

Federated Hermes Impact Opportunities Fund

Quarterly Impact Report
Q1 2022

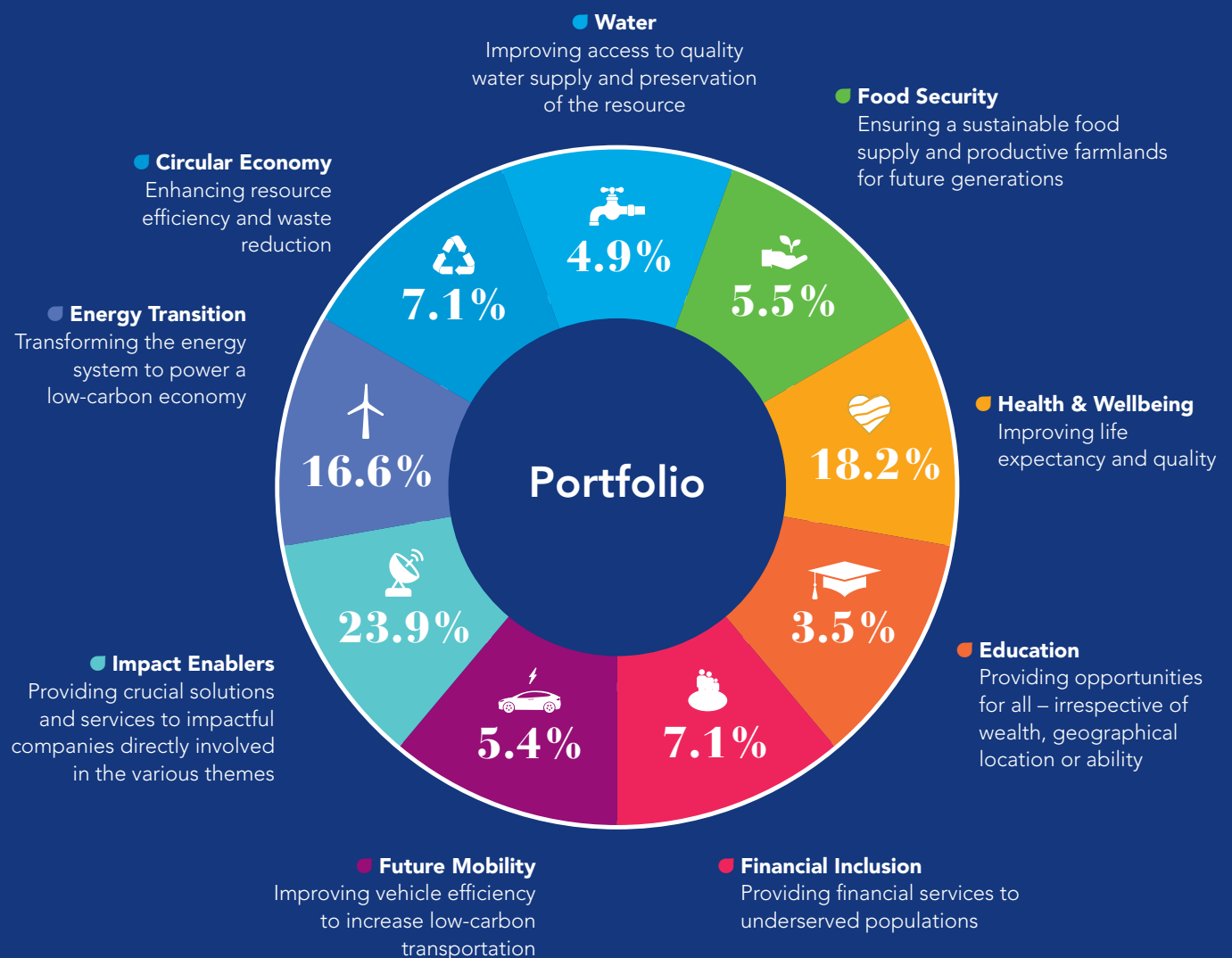
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Hermes** 
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The Federated Hermes Impact Opportunities Fund is a high-conviction global equity strategy with a bold objective. It aims to generate long-term outperformance by investing in companies succeeding in their core purpose: to generate value by creating positive and sustainable change that addresses the underserved needs of society and the environment. In this way, it focuses on tomorrow's leading companies, today.

Exposure by impact theme

A thematic approach: our holdings fit into one or more of nine impact themes that are aligned with the SDGs.



Source: Federated Hermes, as at 31 December 2021. Note: as at 31 December 2021, 5.2% of our exposure was not directly related to any of our nine impact themes, while 2.3% was held as cash.

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THEMATIC FOCUS:
Inflation

Inflation is one of the largest issues currently facing corporates and their customers alike. While we believe recent price inflation is likely to be transitory, the current state of affairs has nevertheless unnerved investors, prompting fears of a further rise in interest rates.

As impact investors, we take a long-term view of the markets, investing in companies with strong fundamentals that are ultimately exposed to enduring sources of demand. **In this context, inflation is a near-term risk.** From the energy transition and circular economy, through to the future of mobility, we expect sustainability megatrends to play out over the next five years... and beyond.

The story so far: Covid-19 and the rise of inflation

Inflation has been on the rise globally since the spring of 2020 driven, mainly, by a range of pandemic-related factors:



Obviously, the above factors are interconnected, which is one reason they have persisted for much longer than markets expected. The other reason is the enduring nature of the pandemic more generally – two years on, and Covid-19 is still wreaking havoc, creating supply-demand imbalances that will take time to unwind.



Investing with conviction: our belief in the sustainability transition

While there is no quick fix, we believe that recent price rises are unsustainable, and that the current drivers of inflation are likely to subside as the pandemic fades.

We opened this section by advocating impact investors focus on megatrends. In an inflationary environment, we see such structural trends – which are driven by the likes of technological advancements, demographics, the slowdown in China and elevated debt levels – as deflationary. After the current price surge, we expect global GDP growth to trend lower, which will mean quality and growth stocks find favour.

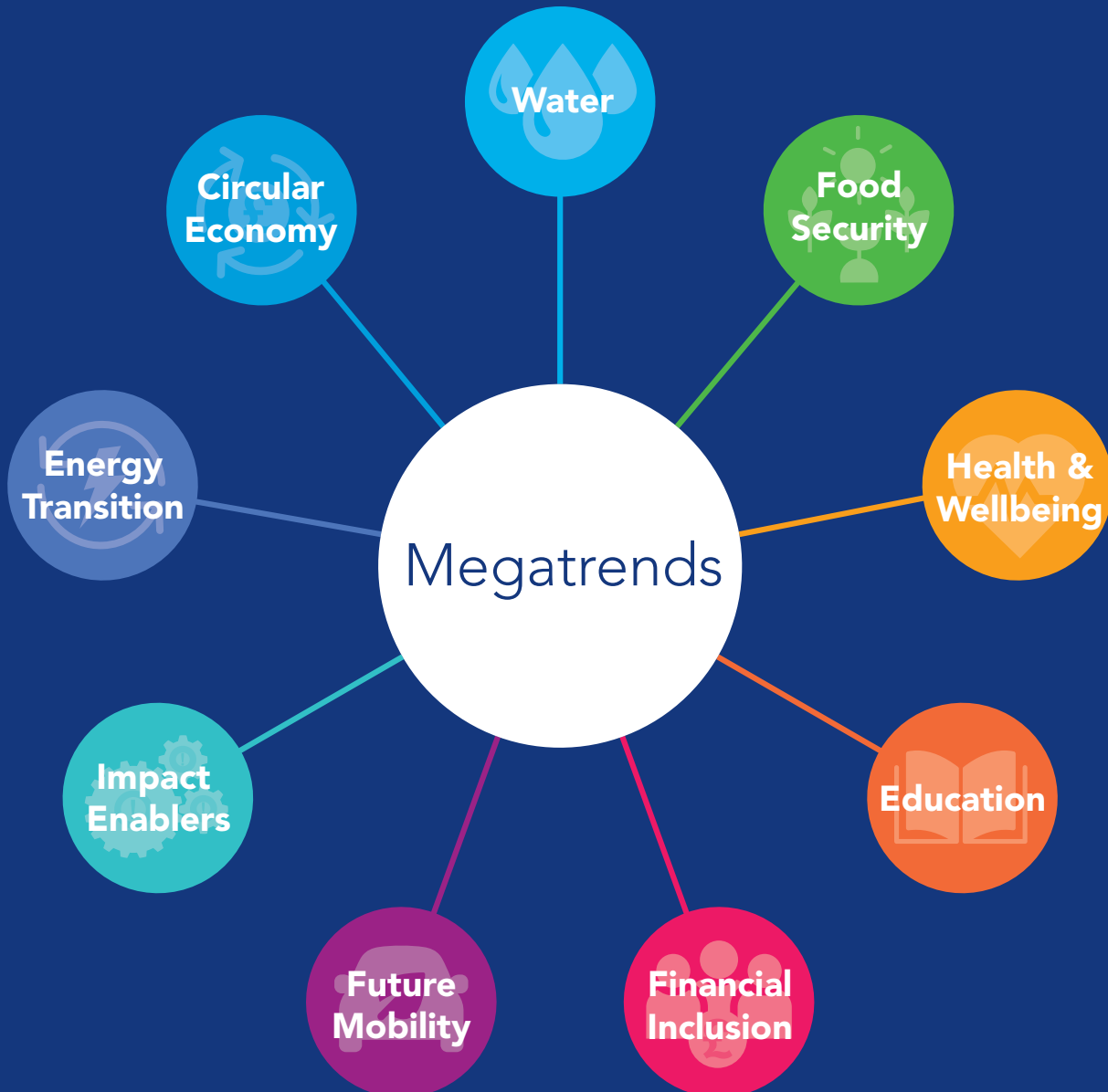
Our portfolio is positioned to capitalise on this shift. At present, **we are positive on healthcare and financials – both are exposed to strong megatrends, with a history of defending margins and long-term earnings growth.**

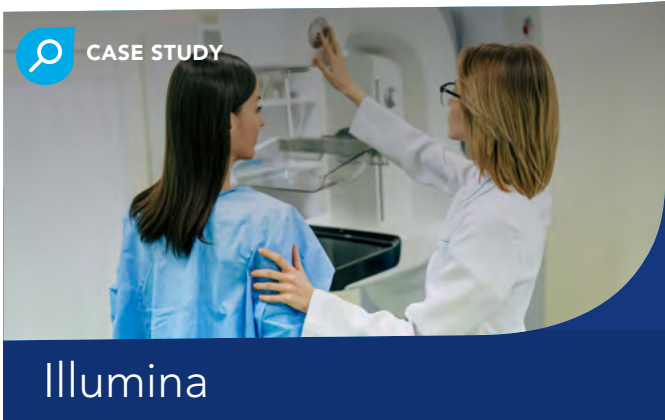
Healthcare

In our view, the healthcare companies that enjoyed growth over the course of the pandemic have now seen significant outflows, due to a rotation away from ‘Covid winners’. Nevertheless, market volatility has caused indiscriminate selling and has included many resilient businesses with exciting growth outlooks.

Later in this report, we provide two healthcare case studies.

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CASE STUDY

Illumina

Illumina derives the majority of its revenue from products enabling faster and cheaper DNA sequencing. The company is a pioneer in next-generation sequencing (NGS), commanding around an 80% share of the global market¹.

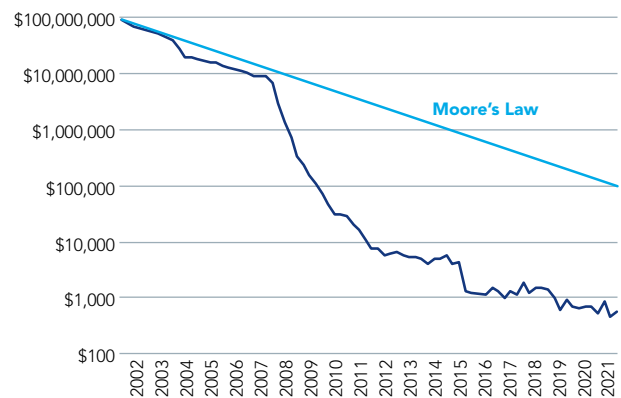


Impact theme: Health and Wellbeing

A technology-driven revolution is occurring in genomics: DNA sequencing is becoming increasingly affordable, offering scientists unparalleled insight into genetic patterns and variation, as well as the pathology of complex diseases.

The promise of genetic sequencing is intrinsically linked to its affordability – the cheaper the technology, the more genes can be sequenced. This is where our holding, Illumina, comes in. Illumina derives 91% of its revenue from next-generation sequencing (NGS) machines², which allow for faster and cheaper DNA processing. The company has been at the forefront of the transition to NGS, which since 2008 has contributed to a drop in sequencing costs so dramatic, it has defied Moore’s law³.

Figure 1. The cost per genome has declined dramatically since 2008



Source: National Human Genome Research Institute, [The Cost of Sequencing a Human Genome](#)

The Holy Grail? Championing early cancer detection

As a market leader in NGS technology, Illumina enjoyed significant growth in 2021. What’s more, over the coming year, the company looks set to benefit from increased life science funding and the clinical adoption of NGS. One of the most exciting developments for Illumina is the company’s partnership with Grail, a healthcare outfit focused on early cancer detection. The two companies have history – Illumina formed Grail and spun it out in 2016 – and share the same core belief: that early detection screening should be more accessible.

The vision for the Illumina/Grail alliance is to screen for multiple cancers via a simple blood test, a solution that stands to generate a significant impact in line with SDG 3⁴. In the words of Illumina’s CEO, Francis deSouza, ‘Since early detection of cancer saves lives, this new genomic test will be nothing short of transformational for human health and the economics of healthcare⁵.’

2020 impact measurement highlights:



\$682m

Healthcare R&D funded



1.7m

patients treated



3.9

labs enabled

Source: Federated Hermes Impact Calculations, Net Purpose, as at 31 December 2020. We have chosen to highlight what we believe to be the largest impact metrics for each company; please note, not all impact metrics are relevant to all companies. Our calculation methodology is described in detail in our Q1 2021 report.

¹ Front Line Genomics, [How did Illumina dominate the sequencing market?](#) (August 2021)

² Company accounts (10 February 2022)

³ Whereas in 2010 the cost to sequence one person’s genome was \$100m, Illumina was the first company to deliver genome sequencing at \$1,000. Moore’s law describes the computing hardware trend that transistors on an integrated circuit will double every two years.

⁴ SDG 3, ‘Good Health and Well-being’, focuses on various aspects of healthy life and healthy lifestyle.

⁵ Illumina, Inc. - [Illumina Acquires GRAIL to Accelerate Patient Access to Life-Saving Multi-Cancer Early-Detection Test](#)



AbCellera

AbCellera is transforming access to drug discovery technology through its innovative, end-to-end platform for single-cell screening.



Impact theme: Impact Enabler

The Covid-19 pandemic presented an opportunity for many biotechnology companies to prove themselves. None more so than our holding, AbCellera, a start-up whose unique approach to drug discovery was instrumental in the US government's Covid-19 response.

With leading IP in micro-fluidics and single-cell sequencing, AbCellera's platform allows pharmaceutical companies to access 'nature's database of antibodies'. In short, the company enables the development of new drugs and other treatments through a partnership model that is both profitable and scalable. This has enormous

Note: As this stock was added since December 2020, impact measurement highlights are not yet available.

positive impact potential – AbCellera is essentially democratising drug discovery. By working with a network of third parties, the company is enabling access to transformational technology, which should in turn increase the competitiveness of the drug landscape, enable faster time to the market for new drugs, and drive down treatment costs for patients.

Removing the common roadblocks in drugs development

Manufacturing any kind of drug or treatment is not an easy process.

For starters, the cost and likelihood of getting a drug to market is enough to deter even the most eager of emerging biopharma companies – \$1.4bn is the average investment required, with 96% of candidates destined to fail. In short, using AbCellera's platform means these companies are granted access to expertise and equipment they might not otherwise be able to afford.

Then, there is the fact that AbCellera's platform is end-to-end, neatly packaging together all process steps under the company's proprietary artificial intelligence (AI) engine, Celium. Leveraging AI means the platform not only offers convenience, but a user experience that is constantly evolving. Every time the platform is used, it creates data to optimise its discovery capabilities and attract more programmes. And AbCellera is streets ahead of the competition here – no other company has the same level of data or customer insight.

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Federated Hermes

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Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

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- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

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