

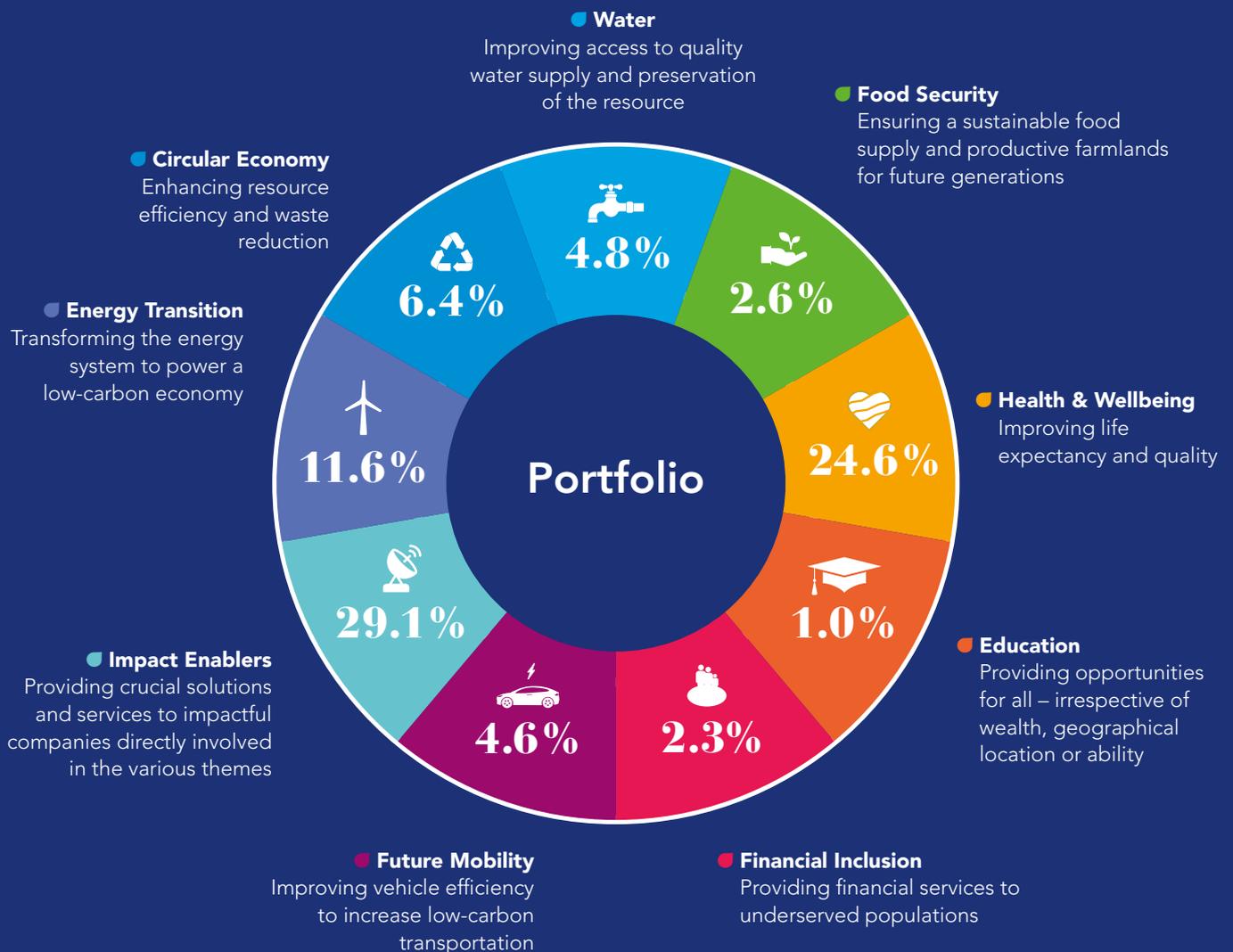
# Hermes Impact Opportunities Fund

**Quarterly Impact Report**  
Q1 2020

**Federated  
Hermes**   
International

The 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<sup>1</sup>



Source: Federated Hermes as at 31 March 2020.

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<sup>1</sup> As at 31 March 2020, 8% of our exposure was not directly related to any of our nine impact themes.

# Resilience in the face of crisis

Resilience and sustainability are important factors in building long-term investment portfolios. The current coronavirus pandemic has revealed fragility across health systems, economies and asset markets.

Despite the ongoing virus-related volatility, our Fund has demonstrated relative resilience in the first quarter of 2020: it outperformed the benchmark index by 2.4% net of fees in March and by 4.2% year-to-date<sup>2</sup>. That's because the impact themes in which we invest are driven by long-term cyclical growth factors – and within these themes, we target companies that provide solutions to society's underserved needs, and thereby have strong growth potential.

In Q1, stocks within our Health and Well-being theme that manufacture essential products have been particularly supportive. In terms of sub-sectors within this theme, the strongest relative returns were impact enablers such as Qiagen, followed by pharmaceuticals (Novo Nordisk) and medical devices (Dexcom).

## Cumulative returns (%)

	Fund	Benchmark	Relative
March 2020	-12.01	-14.39	2.38
Q1 2020	-18.24	-22.44	4.20
Since Inception	1.57	-11.22	12.79

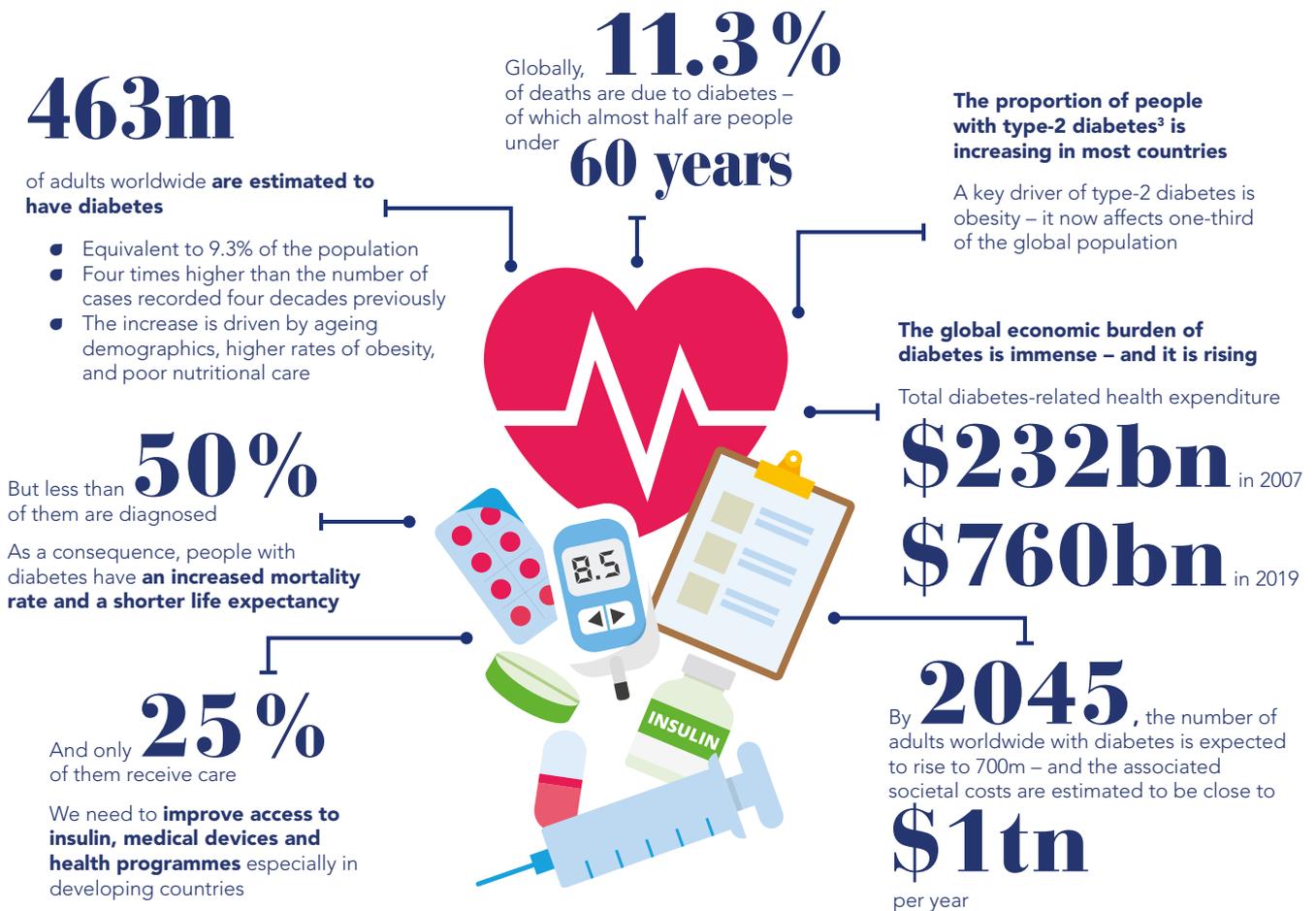
## Rolling year performance (%)

	31/03/19 to 31/03/20	31/03/18 to 31/03/19	31/03/17 to 31/03/18	31/03/16 to 31/03/17	31/03/15 to 31/03/16
Fund	-7.86	6.06	-	-	-

**Past performance is not a reliable indicator of future results.** Source: Federated Hermes, as at 31 March 2020. Performance shown is in US dollars net of fees. Relative returns are calculated arithmetically. Benchmark is the MSCI All Country World IMI index. Inception date is 31 December 2017.

## THEMATIC FOCUS: HEALTH AND WELL-BEING

### Diabetes: a growing epidemic



Source: International Diabetes Federation, Financial Times, as at March 2020.

<sup>2</sup> Source: Federated Hermes, as at 31 March 2020. Figures are in USD, net of fees.

<sup>3</sup> Diabetes is a disease in which the body is unable to regulate blood sugar. People with type-2 diabetes can no longer produce insulin because of issues such as excessive body weight and insufficient exercise. Type-1 diabetes patients cannot produce insulin in the pancreas due to an auto-immune disease.



**SDG target 2.2:** By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under five years of age

**SDG target 3.4:** By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being

**SDG target 3.8:** Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all

**Theory of Change**

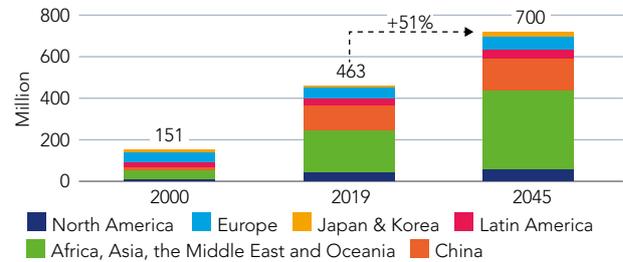
Novo Nordisk is a global leader in treatment of diabetes with a market share of 29% and customer reach of 30m. As well as accounting for nearly half of the world's insulin supply, it also provides products for other serious chronic diseases such as obesity and rare blood and endocrine disorders.

Diabetes is one of the world's four major non-communicable diseases – and according to the International Diabetes Federation, the number of adults worldwide with diabetes is expected to increase by 51% by 2045 as a result of rising incomes in developing countries. Meanwhile, poor diet has been associated with almost 20% of all diabetes-related deaths over the last decade<sup>4</sup>. Herein current holding Novo Nordisk plays an integral role: it provides solutions to growing unmet medical needs, including diabetes and obesity. In doing so, it contributes towards meeting SDG target 3.8 of ensuring universal healthcare coverage by 2030.

Novo Nordisk is the most innovative company in the pharmaceuticals segment, providing products for all types of diabetes treatment needs including its new generation of glucagon-like peptide (GLP-1) products. GLP-1 drugs have better efficacy in managing blood glucose levels and lead to lower cardiovascular and severe hypoglycaemia risks. As such, the treatment has the potential to improve

health outcomes with lower comorbidities, and weight loss benefits could help tackle obesity by helping reset the metabolism to a lower basal rate. Last year, the company secured regulatory approval for Rybelsus, the world's first and only GLP-1 medicine in a tablet.

**Figure 1. The number of people with diabetes is expected to increase 51% by 2045**



Source: International Diabetes Federation, Novo Nordisk, as at 2019.

**In 2019,**

Patients reached with Novo Nordisk products increased by

**3% to 30m**

Diabetes sales increased by

**4%**

Obesity sales increased by

**42%**

Value market share leadership expanded to

**29%**

Source: Novo Nordisk, as at February 2020.

**Obesity: responding to a societal challenge**

Arguably, the best solution to the diabetes problem however is to go to the primary root: obesity. Today, around 650m adults live with obesity but only 15m use anti-obesity medication and few medications exist to treat the disease. Novo Nordisk is developing a portfolio of treatments to address this underserved need. Last year, its obesity sales – which included its weight-management drug Saxenda – increased by 42%<sup>5</sup>.

**Supporting the SDGs**

To advance disease prevention through education, Novo Nordisk partnered with UNICEF last year to develop interventions that can help prevent childhood obesity worldwide. In doing so, the company is contributing to both the prevention and treatment of obesity and diabetes, which in turn will lead to better health outcomes.

What's more, Novo Nordisk demonstrates its commitment to providing universal health coverage to all (SDG target 3.8) through its 'Access to Insulin Commitment, whereby it guarantees to provide low-priced human insulin to governments in the poorest parts of the world. Through this programme, an estimated 2.9m were treated with insulin in 2019.

<sup>4</sup> "Global disease burden reveals deaths from diabetes increasing," published by Healio in September 2017.

<sup>5</sup> Source: Novo Nordisk, as at February 2020.



**SDG target 3.4:** By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being

**SDG target 3.8:** Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all

**Theory of Change**

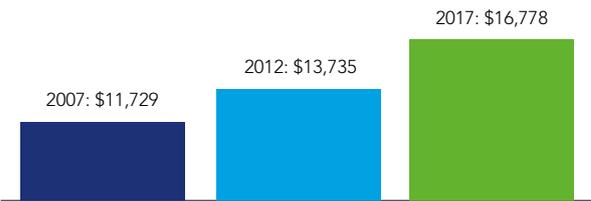
Medical devices company Dexcom is leading the way in changing the standard of care for glucose monitoring in diabetes through its continuous glucose monitoring (CGM) devices. These devices can help patients better manage the disease and reduce the costs associated with it. It is the only pure play company in this fast-growing sector and currently holds about 70% market share of the insulin intensive segment in the US.

Diabetes has the potential to cause numerous debilitating health complications, often resulting from poor management of the condition. Traditionally, finger sticks have been used to manage diabetes, a painful process that does not provide a precise reading and results in non-optimal insulin dosage. However, CGM systems provide patients with a less invasive and painful way to manage the disease, resulting in better monitoring outcomes. This is an area in which Dexcom, a recent addition to our portfolio, plays an important role.

Through its CGM products, Dexcom helps to deliver positive impact by reducing cost burden to the health system and simplifying disease management, which in turn improves a patient's quality of life. For example, according to the American Diabetes Association, the cost of diabetes per patient (including comorbidities such as kidney disease and retinopathy) stood at \$16,778 in the US in 2017<sup>6</sup>. In a separate study of mostly type-2 non-intensive patients, which compared a sample wearing Dexcom's G-6 CGM to a sample using finger sticks, the total annualised cost saving was \$5,000 per patient<sup>7</sup>.

**Figure 2. The cost burden of diabetes**

US annual healthcare costs per person with diabetes



Source: Dexcom, Centers for Disease Control and Prevention, as at July 2017.

**Innovation solutions to unmet needs**

In 2018, Dexcom's G6 CGM became the first device permitted by the US Food and Drug Administration to be used as part of an integrated system with other compatible medical devices. As a result, the company has established partnerships with insulin delivery device manufacturers and insulin producers, helping to drive adoption and awareness.

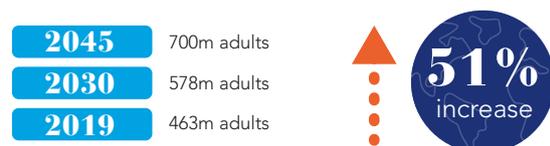
Dexcom continues to innovate, with its latest G7 model expected to be released in 2021. The release will mark the next major inflection point in CGM technology: it will be the smallest device to date; have a longer life with a 14-day sensor, factory calibration (i.e. no finger sticks) and a fully disposable design. The G7 model should be more affordable, which in turn should broaden its appeal and make it the standard of care for diabetes management.

**Future growth**

Today, Dexcom is the market leader in the US, with a market share estimated at 70% in insulin-intensive diabetes. The company is tapping the non-intensive segment of the market which could benefit from intermittent monitoring and/or screening. It consists of a market opportunity of 27m type-2, 4m gestational and 14m hospital patients, while an additional 84m pre-diabetes patients could benefit from screening.

The global opportunity is significantly larger: 463m adults suffer from diabetes worldwide, and this is expected to more than double by 2045. What's more, three in every four people suffering from diabetes live in developing countries. The growth potential is both secular and scalable as new markets represent five times the total addressable market relative to Dexcom's core markets.

**Figure 3. The number of adults with diabetes worldwide is set to double by 2045**



Source: International Diabetes Federation, as at 2019.

These scalable market opportunities are reflected in the company's financials: its revenue increased to \$1.47bn in 2019, up 42% year-on-year and 20 times higher its level in 2011 (when it stood at \$76m). It also posted a 37% compound annual growth rate since 2015. We expect Dexcom will continue its strong growth trajectory, thereby offering investors attractive impact and financial returns.

<sup>6</sup> Note: this data is published every five years. This study included only 24.7m diagnosed patients.

<sup>7</sup> This excludes the cost of the device.

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Federated Hermes is a global leader in active, responsible investing.

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.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

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- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

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