



Response to ESG Questionnaire Federated Hermes

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Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by Federated Hermes are shown here.

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.

Our primary purpose is sustainable wealth creation that enriches investors, benefits society and preserves the environment – for current generations and those to come. We seek to achieve this through providing world-class active investment management and stewardship services.

The scale and focus of our active ownership and investment activities allows us to bring the full force of ESG awareness and engagement to our investment decisions. Not only does successful engagement help appraise the actual level of ESG or other risk, if successful, it helps to mitigate it. In turn, our engagement and investment teams are able to focus on the risks and indeed opportunities which are most relevant and material. Having a focus on responsible investing, responsible ownership and policy advocacy across all of our strategies, while also behaving responsibly as a firm, is integral to sustainable wealth creation.

We have a number of firm-wide policies relevant to our approach to ESG factors, including our Engagement Policy, Global Voting Policy and Guidelines and Sustainability Risks Policy. These and other related disclosures are available at:

<https://www.hermes-investment.com/uki/policies-and-disclosures/>

Our responsible investment approach has also been expressed through policy guidelines and principles, both at the corporate level and by our stewardship and investment teams.

These include our Responsible Ownership Principles, which seek to create a common understanding between boards, managers and owners of the proper goals of a public company. Complementing these Responsible

Ownership Principles, we have also developed specific corporate governance principles for c.22 major countries or regions. These guidelines take into account our views of corporate governance best practice, with reference to local market nuances, regulatory and legal contexts.

- Responsible Ownership Principles:

<https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2018/03/final-responsible-ownership-principles-2018.pdf>

- Regional corporate governance guidelines:

<https://www.hermes-investment.com/ukw/stewardship/eos-literature/>

Our EU Sustainable Finance Disclosure Regulation (SFDR) level 1 disclosures for our range of pooled UCITS funds are also available via the link below:

<https://www.hermes-investment.com/ie/policies-and-disclosures/>

2. Please provide an overview of how ESG is integrated into your business.

We believe that the seamless integration of ESG considerations into the investment process is critical to a portfolio manager's ability to achieve sustainable long-term outperformance at an acceptable level of risk. Gaining an understanding of the regulatory, reputational and managerial risks facing individual companies, and the implication these have on investors' portfolios, helps investors more effectively manage their exposures. While the responsibility for implementing our approach resides with all our personnel and, in particular, our individual investment teams, we have a number of structures and dedicated teams to ensure that across the firm we discharge our ESG approach effectively.

- We have established a Policy Working Group which includes senior representatives from across our business, including our CEO, and is charged with developing our policy and approach in respect of all matters which appertain to responsibility. This includes our approach to stewardship and the integration of ESG issues within investment processes.
- Our dedicated Responsibility Office is tasked with coordinating and supporting the development of our policies and their subsequent integration across our investment funds – in listed and private markets, including real estate and infrastructure – and stewardship services to ensure that ESG analysis and engagement information is embedded throughout the business. Regular meetings are held between the team and portfolio managers, at which ESG concerns relevant to investment strategies – whether asset-specific or at the market level – are discussed. The team also provides proprietary tools to facilitate the integration of ESG and engagement information into investment decisions and facilitates a dialogue between engagers and fund managers.
- The Investment Risk team provides independent oversight of all investment teams on a look-back, real-time, and look-forward basis, providing them with a detailed understanding as to how they are delivering performance.
- EOS at Federated Hermes (EOS), our in-house stewardship business, boasts one of the largest stewardship resources of any fund manager in the world and has been at the forefront of the development and evolution of responsible investment globally.

EOS is central to our depth of resource on ESG, which provides our investment teams with detailed research on ESG factors that they can assimilate into its research on individual companies. EOS is one of the largest stewardship businesses globally with a team composed of individuals with a diverse mix of backgrounds, skills and perspectives.

The team also has access to a range of proprietary tools, including the ESG Dashboard, the QESG Score, the Portfolio Snapshot, the Corporate Governance Tool, the Carbon Tool and the Environmental Tool. These tools highlight potential high-risk behaviour from an ESG perspective within companies, at which point EOS can be consulted further as required.

3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.

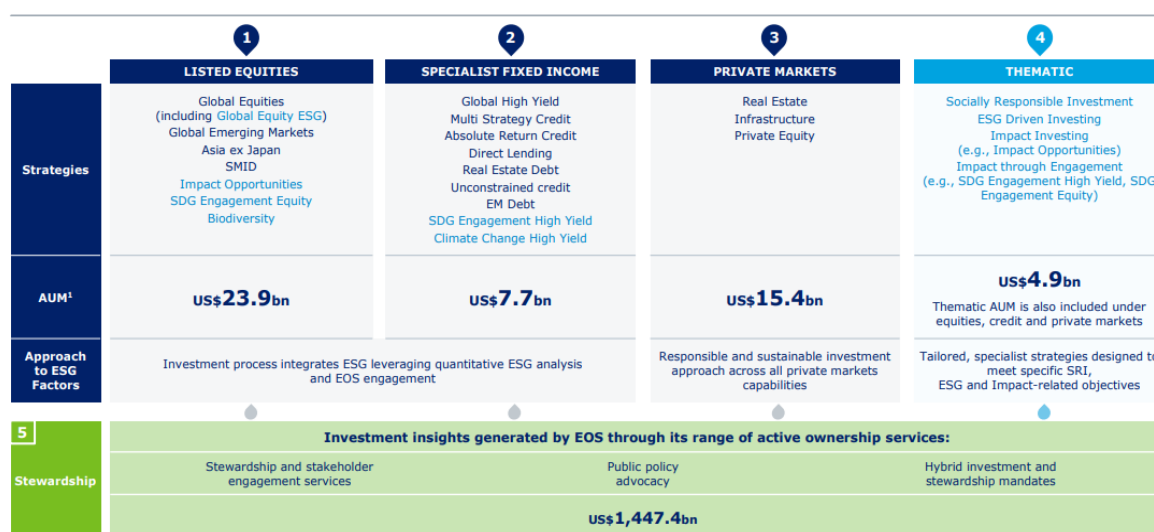
Yes. We operate a restriction across all FHL pooled funds on companies that generate revenue from the production of weapons that are banned by international law or prohibited by recognised international conventions. This includes anti-personnel devices, cluster munitions, white phosphorous-based munitions and military purpose flamethrowers, chemical and biological weapons, laser-blinding weapons, uranium-tipped weapons, and nuclear weapons. There is no minimum threshold or exemption for these exclusions. Any involvement in manufacturing these armaments or playing a critical role in their manufacture will lead to exclusion. We also operate a FHL wide restriction across all other portfolios (segregated mandates) on investment into securities and instruments from core cluster munitions companies, as defined by the Dutch regulator's legal ban, and companies involved in the production of anti-personnel mines, as defined by Sustainalytics Controversial Weapons Radar and aligned with the prohibition in Luxembourg. Our order management system is encoded with rules restricting investment into any securities or instruments issued by these blacklisted companies.

A number of our UCITS funds also exclude certain companies, as set out in the relevant Sub-fund Supplement.

[Fund Documents | Federated Hermes Limited \(hermes-investment.com\)](#)

4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

Our investment capabilities are aligned with the long-term requirements of our client base and informs our investment, distribution and stewardship strategies. Our established framework used to develop our investment and stewardship capabilities is illustrated in the following diagram:



Key: Investment strategy: Strategies that contribute to Thematic investing

¹ AUM does not include assets under sub advice. Source: Federated Hermes as at 31 December 2023.

We plan to maximise the opportunities for future growth and bring the most appropriate strategies to our global client base. With the resources of the wider Federated Hermes group, we now have a truly global presence of investment and business development capabilities that are both diverse and highly complementary. In North America, we have a deep and well-established distribution network and product range, which includes liquidity strategies, dividend income, emerging market debt and trade finance. Our international business is widely recognised in the pan-European market, with a strong distribution platform, and a rapidly growing presence in Asia.

ESG Integration

Our investment capabilities fully integrate ESG factors, which is of increasing interest to North American investors, and benefit from the engagement work of our stewardship team, EOS at Federated Hermes (“EOS”). We have a well-established sustainable investing franchise, with dedicated ESG strategies within liquid credit, global equity, global emerging markets equity, and impact equity. This has been further expanded with the development of equity and fixed income impact products, which focus on creating positive change in the companies that the invest for the benefit of wider society based on the UN Sustainable Development Goals (SDGs).

Within both equities and credit, we are building on the growing demand for our ESG-integrated capabilities and leveraging our core skills to offer thematic sustainable investing strategies. We see strong appetite from our existing clients and relationships, particularly in the UK and European markets, who have seeded a number of new strategies in this space. Pension schemes in northern Europe are increasingly looking at making impact investments both in private and public markets. We also see interest from large wealth managers who want to offer sustainability-focused portfolio solutions.

Stewardship

From a stewardship perspective, EOS have been appointed by more global asset owners to carry out engagement activities on their behalf. We are entrusted with advising on \$1.4trn of assets, as at 31 December 2023, invested in over 22,000 companies worldwide on behalf of long-term investors. During 2023, we hired nine dedicated engagers into our EOS and investment teams based in London and Pittsburgh. We expect growth in this area to continue as demand increases for sophisticated engagement expertise and for combined investment and stewardship mandates for clients seeking a holistic approach to managing their investments.

EOS published their 2023 Annual Review which is accessible via the following link:

<https://www.hermesinvestment.com/uploads/2024/02/c74bfc620c4355d99ce07e950c01da1a/eos-annual-review-2023-spreads.pdf>

Private Markets

We are also intent on expanding our private markets offering. Our second European Direct Lending Fund (FHEDL II) held its final close on 14 July 2022, with capital commitments totalling circa EUR 600m with the launch of FHEDL III imminent. We are also considering additional private markets launches to complement our existing offering across private equity, Infrastructure, real estate, and private credit – most notably, our Nature Based Solutions proposition.

In October 2023, we announced the unveiling of the Nature Markets Principles, together with Finance Earth and prominent UK Charities – The Wildlife Trusts, RSPB, Woodland Trust, and National Trust. The principles encompass crucial areas like carbon credits, biodiversity units, and nutrient credits, advocating for responsible private investment in nature recovery. These voluntary principles are centred on science-based investment to uphold the integrity of natural capital markets in the UK. In partnership with Finance Earth, we will oversee the UK Nature Impact Fund, a government-backed endeavour aiming to drive institutional investment in high-quality nature restoration projects across the UK at scale.

Science-based investment in nature-based solutions not only offers opportunities to create value to investors but it is crucial for addressing climate change, promoting green growth, and enhancing wellbeing. We are therefore pleased to have collaborated with the UK's largest nature charities on the creation of the Nature Markets Principles and believe this cross-sector partnership presents an exciting opportunity to contribute toward a paradigm shift in conservation financing. This approach acknowledges the complexity of the social and ecological systems it invests into and the ‘Principles’ lay the groundwork for significant institutional investment in high-integrity nature restoration.

Latest PRI Scores

We provide our scores from the 2023 report below:

Policy, Governance and Strategy (PGS): 5 stars (100)

Listed equity - active quant: 4 stars (90)

Listed equity – active fundamental: 4 stars (90)

Real Estate: 5 stars (98)

Private Equity: 4 stars (81)

Fixed income – SSA: 4 stars (87)

Fixed income – corporate: 5 stars (95)

Fixed income – securitised: 5 stars (92)

Fixed income – private debt: 5 stars (100)

Infrastructure: 5 stars (97)

Confidence-building measures (CBM): 4 stars (88)

In our 2023 reporting, we had indicated that we were not undertaking systematic climate related scenario analysis. FHL as a firm has a climate transition plan and has been working proactively towards meeting its targets which captures majority of its AUM. During the course of 2023, we have implemented systematic scenario analysis across both listed equity and fixed income.

Deforestation Reporting

In line with our commitment, in 2022 we published our Policy Statement on Deforestation. This sets out our approach to deforestation across public markets, real estate, infrastructure and direct lending. In public markets, we use a range of data sources to assess our exposure to deforestation risk through palm oil, soy, cattle (including beef and leather) and timber (including pulp and paper). This informs our engagement prioritisation. Our deforestation reporting was published in 2023 and we are now using Planetrics for scenario analysis.

Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors.

Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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