



Modern slavery statement

May 2020

1. The international business of Federated Hermes – Modern Slavery Statement

At the international business of Federated Hermes, we are committed to running our business responsibly. We endeavour to uphold high ethical principles and to respect human rights. We do our best to encourage high standards in our supply chain and business. In this context, we use the requirements set out in the Modern Slavery Act 2015 (the “Act”) as an opportunity to review the way in which we operate our own business, together with the way that we interact with others, including our clients and suppliers. We have also considered the area where we have the ability to make the most impact – our investments. Our objective is to ensure that there is no modern slavery or human trafficking in any of our business dealings.

2. About the international business of Federated Hermes

Hermes Investment Management and Federated Investors rebranded as Federated Hermes in February 2020. This was a natural step in the development of Federated Investors and Hermes Investment Management. Since Federated became the majority owner of Hermes in 2018, we have been united by a shared commitment to client-centric responsible investment and long-term business growth. All activities previously carried out by Hermes Investment Management now form the international business of Federated Hermes.

Federated Hermes is a global leader in active, responsible investment. We are guided by the conviction that responsible investing is the best way to create long-term wealth. We provide specialised capabilities across equity, fixed income and private markets, in addition to multi-asset strategies and proven liquidity-management solutions. Through our world-leading stewardship services, we engage companies on strategic and sustainability concerns to promote investors’ long-term performance and fiduciary interests. Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns, and, where possible, to contribute to positive outcomes in the wider world.

We always strive to meet our legal and regulatory responsibilities, conducting our business with the highest standards of integrity and honesty, and we expect all employees to maintain the same standards. We consider any failure to achieve these standards as a serious matter.

As of 31 December 2019, Federated Hermes had \$575bn assets under management and \$877bn assets under advice.

BT Pension Scheme retains a minority stake in the international business of Federated Hermes, alongside members of the international business of Federated Hermes’ management. This Modern Slavery Statement is made by the international business of Federated Hermes on behalf of itself and its subsidiaries, and Hermes GPE LLP, for the financial year ending 31 December 2019.

3. Our business & supply chain

The international business of Federated Hermes currently employs about 480 permanent staff and around 60 contractors, principally based in London with additional offices in Singapore, Ireland, Germany, Denmark, Spain, Switzerland and the US. We outsource certain functions to service providers, and in some cases this involves employees of our service providers working onsite in our offices. We also use a number of professional services firms including lawyers and accountants, and we enter into contracts with firms to receive brokerage services. Additionally, we purchase a variety of products, including stationery, IT hardware, and corporate branded merchandise (including clothing). We do not operate in any of the sectors identified by the International Labour Organisation as high-risk for modern slavery, but we recognise that some of our suppliers do, most notably in the manufacturing sector.

We are a signatory of the UN Global Compact and completed our second Communication on Progress in August 2019. This includes reporting on our policies and actions in relation to the Principles 1 and 2 of the UN Global Compact, which relate to human rights.

a) Culture and behaviours at the international business of Federated Hermes

Our Code of Business Conduct and Ethics sets forth certain minimum expectations that Federated Hermes has for all employees. Employees are expected to conduct the firm’s business in full compliance with both the letter and the spirit of the law and any other policies and procedures that may be applicable to them. This includes the Act.

At Federated Hermes we have a strong culture of responsibility and believe that it is a far wider concept than just shareholder engagement. We believe we should lead by example, and we have therefore created the Federated Hermes Pledge, an expression of our commitment to always act responsibly and transparently. This was established by the international business of Federated Hermes and has now been adopted by the entire business. The Federated Hermes Pledge (see Appendix 1) makes clear our commitments, obligations and responsibilities as an organisation and as individuals. Federated Hermes is committed, in the way that it interacts with others, to treating everyone fairly, and with dignity and respect. We expect all of our employees to match this commitment throughout their day-to-day work and activities.

The international business of Federated Hermes has also articulated a set of behaviours, such as ‘builds positive relationships’ and ‘demonstrates professionalism and integrity’ innate to our culture that contribute to the success of the business. Every employee has a responsibility to act in a way that upholds our core behaviours through their day-to-day activities. End of year performance ratings are based on the extent to which employees have demonstrated these

behaviours as well as whether they have met their performance objectives. Where relevant, ESG objectives are embedded into this process.

The Code of Business Conduct and Ethics, the Federated Hermes Pledge and our behaviours support our efforts to ensure we act as a transparent, responsible and ethical business. We believe this will help us to identify and hopefully prevent instances of human exploitation in our business dealings.

In 2019, the Financial Conduct Authority (FCA) introduced the new Senior Managers and Certification Regime (SMCR). This introduced new Conduct Rules for staff. The rules include a requirement to act with integrity; to act with due skill, care and diligence; and to observe proper standards of market conduct. Senior Managers are also subject to an additional set of Conduct Rules. All staff at the international business of Federated Hermes receive regular training on these Conduct Rules.

b) Protecting employees

Background checks are conducted on all new members of staff to ensure they have the right to live and work in the relevant jurisdictions.

We encourage open communication, in keeping with the Federated Hermes Pledge, and regard integrity as a central part of our beliefs. We encourage employees to bring any concerns to the attention of their immediate supervisor or manager. To that effect, we have a Whistleblowing policy in accordance with the Public Interest Disclosure Act 1998 (PIDA) – also referred to as ‘The Whistleblowers’ Act’ in the UK and the Whistleblower program in the US – which stipulates that employees are legally protected from dismissal or unfavourable treatment by their employers as a result of raising concerns. Examples of the type of concern which could be raised are internal fraud or breach of regulatory obligations (e.g. market abuse). Employees may also report such matters directly to the Strategic Risk and Compliance Director or the Chairman of the international business of Federated Hermes. However, we recognise the difficulty in reporting through internal channels and that employees may prefer to remain anonymous. To that effect, we also provide several secure, anonymous reporting routes via a hotline and online reporting.

Since 2012, the international business of Federated Hermes has been accredited as a Living Wage employer, affirming its commitment to provide all employees and on-site contracted staff in the UK with compensation and benefits at or above the London Living Wage. As an accredited employer, we ensure that all employees are paid at a minimum the London Living Wage which is an hourly rate, set independently every year. As part of our accreditation as a London Living Wage employer, we also contractually require our service providers who have staff working onsite in the London office to pay the London Living Wage or more. This ensures that all employees and contractors can meet the costs of living in London.

c) Procurement & Suppliers

At the international business of Federated Hermes, we are committed to running our business responsibly. Part of this means doing our best to encourage high standards within our supply chain and business. Our procurement processes apply across all offices of the international business of Federated Hermes. We have a Supplier Code of Conduct, available on our website, which we ask all new suppliers to sign. Please see Appendix 2 for an extract of our Supplier Code of Conduct. We promote best practice for Sustainable Procurement and ask suppliers for evidence of their sustainable procurement practices covering the following core areas: environmental, social, economic and governance.

Like many of our peers, our supply chain is large and complex, with multiple layers. We have considered how our business operations may be affected by modern slavery issues. In 2019 we introduced increased levels of due diligence to ensure we select suppliers who can work with us to deliver a higher quality of service to our clients and who are aligned with our values. The basic due diligence checks on all suppliers request information on the organisation’s policies, tax facilitation, basic finance and compliance checks and ask suppliers to adhere to our Supplier Code of Conduct.

As part of the basic due diligence checks, all suppliers are screened by our Compliance team as part of the onboarding process against the various sanctions lists using Thomson Reuters Global Screening Tool. In addition to screening against sanctions, suppliers are also screened against law enforcement, regulatory enforcement, politically exposed persons and adverse media. Suppliers’ details are saved on our system for ongoing screening, which is repeated periodically throughout our relationship with them. We ask all suppliers to complete a tax facilitation questionnaire, and additional checks are conducted on all suppliers based in the UK that have bank accounts in another country, as part of our financial crime prevention procedures.

The next level up includes an additional questionnaire to give us clarity on subjects like risk management. We have an additional third tier of enhanced due diligence targeting all levels of information security, which covers our critical and outsourcing suppliers. Our Compliance, Information Security, Finance and Legal teams work together to manage these checks. As part of the enhanced due diligence checks, we undertake enhanced oversight of certain service providers that are deemed to be material outsourcings. This includes carrying out regular onsite due diligence visits to our material and outsourcing suppliers. In 2018, we added modern slavery to the scope of issues to be examined as part of such due diligence visits, including asking suppliers what steps they take to identify areas of their business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps taken to assess and manage that risk.

4. Our investment activities

As a leading investment management house, we invest in a vast range of public and private markets across the globe. Although the Modern Slavery Act does not, strictly speaking, require us to consider our investments for the purposes of this Statement, our position as an investor gives us an opportunity to exert influence over other businesses and it is a responsibility that we recognise and which is encouraged by the Organisation for Economic Cooperation and Development (OECD).

d) Responsible investment: working to improve retirement and help create a better society

We recognise that as fiduciaries, entrusted with the savings of millions of individuals, we have responsibilities which go beyond those defined in any contract – these are to our clients and their ultimate beneficiaries, and also to the financial community and broader society in which we operate. We have these responsibilities because our activities will have an impact on the world in which our beneficiaries live and work today as well as the one in which they will retire into tomorrow.

As an active investor, we are defined by our commitment to delivering holistic returns, which is why we have established our [Responsible Ownership Principles](#). These principles include expectations around relationships with stakeholders, workers and human rights. Companies are expected to ensure that they respect the human rights of those affected by their operations and their value chains. They should develop plans to identify and manage these human rights risks to minimise adverse and encourage positive human rights outcomes. At the very least, companies should not only obey the law but respect the human rights of those affected by their activities and be open about and prepared to discuss the impact of their activities.

With our past and future aims firmly based around a long-term and responsible approach, our structure provides the benefit of access to a broad range of dedicated, high conviction investment teams, combined with an established and robust operating platform. Our engagement team, EOS at Federated Hermes (“EOS”), enables institutional asset owners around the world to meet their fiduciary responsibilities and become active owners of public and private companies.

Our proprietary ESG Dashboard was developed by our Global Equities team in conjunction with our in-house engagement experts, EOS. It is used by investment teams across the international business of Federated Hermes, enabling analysts and portfolio managers to easily incorporate ESG analysis into their stockpicking processes and, importantly, to flag stock-specific sustainability risks. This includes information on human rights issues.

We are an investor signatory of the Workforce Disclosure Initiative, which calls for transparency from companies on how they manage workers in order to improve the quality of jobs in the operations and supply chains of multinational companies.

e) Real estate contracts and leases

In managing real estate assets, we believe that good human capital management, including the provision of fair living wages, robust health and safety practices and investment in training and development programmes, is the foundation of a stable and productive workforce and the maintenance of businesses’ social licences to operate. We included specific references to the Modern Slavery Act in all of our property management agreements, covering the whole of our managed portfolio, when we renewed them in early 2018. Since September 2016 we have also included a clause specifically relating to the Modern Slavery Act in almost all new lease agreements that we have entered into. All of our construction documents, including project team appointments and construction agreements, also now contain specific mention of the Modern Slavery Act, requiring compliance with all relevant legislation.

5. Our stewardship and engagement practices

We have been actively engaging with companies for over 20 years building a compelling story for responsible ownership. Our engagement team, EOS at Federated Hermes, is a world leader in stewardship services, helping clients meet their legal obligations for active stewardship in order to create long-term value for beneficiaries. EOS represents \$877bn in assets under advice as at December 2019 and engaged with 1,043 companies worldwide in 2019 on 2,854 identified environmental, social, governance, strategy, risk and communication issues and objectives, as well offering voting recommendations for over 10,000 company meetings.

EOS engages with the companies that we and our third-party clients invest in on a regular basis on sustainability, governance, environmental and social concerns. This includes a focus on enhancing human rights. We encourage companies to apply the UN Guiding Principles and to use appropriate technology to create a more transparent supply chain. The international business of Federated Hermes generally favours engagement over exclusion, as we believe that having a seat at the table gives us greater power to influence than exclusion and divestment. For example, we held a call in August 2019 with a sustainability manager to discuss the company’s plan to improve traceability of artisanal cobalt in its supply chain. The artisanal-scale mining of cobalt has been highlighted for instances of child labour and overall unsafe working conditions. We were encouraged to hear that mapping of the supply chain is progressing through a pilot project using blockchain and that labour rights assessments are now conducted in selected sites. The pilot project will be evaluated in early 2020 and we will follow up with the company on outcomes and strategy to address findings.

Our team engages in active stewardship on behalf of our clients, voting at AGMs and other shareholder gatherings to achieve our clients’ responsible ownership aims and fulfil their fiduciary duty to be active owners. They also screen clients’ aggregate holdings for environmental, social and governance

(ESG) characteristics. Our Controversial Companies Report highlights to subscribing clients those companies which are considered to be in violation of internationally recognised guidelines, and provides insight into the nature of those guideline violations and a view on engagement with the company on the issues. The list identifies companies that are either in breach of or likely to breach the UN Global Compact Principles. This includes principles relating to human rights and labour, in particular UN Global Compact Principle 4: 'the elimination of all forms of forced and compulsory labour'. The report also highlights for each company where we are engaging on these issues.

We have engaged more broadly on human rights, both with individual companies and as part of wider policy discussions. EOS works with legislators, regulators, industry bodies and other standard-setters to help shape capital markets worldwide, in order to further our clients' responsible investment objectives. EOS strives to lead the debate on stewardship across the world, helping to ensure sustainable economies that work for long term social and environmental benefit. In 2019, we responded to the Home Office's consultation on transparency in supply chains, which proposed changes to the Modern Slavery Act. We met with Home Office policy officers to express our support for the development of a government-endorsed central repository for Modern Slavery statements, to facilitate investor engagement on this issue and hold companies to account. We signed the Find It Fix It Prevent It Modern Slavery Investor Statement, which calls on UK-listed companies to: increase their efforts to identify human trafficking, forced labour and modern slavery in their supply chains; review, assess and disclose the effectiveness of their attempts to address these issues; and support the provision of remedy to victims of modern slavery within their supply chain. This statement marked the launch of a three-year initiative to co-ordinate investor engagement with companies on modern slavery in their supply chains.

A case study of our engagement with Kuala Lumpur Kepong Berhad can be found in Appendix 3. EOS began engaging with KLK on this topic in February of 2012. KLK has strengthened its labour standards and disclosure, following allegations of deforestation and poor labour standards in 2012 and 2013.

f) Infrastructure engagement

Our engagement with infrastructure portfolio companies, designed to promote continued adherence to the highest ethical standards consistent with performance of the social contract that is at the heart of delivery of essential public services, includes continued assessment of workforce wellbeing. A significant majority of our Infrastructure portfolio companies have published statements or made commitments to that end, some on a voluntary basis. The majority of our portfolio companies are required to publish a Modern Slavery Statement, something we ensure that they adhere to. For smaller assets, we have enshrined commitments to not rely on forced or compulsory labour in corporate policies dealing with health and safety, inclusion and diversity and supply chain management. We annually review compliance with such requirements.

6. Training

We regard training as fundamental to raising awareness of these issues. A copy of our latest Modern Slavery Statement is available to all members of staff and included in all new staff joiner packs.

As a financial services firm, we provide anti-money laundering, terrorist financing and anti-bribery training to all new members of staff across the firm. We will also consider appropriate internal education for our investment teams to help them identify red flags when assessing investment opportunities. We have introduced information on the Act and an overview of our Modern Slavery Statement into the Compliance training for all of our new starters.

7. Identification and measurement of our success

By encouraging our staff to speak up if they have concerns about working conditions and by asking our suppliers to agree to our Supplier Code of Conduct, we hope that we are equipped to identify issues of modern slavery and human trafficking, should they occur. In line with the international business of Federated Hermes' investment philosophy, if we do identify issues, we will not automatically withdraw from the relationship or investment. We will seek to engage with relevant stakeholders, with the aim of resolving the issue. We will take a similar approach to engaging with any suppliers where we have concerns in order to encourage full compliance with the Modern Slavery Act.



Saker Nusseibeh, Chief Executive Officer

This Modern Slavery Statement was approved by the board of directors of Hermes Fund Managers Limited on 18th May 2020.

APPENDIX 1 - Federated Hermes Pledge

The Federated Hermes Pledge underpins our firm-wide commitment to always put clients first, and to act responsibly and transparently.

- I pledge to fulfill, to the best of my ability and judgment and in accordance with my role, this covenant:
- I will act ethically, responsibly and with integrity.
- I will put the interests of our clients first, consistent with our fiduciary responsibilities.
- I will encourage responsible behaviour in the firms in which we invest and on which we engage.
- I will act with consideration for our community and the environment both now and in the future. I will encourage others to do the same.
- I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society.
- I will treat my clients, my colleagues and all other stakeholders with dignity and respect and as I would wish to be treated.
- I will deal with our regulators in an open, cooperative and timely way.
- I will communicate clearly and honestly with all parties inside and outside our firm.
- I will manage conflicts of interest fairly between all parties.

APPENDIX 2 – Extract from our Supplier Code of Conduct

The international business of Federated Hermes ('Federated Hermes') is committed to strict observance of all laws and regulations, and to the pursuit of honest and fair corporate activities that conform to the norms accepted by society. We aim to provide safe, reliable and efficient services whilst acting fairly and professionally. These values contained within our Modern Slavery Statement underpin our business and the way in which it operates. We consider that these values are wholly in line with our obligations under the Modern Slavery Act 2015 (the "Act"). We have compiled the Federated Hermes Supplier Code of Conduct (the "Code") to achieve our goal of living up to this commitment. It lays down the standards of compliance that we expect and demand of those who supply us to ensure that we live up to our high standards. The term "Supplier" encompasses any kind of contractor, supplier or business partner.

We expect our Suppliers to:

- Comply with all applicable anti-slavery and human trafficking laws, statutes, regulations and codes from time to time in force including but not limited to the Act.
- Not engage in any activity, practice or conduct that would constitute an offence under sections 1, 2 or 4 of the Act if such activity, practice or conduct were carried out in the UK.
- Obtain assurances from their direct subcontractors and suppliers that they are complying with all applicable anti-slavery and human trafficking laws, statutes, regulations and codes from time to time in force including but not limited to the Act and inform Federated Hermes promptly in the event that they find any non-compliance within their supply chain.

Specific examples of actions that our Suppliers must take in order to comply with all relevant legislation include but are not limited to:

- Not using slave labour, illegal child labour, forced, bonded or compulsory labour;
- Ensuring that terms of employment are voluntary
- Ensuring that the workplace is free from discrimination or physical or verbal harassment
- Following local laws in respect of health and safety, minimum age requirements, wages, overtime, working hours and the fair treatment of workers.
- Federated Hermes encourages its Suppliers to comply with this Code. The signing of this Code is a commitment from the Supplier to Federated Hermes that they will supply goods and/or services in accordance with this Code.

EOS Case Study

2020

Kuala Lumpur Kepong Berhad

KLK has strengthened its labour standards and disclosure, following allegations of deforestation and poor labour standards in 2012 and 2013. EOS at Federated Hermes began engagement with KLK on this topic in February 2012 and continues to engage on this ongoing challenge and on its sustainability plan.

Background

Palm oil has attracted a lot of attention from investors because of its environmental impact and poor labour standards in some plantations. Kuala Lumpur Kepong Berhad (KLK) sources primarily from its own plantations, but also a proportion from suppliers. We were concerned over the company's lack of response in 2012 to NGO and media reports about poor labour conditions at the company's plantations in Liberia and its suppliers in Indonesia.

Company overview

KLK is a Malaysian company focused on the production and processing of palm products and natural rubber. It has plantations in Indonesia, Malaysia and Liberia.

Our engagement

In our first meeting at the headquarters in early 2012, the company was quite defensive and denied the allegations that it was involved in deforestation in Indonesia as well as reports of poor labour conditions and wages in its operations. Encouragingly, in a call later in the year the attitude had changed markedly which resulted in a constructive dialogue. 2013 saw further allegations of poor labour conditions in its supply chain and we engaged with the company to urge it to provide clarity on how it was investigating the allegations and assessing steps taken to avoid similar issues in the future.

Sustainable Development Goals



Engagement objective:

Social

Supply chain labour standards



Engagement objective:

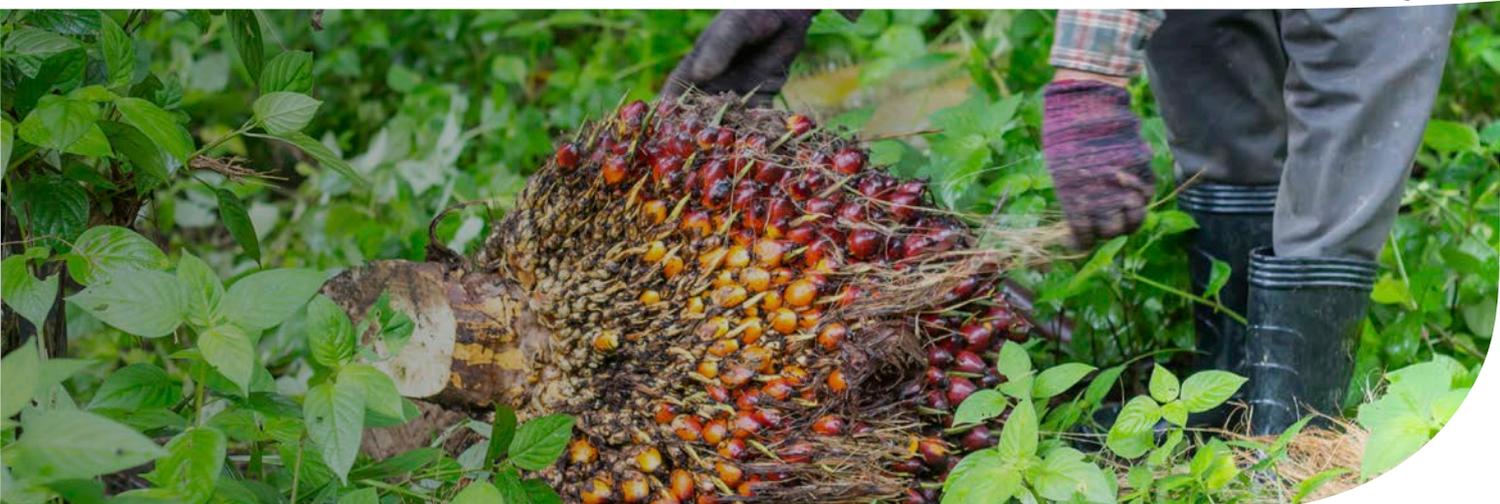
Environment

Sustainable palm oil production

We engaged with the company to urge it to provide clarity on how it was investigating the allegations and assessing steps taken to avoid similar issues in the future.

While the company was gradually more willing to discuss labour issues, details on policy implementation were still lacking which we pointed out in a letter sent to the chair in 2014 and was co-signed by investors in the Principles for Responsible Investment working group on palm oil. We also continued our discussion on the company's progress in achieving Roundtable on Sustainable Palm Oil (RSPO) certification for all of its operations. We continued to raise these concerns in further calls and correspondence in 2015 and 2016, during which the company appeared to be responding positively to consider improved disclosure and stakeholder outreach.

During a call in 2017 the company committed to disclosing its migrant worker management process in its sustainability report – a significant improvement on transparency. In 2018 we asked the company to align its labour standards programme and move to industry best practices by reporting in line with the UN Guiding Principles on business and human rights. We reiterated this request during calls in 2019 with the head of sustainability.



Changes at the company

Since our initial engagement KLK has strengthened its labour standards and disclosure and demonstrated a proactive approach to addressing supply chain labour issues. It has also made progress in achieving RSPO certification for its operations. In 2014, it confirmed it would be issuing its first group sustainability policy including labour standards. Subsequently, it started training suppliers on labour standards compliance as part of its commercial contracts and commissioning external audits of its supply chain. KLK also partnered with a reputable human rights consultant for a human rights impact assessment in its Liberian operations. The disclosure of audit findings and follow-up action plans have provided greater clarity for investors and other stakeholders on supply chain conditions. Also in 2014, the company achieved 100% RSPO certification of its operation in Malaysia.

In 2019 KLK published a supplier code of conduct reflecting our feedback. The code will facilitate KLK's wider efforts to drive improvements in its supply chain.

We maintained regular engagement as the company steadily improved practices, for example in 2016 engaging an NGO to conduct labour audits in its Indonesian operations in response to allegations of child labour. It also adopted the High Carbon Stock approach in its Liberian plantations.



In 2018 the company updated its sustainability policy and labour standards and provided an action plan with timeframes. We were pleased to receive more information about the key actions taken regarding ensuring migrant workers' access to their passports and the due diligence carried out on worker recruitment agency fees. In 2019 KLK published a supplier code of conduct reflecting our feedback. The code will facilitate KLK's wider efforts to drive improvements in its supply chain.

We remain insistent that the company aligns its programme and reporting with the Guiding Principles, but note that it has outlined plans including a task force focused on no exploitation as part of the 2018 RSPO principles. We will continue to engage on this but believe KLK has responded satisfactorily to the initial allegations made in 2012 and there is reasonable evidence that it has improved its policies and practices towards global standards.

Top three successes



Improved disclosure of labour conditions standards and processes for its supply chain.



Achieved RSPO certification for its operation in Malaysia.



Adopted a group-wide sustainability policy, including consequences for suppliers in breach and a programme to support smallholder suppliers to attain RSPO certification.

Next steps

In addition to engaging on KLK's overall sustainability action plan including no-deforestation commitments, we will continue to focus on labour standards and the effectiveness of its new task force.

Federated Hermes

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, where possible, to contribute to positive outcomes in the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **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

For more information, visit www.hermes-investment.com or connect with us on social media:

