

Shareholder Rights Directive II Report

The International Business of
Federated Hermes

June 2020

1. INTRODUCTION

This report fulfils the reporting requirements for the international business of Federated Hermes ('Federated Hermes') – including Hermes Investment Management Limited, Hermes European Equities Limited, Hermes Fund Managers Ireland Limited and Hermes Alternative Investment Management Limited as asset managers, under Annex C of the EU Shareholder Rights Directive.

2. HOW WE HAVE IMPLEMENTED OUR ENGAGEMENT POLICY

Our engagement policy is published on our website: <https://www.hermes-investment.com/ukw/wp-content/uploads/2019/07/hermes-engagement-policy-july-2019.pdf>

This policy sets out the approach to engagement and voting. Federated Hermes honours its responsibility as a fiduciary for investors and their beneficiaries and seeks always to act in their best interests. Federated Hermes undertakes stewardship and long-term engagement to exercise active ownership of investee companies on behalf of investors, and to deliver our purpose of helping investors achieve their financial objectives. For Federated Hermes, stewardship is both a responsibility and an input to achieving optimal investment performance, in particular over the long-term. Federated Hermes takes a comprehensive approach to stewardship, engaging globally with corporates and key stakeholders, in particular policy makers.

The majority of engagement is undertaken for Federated Hermes by the dedicated stewardship services of EOS at Federated Hermes ('EOS'). Federated Hermes benefits from the long engagement history and established relationships of EOS in relation to both Federated Hermes investee companies and its broader investable universe.

Our engagement policy has been approved by our internal Governance Committee.

a) Integrating shareholder engagement in our investment strategy

Fundamentally, we believe companies with strong governance and astute management of their environmental and social risks and opportunities not only make a more positive contribution to society than those that do not, but also provide greater long-term value and reduced risk for shareholders. There is increasingly robust evidence of this relationship and research from our own global equities team demonstrates this belief to be true with companies with good or improving environmental, social or governance characteristics (those in the top decile) on average outperforming companies with negative characteristics (those in the lowest decile). According to our research published in

2018, this is being driven by the strength of their corporate governance and, for the first time since our investigation began in 2014, social metrics.¹

In the context of the increasing evidence and our responsibility as a fiduciary for our clients, we seek to:

- integrate awareness of ESG risks into our investment decision processes;
- ensure we remain cognisant of these risks within individual investments and across our portfolios;
- actively engage as appropriate with those companies in which we, and our clients, have invested and utilise our rights as investors in a considered and informed fashion to promote long-term success; and
- work with policy makers to promote responsible investment and advocate for a global financial system that operates in the interests of its ultimate beneficiaries.

As a firm, our investment teams work closely with our dedicated stewardship team, EOS, to ensure that our approach to stewardship is joined up with our active investment approach across asset classes, geographies and strategies. EOS is one of the world leaders in stewardship services helping institutional investor clients to meet their duties for active stewardship. The team boasts an incredibly effective group of highly skilled, international professionals all committed to promoting the long-term success of companies. Importantly, we recognise we are global investors and our clients and their beneficiaries are in effect universal owners. By embedding responsibility, we seek to align all the decisions we make with their needs and interests. We therefore implement this approach consistently across the products we provide and the markets in which we invest.

b) Monitoring investee companies

We believe that active monitoring of investee companies is integral to delivering positive investment performance for our clients. This requires us taking an active interest in a wide range of aspects of the companies and assets in which we are invested. Resources are allocated based on the size of our holdings, the materiality of governance, social or environmental issues and the feasibility of achieving change through engagement. We have developed a number of

¹ <https://www.hermes-investment.com/uki/insight/equities/esg-investing-a-social-uprising/>

proprietary tools, including our ESG Dashboard, ESG Portfolio Monitor and carbon tool, which enable our investment teams to pinpoint ESG risks at both the company and portfolio level.

As a general rule, our investment teams are responsible for assessing the financial strength of company balance sheets, looking at factors such as whether it is going concern, its capital structure and whether the strategy is fit for purpose. The investment teams and EOS may also identify material issues of concern related to environmental, social and governance factors. Any concerns identified may be raised with the company by the investment team directly, by EOS or by both in a collaborative engagement.

The proprietary Federated Hermes ESG Dashboard ensures that all companies (subject to the availability of the data) can be compared against their peers on a sector, regional or global basis with respect to a range of ESG considerations. Our proprietary QESG score captures how well a company manages its ESG risks, and importantly whether this is improving or not. The QESG score not only incorporates third party research indicators but also the insights of our voting and engagement activity. The change in score can provide an early warning signal or suggest that management is successfully grappling with an issue. This stock-specific analysis is a valuable input to the investment process as well as ongoing monitoring of and, where appropriate, engagement with companies.

Similarly, our climate change analytics tool allows us to see in detail the level and intensity of carbon across portfolios and which portfolio companies are the greatest emitters. We look at the data through multiple lenses to identify those companies which may be better or worse placed and where additional research or engagement may be necessary. In turn, our analysts are able to see the progress of ongoing engagement towards mitigating the potential risk.

The details of all engagement meetings of our stewardship team with companies are shared across investment teams and EOS clients in order that all are kept informed of developments and the progress against the milestones of particular engagements.

Our Responsible Ownership Principles set out clearly what we expect of the companies that we and our clients are invested in. This includes an expectation that companies maximise long-term shareholder value through the economic, efficient and effective provision of goods or services that customers or society need or want. We have also developed our own corporate governance principles for many countries and regions addressing specific local issues. Our overriding expectation is that companies be run in the long-term interest of shareholders; this requires a clear commitment to the principles of good governance which in the UK are well articulated within the UK's Corporate Governance Code. We urge companies to consider carefully how best to apply the principles and the spirit of the Code to their own

circumstances and clearly communicate the rationale behind their chosen approach. We similarly endorse the global expectations set out within the ICGN's Global Governance Principles and the OECD's Principles of Corporate Governance.

In order to succeed in the long-run, we believe companies need to effectively manage relationships with key stakeholders and be mindful of their impact on the environment and their role in those communities in which they operate as well as within broader society, both of whom grant them their licence to operate. We are therefore interested in and seek, if necessary, to influence a company's management of these wider risks and believe we have a duty to use our influence to improve the behaviour of the companies in which we invest, to the benefit of society as a whole. As our clients will in effect be "universal owners", their portfolios are exposed to the growing external costs, such as environmental damage, caused by companies. We therefore monitor and engage with companies to reduce these externalities and in so doing minimise their overall exposure to these costs. On an exceptional basis, when we believe it is consistent with our being a responsible owner and is in the best long-term interests of our clients, we are prepared to be made insiders in order to assist company boards. However, we would expect to make a decision to be made an insider only after due consideration and due diligence has been conducted internally in order to confirm that on balance it is the right course of action.

c) Conducting dialogues with investee companies

Our stewardship team has clear and well-established protocols for how to identify engagement issues, escalate engagement and measure an engagement's effectiveness. Engagements with companies will normally relate to longer-term strategic, environmental, social or governance issues. Generally our engagement activity intensifies where we believe:

- engagement will lead to an increase in the value of a company over the long term; and/or
- engagement will prevent or limit a decrease in the value of a company over the long term

In determining whether and how the engagement is taken forward, due regard is given to:

- the level of the company's exposure to the issue at hand;
- the likelihood of engagement success and potential to bring about positive change; and,
- the value of our ownership of the company.

Such considerations are based around an assessment of the likely impact of the engagement and the ultimate benefit to the value of the underlying holding. Each engagement is subsequently given an appropriate intensity tiering.

Measuring and monitoring progress on engagements is carried out by setting clear engagement objectives and systematically measuring objective progress against four milestones, these are:

1. The raising of the issue with the company
2. Recognition by the company that the concern is valid
3. The company develops a credible strategy to achieve the objective, or stretching targets are set to address the concern
4. The company implements a strategy or measures to address the concern

We consistently review the progress we are making against these milestones for each objective utilising a system that we have designed for managing and tracking our engagement activities. The companies identified as proactive engagement targets at the beginning of each year are assigned an engagement intensity tier, though this is subject to change throughout the year as individual company circumstances change. We escalate the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue – as a result, a company's intensity tiering may change. Some engagements may involve just one or two meetings; others are more complex and will entail multiple meetings with management and board members over several years in order to achieve the engagement objective.

Such activity often requires persistence. Helpfully our long-term perspective enables us to persist with the more difficult and time-consuming engagements to bring about changes in either strategy, financial structure, operational or risk management or governance. Any change we encourage a board or management team to make will be with the intent of improving a company's long-term performance.

Our engagements with companies may involve at various junctures:

- meetings with executive and non-executive directors;
- meetings with other company representatives;
- discussions with other shareholders of the company;
- participation in collaborative investor initiatives;
- discussions with other relevant stakeholders such as industry representatives, the regulator, customer groups etc.; and,
- attendance at and/or submission of shareholder resolutions at shareholder meetings.

Making realistic and realisable demands of companies, informed by significant hands-on experience of business management and strategy setting, is critical to the success of our engagements. With all engagements, we seek to build a strong relationship with the company and are willing to be patient, remaining focused on the achievement of goals which are directed towards long-term success.

d) Exercising voting rights and other rights attached to shares

We are fully cognisant that we, as shareholders, are granted a wide range of rights which both offer us protection and enable us to fulfil effectively our stewardship responsibilities. In particular, we consider the vote as part of the asset and accept that we have a responsibility to exercise this right in a considered fashion. While we can be robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines which could undermine the trust that we believe should otherwise exist between a company and its owners. We therefore generally prefer not to take a public route when seeking change at companies, though as described above details of all engagement meetings of our stewardship team with companies are shared across investment teams and EOS clients. In our experience, working constructively with boards and management in private is most effective in achieving positive change. However, when no progress is made over an extended time period, we are willing to use the news media and other public forums to drive change. When doing so, we would normally notify a company in advance. Similarly, we have demonstrated a willingness to use the full range of rights that we have at our disposal, including the tabling of resolutions at shareholder meetings when necessary.

Significant votes

For the purposes of reporting, we have determined our significant votes to be the top 5% of Federated Hermes equity holdings (as at 31/12/2019). These holdings, in alphabetical order, along with the voting action (which refers to whether we voted for or against management) and explanation for that vote, are provided in the table below. We seek to be supportive of boards and to recommend votes in favour of proposals unless there is a good reason not to do so in accordance with our voting policies, global or regional governance standards or otherwise to protect long-term shareholder interests. In line with this approach, explanations for votes against management are provided below.

Meeting ID	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation	Vote By Exception*
1311024	Accton Technology Corp.	Annual	All For			
1304753	Advantech Co., Ltd.	Annual	All For			
1322587	Alia Group Limited	Annual	All For			
1346905	Alibaba Group Holding Ltd.	Annual	All For			
1333693	Alphabet Inc.	Annual	Against	3 1.4 11 1.3 9, 16 1.6 13, 15 5, 6, 7 4, 8	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns related to approach to board diversity Concerns to protect shareholder value Insufficient/poor disclosure Overboarded/Too many other time commitments Shareholder proposal promotes appropriate accountability or incentivisation Shareholder proposal promotes better management of SEE opportunities and risks Shareholder proposal promotes enhanced shareholder rights	
1315296	ASE Technology Holding Co., Ltd.	Annual	All For			
1274518	ASML Holding NV	Annual	All For			
1375237	Autohome, Inc.	Annual	All For			
1312909	BB Seguridade Participacoes SA	Special	All For			
1367999	BB Seguridade Participacoes SA	Special	Against	3	Insufficient basis to support a decision	
1312910	BB Seguridade Participacoes SA	Annual	Abstain Against	3, 6, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7 5.7 9 5.1, 5.2, 5.3, 5.4, 5.5, 5.6	Insufficient/poor disclosure Insufficient basis to support a decision Insufficient/poor disclosure	
1370077	BIM Birlesik Magazalar AS	Special	All For			
1329871	BIM Birlesik Magazalar AS	Annual	Against	8	Insufficient/poor disclosure	
1299697	China Communications Services Corp. Ltd.	Special	All For			
1328628	China Communications Services Corp. Ltd.	Annual	Against	5 4	Issue of capital raises concerns about excessive dilution of existing shareholders Issue of capital raises concerns about excessive dilution of existing shareholders	
1334357	China Mengniu Dairy Co., Ltd.	Annual	Against	6	Insufficient/poor disclosure	
1299576	Chipbond Technology Corp.	Annual	All For			
1321143	CK Hutchison Holdings Ltd.	Annual	Against	3b	Lack of independence on board	
1294529	Commercial International Bank (Egypt) SAE	Special	All For			

Meeting ID	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation	Vote By Exception*
1295357	Commercial International Bank (Egypt) SAE	Annual	Against	6 9,10 8	Apparent failure to link pay & appropriate performance Insufficient basis to support a decision Insufficient basis to support a decision	
1289979	Credicorp Ltd.	Annual	All For			
1305494	Delta Electronics, Inc.	Annual	All For			
1291409	Duratex SA	Special	All For			
1292004	Duratex SA	Annual	Abstain	4 7, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 9	Insufficient/poor disclosure	
			Against	6	Insufficient/poor disclosure	
1313655	Duratex SA	Special	Against	4	Concerns related to potential conflict of interests; concerns to protect shareholder value	
1375443	Hapvida Participacoes e Investimentos SA	Special	All For			
1352661	HCL Technologies Limited	Annual	All For			
1359473	HCL Technologies Limited	Court	All For			
1375199	HCL Technologies Limited	Special	All For			
1340343	HDFC Bank Limited	Annual	All For			
1331010	Hero Motocorp Limited	Annual	All For			
1334926	ICICI Bank Limited	Annual	All For			3, 6,11
1312336	Itau Unibanco Holding SA	Annual	Against	3	Where we vote in favour of a shareholder resolution where there is no management recommendation, this is classed as a vote against management. This is to ensure we do not underreport conflicts, although in some instances it may not be voting against what management would have wanted.	
1298282	KB Financial Group, Inc.	Annual	All For			
1293058	LandMark Optoelectronics Corp.	Annual	All For			
1335194	Mail.ru Group Ltd.	Annual	Against	2.7	Lack of independence on board	2.1
1311878	MediaTek, Inc.	Annual	All For			
1371482	Microsoft Corporation	Annual	Against	2	Apparent failure to link pay & appropriate performance	1.6
1341211	Motherson Sumi Systems Limited	Annual	All For			
1293870	NARI Technology Co., Ltd.	Special	All For			
1309901	NARI Technology Co., Ltd.	Special	All For			
1371632	NARI Technology Co., Ltd.	Special	All For			
1384556	NARI Technology Co., Ltd.	Special	All For			
1331535	NARI Technology Co., Ltd.	Annual	Against	9,10	Concerns to protect shareholder value; insufficient justification for related party transaction; insufficient/poor disclosure	
1303724	NMC Health Plc	Annual	All For			
1381011	NMC Health Plc	Special	All For			
1299164	Notre Dame Intermedica Participacoes SA	Special	Against	2	Concerns related to potential conflict of interests; concerns to protect shareholder value	
1375568	Notre Dame Intermedica Participacoes SA	Special	Against	1	Concerns to protect shareholder value; insufficient basis to support a decision	

Meeting ID	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation	Vote By Exception*
1292052	Notre Dame Intermedica Participacoes SA	Annual	Abstain	3, 4, 7, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7	Insufficient/poor disclosure	
			Against	6 5	Insufficient/poor disclosure Lack of independence on board	
1355205	Power Grid Corporation of India Limited	Annual	All For			
1283547	PT Bank Rakyat Indonesia (Persero) Tbk	Special	All For			
1354440	PT Bank Rakyat Indonesia (Persero) Tbk	Special	Against	1, 2	Where we vote in favour of a shareholder resolution where there is no management recommendation, this is classed as a vote against management. This is to ensure we do not underreport conflicts, although in some instances it may not be voting against what management would have wanted.	
1319404	PT Bank Rakyat Indonesia (Persero) Tbk	Annual	Against	5	Insufficient/poor disclosure	
1324241	Samsonite International S.A.	Annual	Against	10, 11, 12	Apparent failure to link pay & appropriate performance	
				9	Apparent failure to link pay & appropriate performance	
1299054	Samsung Electronics Co., Ltd.	Annual	Against	2.1.1	Lack of independence on board	
				2.2.1	Lack of independent representation at board committees	
1332862	Sberbank Russia PJSC	Annual	Against	5.3, 5.4, 5.5, 5.6, 5.7, 5.11, 5.12, 5.14	Concerns about overall board structure	
				4	Concerns related to non-audit fees	
1322519	Shenzhen International Holdings Limited	Annual	Against	3.3	Concerns related to approach to board diversity	
				3.4	Concerns related to attendance at board or committee meetings	
				6, 7	Issue of equity raises concerns about excessive dilution of existing shareholders	
1334529	Taiwan Semiconductor Manufacturing Co., Ltd.	Annual	All For			
1296733	Taiwan Semiconductor Manufacturing Co., Ltd.	Annual	All For			
1339657	Tech Mahindra Limited	Annual	All For			
1317333	Techtronic Industries Co., Ltd.	Annual	Against	7a, 7b	Issue of capital raises concerns about excessive dilution of existing shareholders	
				3a, 3b	Lack of independence on board	
1330461	Tencent Holdings Ltd.	Special	Against	1	Apparent failure to link pay and appropriate performance	
1316749	Tencent Holdings Ltd.	Annual	Against	3b	Concerns related to approach to board diversity	
				5, 7	Issue of equity raises concerns about excessive dilution of existing shareholders	
1311622	The Chemical Works of Gedeon Richter Plc	Annual	All For			
1352421	The Foschini Group Ltd.	Annual	Against	13	Apparent failure to link pay & appropriate performance	5, 12
1295814	Wal-Mart de Mexico SAB de CV	Annual	All For			
1380837	Yandex NV	Special	All For			

*On occasions where our policy may suggest a vote against management but engagement with the company had provided additional insight, for example a company has committed to making a change but it may not be implemented until the following year, we may vote by exception.

e) Cooperation with other shareholders

We recognise the benefits of working with like-minded peers to advocate for change at particular companies as well as at a broader market level. Federated Hermes is proud to be an active participant in, and indeed be a founding member of many associations of investors. Not least among these are the United Nations-supported Principles for Responsible Investment, the International Corporate Governance Network, the Investor Forum in the UK and Climate Action 100+. The list of groups and associations in which we participate and promote responsible investment and stewardship are listed on our website: <https://www.hermes-investment.com/uki/insight/corporate-news/our-reach/>

Where there are shared objectives – in particular the promotion of long-term sustainable value – we use both formal forums and other more informal links to work collaboratively with other investors on a global basis. Such interactions can be ad hoc or ongoing. Crucially, the primary concept of EOS' stewardship service is to provide a mechanism for like-minded asset owners to pool their resources and in so doing create a stronger and more effective stewardship voice.

f) Communication with relevant stakeholders of the investee companies

In order to succeed in the long-run, we believe companies will need to effectively manage relationships with key stakeholders and be mindful of their impact on the environment and their role in those communities in which they operate as well as within broader society both of whom grant them their licence to operate. We are therefore interested in and seek if necessary to influence a company's management of these wider risks, where they have been raised. We do not generally take the step of communicating directly with stakeholders, however we will – once verified – feedback their concerns in our position as shareholders to company management because we believe we have a duty to use our influence to improve the behaviour of the companies in which we invest, to the benefit of society as a whole.

g) Managing actual and potential conflicts of interests in relation to the firm's engagement

Our Conflicts of Interest Policy is published online: <https://www.hermes-investment.com/uki/policies-and-disclosures/>

We also have a Stewardship Conflicts of Interests Policy, which sets out our approach to preventing and managing conflicts of interest in relation to the firm's engagement: <https://www.hermes-investment.com/ukw/wp-content/uploads/2020/05/stewardship-conflicts-of-interest-policy-2020.pdf>.

3. TRANSPARENCY

Our goals as a firm are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes in the wider world. We believe that investing responsibly is the best way to sustain long-term outperformance and contributes to beneficial outcomes for investors, companies, society and the environment. We understand that the way we achieve our investment objectives will have an impact that is more than purely financial – it will affect the world in which our beneficiaries live and the real value of their retirement incomes. We have a duty therefore to act as responsible owners of those companies in which we have invested and the assets that we manage to the advantage of society as a whole.

Actioning this belief necessitates recognising the importance of the long-term health and stability of the markets in which we invest and means extra work in analysing companies to understand externalities, governance practices, environmental impacts, treatment of workforces and the influence of operations on local communities. It also means using our influence to improve the behaviour of those companies in which we have invested, and the operations of the assets that we directly manage and to advocate for systematic improvements to the financial system in which we participate.

a) The key material medium to long-term risks associated with investments

While the most pressing material risks are those that will crystallise in the short term, at Federated Hermes we are long-term investors that strive to deliver holistic returns for our end investors. This means our definition of materiality is necessarily wider. That is because we believe over longer timescales, a wider range of risks will ultimately become material and thus we believe we should engage proactively to mitigate them.

We are currently aware of and actively engaging on the following medium to long-term key risks, many of which align to our aspiration to play a positive role in delivering the UN Sustainable Development Goals. Some of which, we are quite sure, present risks over shorter timescales too.

Environmental risks

Climate change: We are engaging to ensure company strategies and actions are aligned to the goals of the Paris Agreement to limit climate change to well below 2°C and, ideally, to 1.5°C.

Natural resource scarcity: We are engaging on the need to build a circular economy to achieve sustainable levels of consumption to ensure affordable access to food, clean water and critical natural resources.

Pollution: We are engaging on the need for companies to reduce pollution of air, land and water to below harmful levels for humans and other living organisms.

Social risks

Human rights: We expect and engage with companies to ensure they respect all human rights linked to a company's operations, products and supply chains, including through the provision of affordable essential goods and services to help reduce poverty.

Human capital and labour rights: We engage on improving human capital and safeguarding labour rights to achieve a healthy, skilled and productive workforce inclusive of the full diversity of wider society.

Conduct, culture and ethics: We are engaging on developing corporate cultures that put customers first and treats material stakeholders fairly to help build a strong, more equal society.

To enable delivery of these outcomes, we seek robust governance and management by companies.

Governance risks

These are some of the most material long-term drivers of wealth creation, from both a company value and societal outcome perspective, including:

Corporate governance: Encompassing strongly-functioning boards composed of independent individuals representing the diversity of stakeholders the company serves; the alignment of executive remuneration with the creation of long-term value while paying strictly no more than is necessary; and the establishment and protection of all material shareholder rights.

Strategy, risk and communications: The clear articulation of a company's purpose in order to deliver long-term value to all stakeholders, supported by a sustainable business model and strategy that addresses the needs of its different stakeholders; robust risk management practices to protect long-term value; and transparent, timely disclosures of reliable information sufficient for investors and wider stakeholders to make informed decisions on long-term investment.

4. PORTFOLIO COMPOSITION, TURNOVER AND TURNOVER COSTS

We have 35 accounts that fall under this regulation. For pooled funds, information regarding turnover rates, top portfolio holdings and transaction costs is included below. For segregated mandates, information is provided to the relevant clients directly and is not disclosed publicly without specific client permission.

a) Turnover and portfolio composition

Account Name	SEC Turnover Annual* 12 months to 31/12/2019	Top 10 Portfolio Holdings as at 31/12/2019
Hermes Absolute Return Credit Fund	84.5%	Sprint: 3.75% Volkswagen: 3.57% General Motors: 3.54% ArcelorMittal: 2.67% CNH Industrial: 2.59% DNB Bank ASA: 2.53% Aircastle: 2.50% BHP Billiton: 2.48% Telefonica: 2.46% Marks & Spencer: 2.42%
Hermes Asia ex-Japan Equity Fund	41.3%	Alibaba (ADR): 6.88% ASE Technology: 5.55% Samsung Electronic: 5.48% CK Hutchison: 4.51% Taiwan Semiconductor Mftg: 4.02% MediaTek: 3.62% KB Financial: 3.22% Beijing Enterprise: 2.93% Cosco Shipping Ports: 2.69% Kunlun Energy: 2.67%
Hermes Emerging Asia Equity Fund S.P.	66.1%	Alibaba (ADR): 5.88% ASE Technology: 4.85% CK Hutchison: 3.88% Samsung Electronic: 3.22% China BlueChemical: 3.21% China Life Insurance (Taiwan): 2.95% KB Financial: 2.86% Hyundai Green Food: 2.74% AviChina Industry & Technology: 2.69% Cosco Shipping International: 2.68%
Hermes Europe ex-UK Equity Fund	12.8%	ASML: 4.93% Novo Nordisk: 4.87% Umicore: 3.69% Lundin Petroleum: 3.58% Lonza Group: 3.57% Adidas: 3.49% Sika: 3.44% ASM International: 3.37% Hella GMBH: 3.34% KION Group: 3.23%
Hermes European Alpha Equity Fund	17.7%	ASML: 4.50% Adidas: 4.46% Lonza Group: 4.28% Amadeus IT: 3.99% Deutsche Boerse: 3.91% Bayer: 3.79% Novo Nordisk: 3.58% SAP SE: 3.36% Prudential: 3.33% Inditex: 3.30%
Hermes Global Emerging Markets Fund	24.8%	Samsung Electronic: 7.31% Tencent: 7.11% Alibaba (ADR): 7.04% Taiwan Semiconductor Mftg: 5.68% Bank Rakyat Indonesia: 2.98% Delta Electronics: 2.65% Sberbank: 2.64% Techtronic Industries: 2.51% Nari Technology: 2.44% KB Financial: 2.41%

Account Name	SEC Turnover Annual* 12 months to 31/12/2019	Top 10 Portfolio Holdings as at 31/12/2019
Hermes Global Emerging Markets SMID Equity Fund	47.8%	Nari Technology: 4.00% Delta Electronics: 3.72% Techtronic Industries: 3.54% Baozun (ADR): 3.32% Duratex: 3.28% Mail.Ru: 3.23% China Communication Services: 3.20% Commercial International Bank Egypt: 3.09% Samsonite: 3.02% China Mengniu Dairy: 3.01%
Hermes Global Equity ESG Fund	18.1%	Microsoft: 2.72% Apple: 2.53% Amazon: 2.24% Walt Disney: 2.16% ASML: 2.10% Abbott Laboratories: 1.95% Visa: 1.94% Lonza Group: 1.92% Accenture: 1.85% The Travelers Companies: 1.79%
Hermes Global Equity Fund	50.1%	Microsoft: 3.47% Apple: 2.19% Amazon: 2.00% ASML: 1.66% AstraZeneca: 1.65% Walt Disney: 1.60% Alphabet: 1.54% Procter & Gamble: 1.51% American Tower: 1.49% Visa: 1.46%
Hermes Global High Yield Credit Fund	27.5%	Tesco: 2.76% HCA: 2.45% Fiat: 2.38% Dell: 2.36% Lennar: 2.28% Kinder Morgan: 2.22% Toll Brothers: 2.11% Enbridge: 2.01% AerCap: 2.00% Ally Financial: 1.96%
Hermes Global Small Cap Equity Fund	10.9%	Wintrust Financial: 2.50% AMN Healthcare Services: 2.41% WEX: 2.32% RPM International: 2.28% Silicon Laboratories: 2.28% IMCD: 2.27% Reinsurance Group of America: 2.21% CACI International: 2.15% Horiba: 2.13% SCSK: 2.12%
Hermes Impact Opportunities Equity Fund	7.0%	Bank Rakyat Indonesia: 4.53% Novo Nordisk: 4.33% CSL: 4.33% Umicore: 4.28% Emergent BioSolutions: 4.23% ANSYS: 4.20% Xylem: 4.13% Agilent Technologies: 4.08% Abcam: 4.06% Hella GMBH: 4.02%

Account Name	SEC Turnover Annual* 12 months to 31/12/2019	Top 10 Portfolio Holdings as at 31/12/2019
Hermes Multi Strategy Credit Fund	50.3%	Telefonica: 3.67% BHP Billiton: 3.44% General Motors: 3.39% ArcelorMittal: 3.05% Toll Brothers: 2.62% AerCap: 2.49% Commerzbank: 2.46% Bank of Ireland: 2.43% Enbridge: 2.38% Phoenix: 2.36%
Hermes SDG Engagement Equity Fund	25.0%	Techtronic Industries: 2.94% AMN Healthcare Services: 2.93% RPM International: 2.92% IMCD: 2.81% Fortune Brands Home & Security: 2.77% Huhtamaki: 2.69% West Pharmaceutical Services: 2.67% Aptar: 2.62% Alliant Energy: 2.59% Steris Healthcare: 2.58%
Hermes SDG Engagement High Yield Credit Fund	**	Telecom Italia: 2.55% Ardagh Packaging: 2.12% Fiat: 2.07% Berry Global: 1.99% Calpine: 1.91% Hanesbrands: 1.85% Barclays: 1.84% Alcoa: 1.81% ArcelorMittal: 1.80% Orsted: 1.79%
Hermes Unconstrained Credit Fund	95.6%	BHP Billiton: 2.35% Aircastle: 2.05% Canadian Natural Resources: 1.88% Enterprise Products: 1.87% Enbridge: 1.79% Anglo American: 1.75% Toll Brothers: 1.73% AerCap: 1.68% HCA Holdings: 1.58% Telecom Italia: 1.57%
Hermes US SMID Equity Fund	32.6%	Wintrust Financial: 2.88% Community Bank System: 2.53% Reinsurance Group of America: 2.46% Timken: 2.11% Brown & Brown: 2.10% AMN Healthcare Services: 2.06% Gartner: 2.05% Fortune Brands Home & Security: 2.03% MDU Resources: 1.99% Alleghany: 1.96%

In the above table, for credit funds we have provided the top 10 issuers of the portfolio rather than the top 10 holdings. All top holdings/issuers listed are absolute.

* SEC Turnover = (Lesser of Purchase or Sales)/Average Market Value (Excluding Cash and Futures)

** The Hermes SDG Engagement High Yield Credit Fund was launched in late 2019, and therefore annual turnover figures for 2019 are not available.

b) Transaction Costs

The cost disclosures below are those prescribed under MiFID regulation.

Account Name	Currency	Total Transaction Cost * 12 months to 31/12/2019	Total Transaction Cost – % of Investment ** 12 months to 31/12/2019	Implicit Cost *** 12 months to 31/12/2019	Implicit Cost – % of Investment ** 12 months to 31/12/2019	Explicit Cost **** 12 months to 31/12/2019	Explicit Cost – % of Investment ** 12 months to 31/12/2019
Hermes Absolute Return Credit Fund	USD	0	0.00%	0	0.00%	0	0.00%
Hermes Asia ex-Japan Equity Fund	USD	17,052,454.54	0.48%	11,915,452.00	0.34%	5,137,002.54	0.15%
Hermes Emerging Asia Equity Fund S.P.	USD	975,501.60	0.55%	580,871.02	0.33%	394,630.58	0.22%
Hermes Europe ex-UK Equity Fund	EUR	387,541.04	0.15%	297,619.63	0.11%	89,921.41	0.03%
Hermes European Alpha Equity Fund	EUR	506,647.11	0.16%	360,844.51	0.11%	145,802.60	0.04%
Hermes Global Emerging Markets Fund	USD	16,486,705.96	0.35%	11,308,375.32	0.24%	5,178,330.63	0.11%
Hermes Global Emerging Markets SMID Equity Fund	USD	640,186.02	0.53%	425,461.66	0.36%	214,724.36	0.18%
Hermes Global Equity ESG Fund	USD	1,553,493.18	0.32%	1,245,226.37	0.26%	308,266.81	0.06%
Hermes Global Equity Fund	USD	93,755.94	0.37%	79,097.42	0.32%	14,658.52	0.06%
Hermes Global High Yield Credit Fund	EUR	0	0.00%	0	0.00%	0	0.00%
Hermes Global Small Cap Equity Fund	USD	65,719.69	0.11%	48,531.75	0.08%	17,187.93	0.03%
Hermes Impact Opportunities Equity Fund	USD	472,645.64	0.19%	406,412.54	0.17%	66,233.10	0.03%
Hermes Multi Strategy Credit Fund	USD	1,174,595.57	0.12%	1,134,623.38	0.12%	39,972.19	0.00%
Hermes SDG Engagement Equity Fund	USD	2,319,262.90	0.69%	1,961,133.98	0.58%	358,128.92	0.11%
Hermes SDG Engagement High Yield Credit Fund	USD	0	0.00%	0	0.00%	0	0.00%
Hermes Unconstrained Credit Fund	USD	607,182.46	0.13%	590,097.89	0.13%	17,084.56	0.00%
Hermes US SMID Equity Fund	USD	2,546,330.77	0.27%	2,244,863.44	0.24%	301,467.33	0.03%

Negative transaction costs have been rounded up to zero in the above table.

* Transaction costs are the costs associated with buying and selling the securities within the fund. There are two types of transaction costs: explicit costs and implicit costs.

**Average value of portfolio for the 12 months to 31 December 2019 is used as investment amount to calculate the percentage of transaction cost/implicit cost/ explicit cost.

*** Notional costs of buying and selling underlying assets. Implicit Costs are not an actual discrete cost charged to a fund, implicit costs under the Arrival Price methodology relate to the cost differential between the mid-market price of an asset immediately before the order is placed in the market and the price that the deal is struck at. It represents the cost of taking an asset into a fund.

**** Explicit cost is actual costs incurred buying and selling underlying assets.

5. USE OF PROXY ADVISORS

We manage our voting via a partnership with proxy advisory firm ISS. While we have developed our own best practice regional principles which are based on local market standards, we benefit from the additional research and vote processing service ISS provide. The research received from ISS is, however, only one of several inputs that we utilise in reaching a judgement and making voting recommendations to clients. We generally seek to support and work with management to resolve any concerns outside of the AGM cycle. Where however we do consider voting against or abstaining on management resolutions, or voting in favour of shareholder resolutions opposed by management, and make such recommendations to voting clients, we will whenever practicable contact the company before the meeting to discuss our concerns, thus ensuring that we are making a fully informed decision. If we vote against or recommend voting against management on any matter we will inform the company after the meeting of our reasons for doing so and engage for relevant changes at the company. We publish our voting disclosure one quarter in arrears so that we are transparent and publicly accountable but our dialogue with companies around voting issues is not compromised. This disclosure provides a description of where and why we have opposed management.

6. SECURITIES LENDING

As a firm we do not engage in stock lending and endorse best practice principles such as the Securities Lending Code of Best Practice issued by the International Corporate Governance Network. Fundamentally, we believe that shareholders have a duty to see that the votes associated with their shareholdings are not cast in a manner contrary to their stated policies and economic interests.

7. HOW WE MAKE INVESTMENT DECISIONS BASED ON THE EVALUATION OF MEDIUM TO LONG-TERM PERFORMANCE

Our goals as a firm are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and where possible, to contribute to positive investment outcomes that benefit the wider world. As a result we consistently take medium to long-term risk into account when evaluating investment decisions. Our focus on delivering sustained, risk-adjusted outperformance is the lifeblood of our business. What we have known for decades is that a deep and consistent integration of ESG analysis and stewardship intelligence into our investment decisions across public and private markets provides a fuller understanding of the risks and opportunities to which a company is exposed. This is essential in striving to deliver the long-term performance and positive outcomes our clients seek.

8. CONFLICTS OF INTEREST IN CONNECTION WITH ENGAGEMENT ACTIVITIES AND HOW WE HAVE DEALT WITH THEM

We have identified a set of conflicts of interest that are likely to arise in connection with engagement activities and put in place controls to manage with such instances. These are:

- Federated Hermes, Inc. and BT PLC are major shareholders of the international business of Federated Hermes, of which EOS is part. EOS has a clear policy to carry out any engagement with BT Plc and Federated Hermes, Inc. in the same way as with any other company.
- Companies which are actual or potential engagement targets are sometimes also the sponsors of our pension fund clients. EOS makes it clear to all pension fund clients with corporate sponsors that it will treat their sponsoring companies in the same way as any other company. In addition, in such situations EOS ensures that the relevant client relationship manager is not leading the engagement or making voting recommendations on that company to clients.

- Companies which are actual or potential engagement targets are sometimes also the owners of our asset management clients. EOS makes it clear to all clients which have corporate owners that it will treat those companies in the same way as any other company. In addition, in such situations EOS ensures that the relevant client relationship person is not leading the engagement or making voting recommendations on that company to clients. Federated Hermes onboarded a client in 2019 whose corporate sponsor has been identified as a controversial company. Mitigating controls were put in place and any changes to the corporate's rating will be reviewed through a strict quality control process and will need to be evidenced through information from third party data providers.
- EOS sometimes engages with or gives engagement recommendations for companies which have a strong commercial relationship with Federated Hermes. Inc. and the international business of Federated Hermes. EOS makes it clear to all companies with which Federated Hermes has a strong commercial relationship that it will treat those companies in the same way as any other company. Also, in such situations, if we become aware of potential conflicts, where necessary they are disclosed to companies to enable them to be managed effectively.
- EOS engagers and Federated Hermes fund managers occasionally hold joint engagement meetings with companies at which EOS' external clients are not present. We are clear with clients that individuals from the Federated Hermes investment teams may sometimes join engagement meetings between EOS engagers and companies. However, clients are also invited to state whether they wish to join upcoming engagement meetings and engagement objectives are set out (and voting recommendations made) by EOS in line with our Responsible Ownership Principles (or, where otherwise agreed, client-specific policies). While joining such engagements may mean that the investment teams have access to some information (though not "inside") before it is disseminated to the wider EOS client base, we believe that the wider client base ultimately benefits in terms of enhanced engagement on ESG issues.
- EOS voting recommendations and Federated Hermes votes should be aligned. On the rare occasion that the investment team and EOS disagree on the appropriate voting action, the matter is logged and escalated for consensus to be reached at director level. We identified two such instances during the course of 2019, which were resolved at director level. If such a consensus cannot be reached, the matter can be escalated to our CEO who can approve a difference in how Federated Hermes votes and the voting recommendations of EOS, though this has never yet been required.

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 to contribute to positive outcomes that benefit 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:

