
- We obtained an update on the **progress of the Global Initiative for Sustainability Ratings (GISR)** and as a member of its steering committee contributed to some of its ongoing projects. In 2014, GISR made significant progress towards achieving its main objectives of enhancing transparency, driving improvement of sustainability ratings and expanding their global market. It also started to publish some useful tools for the users of such ratings.
- We provided comments on the draft **amendments to the OECD's Principles of Corporate Governance**. We were generally supportive of the proposed amendments to the Principles. However, we would have liked to have seen more emphasis placed on the role of shareholders in the board nomination process as well as more coverage of the interaction between members and shareholders for information and accountability purposes.

Developed Asia

- After calling for the introduction of a Corporate Governance Code with Japanese regulators over the past few years, we welcomed the published draft of the code. Prior to the draft's publication, we discussed the necessity of a framework that is embedded in local practices as well as the importance of including best practice and meaningful explanations in the comply-or-explain approach with the participants of the **Corporate Governance Code Council**. In particular, we highlighted the expectations for independent outside directors to demonstrate their relevant skills and expertise to oversee and add value to board discussions on strategy, capital policy, risk management and governance issues. We were pleased that many of the key points that Hermes EOS suggested were included in the proposed draft of Japan's Corporate Governance Code.
- We contributed to the first meeting of the working group of key stakeholders that aims to develop a **Stewardship Code in Singapore**. The Stewardship and Corporate Governance Centre will take the lead on this initiative, with the Monetary Authority of Singapore providing the secretariat support.
- After responding to its consultation, we welcomed the published report of the **Ito review**, which is similar in nature to the UK's Kay review and highlights the importance of capital efficiency and returns on equity capital. Encouragingly, the working group of the Ministry of Economy, Trade and Industry, which compiled the review, plans to establish an investor forum task force as a platform for domestic institutional investors to regularly exchange views to promote quality dialogue with a long-term focus.
- We welcomed the passing of the **Singapore Companies Act**, which will allow the appointment of multiple proxies. The existing act only allows a maximum of two proxies to attend and vote at a general meeting, unless the company's articles specify otherwise. This has often prevented shareholders who hold shares through a nominee company or custodian bank from exercising their voting rights. We lent our support to this change, as it will increase the protection of shareholder rights. However, disappointingly the amended act removed the rule of one-share, one-vote, thus allowing a structure with dual-class shares, which we oppose.

Emerging and Frontier Markets

- We attended a roundtable on Brazil's new anti-corruption law – **the Clean Companies Act** – which came into effect in January 2014. This law represents a shift in the way bribery and corruption are dealt with in the country and potentially is a strong tool to combat these crimes.
- Positively, the Hong Kong Exchange announced plans to upgrade its requirement for **sustainability reporting** from a voluntary to a comply-or-explain approach. This is in line with what Hermes EOS has been seeking. But we expressed our strong opposition to its proposed introduction of weighted voting rights, commonly known as dual-class shares.
- At a meeting with a group of senior executives of the Financial Supervisory Commission (FSC) and Taiwan's Stock Exchange, we were pleased to learn that the **introduction of stewardship guidance** is now firmly on the agenda of the two regulators and part of the Corporate Governance Roadmap, a formal programme to improve the country's regulatory framework and practice. We had called for the development of a Stewardship Code in a series of meetings with the regulators.
- In addition, we were pleased to learn that **Taiwan's FSC** issued an official letter addressed to the country's government funds and financial institutions advising them to disclose their investment strategies. This includes the consideration of corporate governance factors, the monitoring of their investee companies' performance and the reporting of the results of these activities.
- Encouragingly, senior executives at the **China Securities Regulatory Commission (CSRC)** plan to bring the topics of corporate governance and stewardship code together and move forward at least with some guidance for institutional investors. Previously, both topics appeared to be much less of a priority. The CSRC also showed interest in facilitating dialogue about stewardship between local and foreign investors.

Europe

- We reiterated Hermes EOS' main recommendations for **amendments to the German Corporate Governance Code** in a meeting with a senior member of the commission that oversees the development of the guidelines. We strongly argued for a clearer statement on the number of board mandates an individual can hold before being considered overboarded. We also called for a statement on dialogue between supervisory board members and institutional investors to be included. However, it became evident that the majority of the commission resists both suggestions.
- We had a series of meetings with senior German government officials, together with other members of the Institutional Investors Group on Climate Change (IIGCC). This was a good opportunity to present the joint IIGCC position on the 2030 Climate and Energy Package and to better understand the **climate policy drivers** of a key country. We explored any potential obstacles to European legislation and an international climate deal prior to the UN Climate Summit in September 2014.
- We also hosted a Eurosif working group meeting to determine the position on key points of the EU Commission's proposal for the **revised Shareholder Rights Directive**.

North America

- After some months of gestation, the **Shareholder-Director Exchange Protocol**, to which we had been contributing, was launched. We received a number of inquiries from pension funds and investor organisations about the initiative, which we believe will help encourage more and better quality engagement between US directors and investors.
- We co-signed a letter addressed to the boards of the Russell 1000 companies in the US, promoting the **Shareholder-Director Exchange Protocol** to encourage better engagement between non-executive directors and institutional investors on governance and other matters that affect long-term value.
- In an advisory council meeting of the Council of Institutional Investors (CII), we agreed to co-sign the CII's letter to the US Securities and Exchange Commission advocating a **universal proxy voting system in the US** to permit remotely voting shareholders to elect candidates from either the board's or the dissident shareholder's slate.

UK

- We attended the **launch of the Investor Forum**, a key recommendation of the UK's Kay Review on building a culture of long-term equity investment. While a number of the parameters remain to be ironed out, the forum will play an important role in coordinating major engagements in the UK on big strategic issues.
- We responded with a number of concerns to the UK Prudential Regulation Authority's **consultation on new remuneration rules**. The proposed regulations sought to address behavioural and cultural issues within financial services firms, which may have contributed to the financial crisis and subsequent conduct scandals. We agreed with the intentions behind the proposed changes, which aim to more closely align risk and individual reward to discourage excessive risk-taking and short-termism. However, we noted the complexity of the system proposed, and particularly its lack of flexibility.
- In a presentation to a group of UK company secretaries on key governance topics, we expressed support for the proposed **amendments to the UK Corporate Governance Code** on going concern disclosures, as they will give an insight that will allow investors to assess the ability and competence of management.
- We provided engagement practitioner input in a steering group meeting chaired by the Financial Reporting Council on **adherence to the UK Stewardship Code**. The meeting's objective was to develop a voluntary questionnaire to go to investor signatories to assess how they are implementing the code. The questionnaire was finalised in September 2014.

Overview

In the last year, we voted at a total of 1,949 meetings around the world on behalf of Unipension, analysing 22,816 resolutions in accordance with Unipension’s voting policy. At 671 of those meetings we opposed one or more resolutions and we abstained at 10 meetings. We voted with management by exception at 20 meetings and supported management on all resolutions at 1,248 meetings.

Global

We voted at **1,949** meetings (**22,816** resolutions) over the last year.



- Total meetings voted in favour **64.0%**
- Meetings where voted against (or voted against AND abstained) **34.4%**
- Meetings where abstained **0.5%**
- Meetings where voted with management by exception **1.0%**

Australia and New Zealand

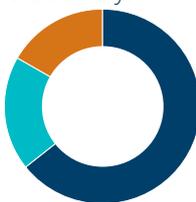
We voted at **45** meetings (**249** resolutions) over the last year.



- Total meetings voted in favour **77.8%**
- Meetings where voted against (or voted against AND abstained) **22.2%**

Denmark

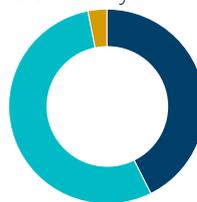
We voted at **42** meetings (**620** resolutions) over the last year.



- Total meetings voted in favour **64.3%**
- Meetings where voted against (or voted against AND abstained) **19.0%**
- Meetings where abstained **16.7%**

Developed Asia

We voted at **256** meetings (**3,075** resolutions) over the last year.



- Total meetings voted in favour **42.6%**
- Meetings where voted against (or voted against AND abstained) **54.3%**
- Meetings where voted with management by exception **3.1%**

Emerging and Frontier Markets

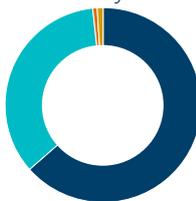
We voted at **172** meetings (**1,656** resolutions) over the last year.



- Total meetings voted in favour **63.4%**
- Meetings where voted against (or voted against AND abstained) **36.6%**

Europe ex Denmark

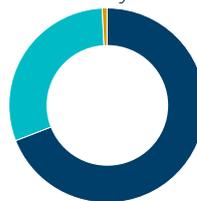
We voted at **411** meetings (**6,513** resolutions) over the last year.



- Total meetings voted in favour **63.5%**
- Meetings where voted against (or voted against AND abstained) **34.8%**
- Meetings where abstained **0.7%**
- Meetings where voted with management by exception **1.0%**

North America

We voted at **1,023** meetings (**10,703** resolutions) over the last year.



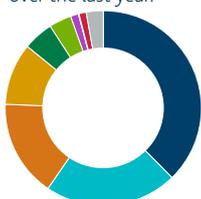
- Total meetings voted in favour **69.1%**
- Meetings where voted against (or voted against AND abstained) **30.1%**
- Meetings where voted with management by exception **0.8%**

Voting by issue

The resolutions where we voted against management or abstained on behalf of Unipension are shown below.

Global

We voted against or abstained on **1,474** resolutions over the last year.



- Board structure **37.7%**
- Remuneration **21.9%**
- Shareholder resolution **16.1%**
- Capital structure and dividends **10.3%**
- Amend articles **5.0%**
- Audit and accounts **3.7%**
- Governance **1.3%**
- Investment/M&A **0.1%**
- Poison pill/Anti-takeover device **1.2%**
- Other **2.8%**

Australia and New Zealand

We voted against or abstained on **22** resolutions over the last year.



- Remuneration **100.0%**

Denmark

We voted against or abstained on **61** resolutions over the last year.



- Board structure **14.8%**
- Remuneration **16.4%**
- Capital structure and dividends **16.4%**
- Amend articles **52.5%**

Developed Asia

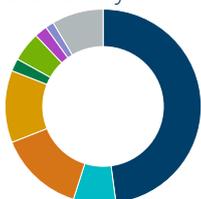
We voted against or abstained on **292** resolutions over the last year.



- Board structure **61.3%**
- Remuneration **8.2%**
- Shareholder resolution **2.7%**
- Capital structure and dividends **8.9%**
- Amend articles **0.7%**
- Audit and accounts **13.0%**
- Poison pill/Anti-takeover device **4.8%**
- Other **0.3%**

Emerging and Frontier Markets

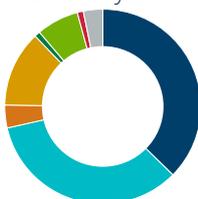
We voted against or abstained on **142** resolutions over the last year.



- Board structure **47.9%**
- Remuneration **7.0%**
- Shareholder resolution **14.1%**
- Capital structure and dividends **12.0%**
- Amend articles **2.1%**
- Audit and accounts **4.9%**
- Governance **2.1%**
- Investment/M&A **1.4%**
- Other **8.5%**

Europe ex Denmark

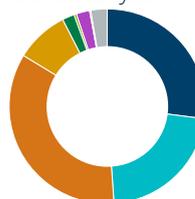
We voted against or abstained on **399** resolutions over the last year.



- Board structure **37.1%**
- Remuneration **33.8%**
- Shareholder resolution **3.8%**
- Capital structure and dividends **12.5%**
- Amend articles **0.9%**
- Audit and accounts **6.9%**
- Poison pill/Anti-takeover device **1.0%**
- Other **3.2%**

North America

We voted against or abstained on **558** resolutions over the last year.



- Board structure **27.1%**
- Remuneration **21.9%**
- Shareholder resolution **34.9%**
- Capital structure and dividends **8.8%**
- Amend articles **2.0%**
- Audit and accounts **0.4%**
- Governance **2.2%**
- Poison pill/Anti-takeover device **0.2%**
- Other **2.7%**

Important information

This communication is directed at professional recipients only. Please note that the activities referred to in this document are not regulated activities under the Financial Services and Markets Act. This document is for information purposes only. It pays no regard to any specific investment objectives, financial situation or particular needs of any specific recipient. No action should be taken or omitted to be taken in reliance upon information in this document.

This document may include a list of Hermes EOS Limited clients. Please note that inclusion on this list should not be construed as an endorsement of Hermes EOS' services. Should you wish to contact a client for reference purposes, please let Hermes know in advance.

Hermes EOS has its registered office at Lloyds Chambers, 1 Portsofen Street, London, E1 8HZ.

Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

CM153137 UK 03/15