Federated Hermes Climate Change High Yield Credit

Seeking to deliver a positive climate impact

Strategy Summary, Q3 2021

"Through high-conviction investment in companies with strong fundamentals and the willingness and potential to transition to a low-carbon world, we target financial outperformance and positive impact."

– Fraser Lundie, CFA, Head of Credit and Lead Credit Portfolio Manager

Why us?

The strategy aims to outperform the global high-yield market through high-conviction investment in companies with strong fundamentals that also demonstrate the potential to decarbonise and transition to low-carbon world. The global high-yield market offers great opportunities to identify attractive companies with the willingness and ability to change their operations, products or services in order to generate positive impact for the planet. We use our proprietary framework – the Climate Change Impact (CCI) Score – to reflect the progress and impact towards decarbonisation that holdings are making. We will not hold companies where engagement on climate change transition has failed, and we exclude controversial sectors and heavy greenhouse gas-emitting issuers that have no desire to change.

- **Benefitting people and the planet:** we seek to deliver into two self-reinforcing objectives: strong financial performance for investors and positive climate impacts, through decarbonisation, that contribute towards the transition to a low-carbon society.
- **Investment expertise:** since 2004, the team's principal members have delivered attractive high-yield credit returns through relative-value investing across the capital structures of companies worldwide.
- **Engagement strength:** our dedicated engagers, supported by EOS at Federated Hermes, a leading global stewardship team, seek positive action on climate change.
- **Measuring climate impact:** our proprietary internal scoring framework allows us to measure a company's contribution to decarbonisation and its progress towards the low-carbon transition.

Portfolio Managers:

Fraser Lundie, CFA
Head of Credit and Lead Manager of our range of credit strategies since inception

Nachu Chockalingam, CFA
Co-Portfolio Manager

Sustainable Fixed Income:
Mitch Reznick, CFA
Head of Research and Sustainable Fixed Income

Strategy information

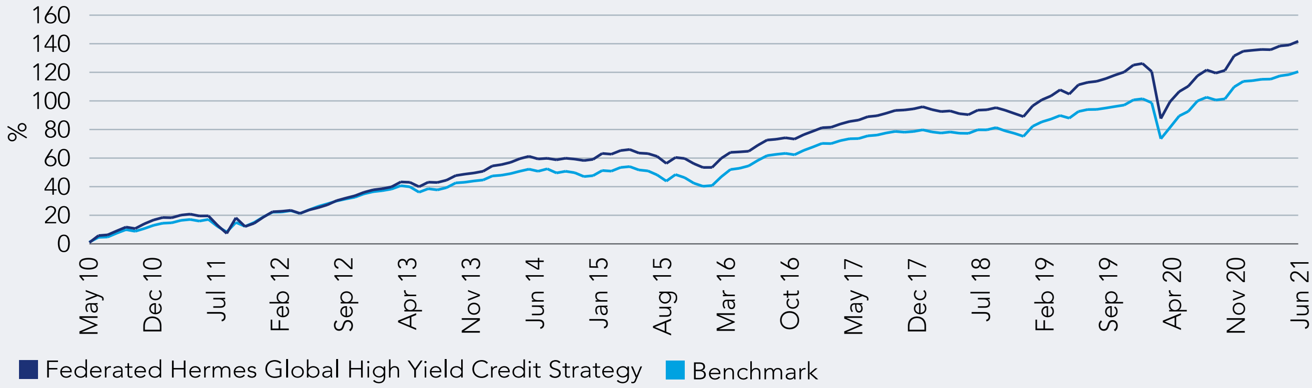
Benchmark	ICE BoA Global High Yield Constrained Index, hedged to US dollar
Universe	Global high-yield credit
Instruments	Primarily high-yield corporate bonds and derivatives
Exclusions	• Fossil fuels • Tobacco • Controversial weapons and companies in contravention of the principles of the UN Global Compact
Number of issuers	Approximately 100-150 issuers
Base currency	US dollar, hedged
Liquidity	Daily

> By investing in and engaging with material emitters that demonstrate a genuine willingness to change, investors can make a real difference for our climate – for current and future generations.
>
> **– Nachu Chockalingam, CFA, Co-Portfolio Manager**

Investment team experience

Federated Hermes Global High Yield Credit Strategy

Note: this is the track record of the Federated Hermes Global High Yield Credit Strategy and is illustrative of the team's investment ability and not the expected returns of the Federated Hermes Climate Change High Yield Credit Strategy. This is not the official GIPS Strategy and is based on synthetic returns.



Rolling-year performance (%)

	30/06/20 to 30/06/21	30/06/19 to 30/06/20	30/06/18 to 30/06/19	30/06/17 to 30/06/18	30/06/16 to 30/06/17
Composite gross of fees	14.95	-0.46	10.97	2.02	13.23
Composite net of fees	14.21	-1.11	10.25	1.36	12.50

This data is provided for information purposes only. The data is based on benchmark returns with the relative performance of our historic strategy added to the returns of the benchmark. The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable guide to future performance. There is no guarantee that the above returns would have been achieved as this is a synthetic track record.

Non GIPS synthetic performance.

Source: Federated Hermes as at 30 June 2021. Performance is in USD, gross of fees.

Note: Management fees are not included and will have the effect of reducing returns.

The current benchmark is ICE BofA Global High Yield Constrained hedged to USD index. From inception to end January 2016 the benchmark was ICE BofA Global High Yield Constrained non Financials hedged to USD index.

Investment philosophy and process

The Strategy aims to generate long-term, risk-adjusted outperformance by investing in attractive high-yield credit instruments and deliver positive impact that supports a low-carbon future. To achieve this, we overlay our dynamic investment process, developed by our Credit team in 2004, with a proprietary process that determines the climate change credentials of companies for portfolio construction and position-sizing purposes. To that end, we convert a suite of climate-related data to a forward-looking score using inputs from our credit analysts and engagement professionals. Through our disciplined, bottom-up research, we aim to identify issuers with an attractive investment profile that are contributing to the decarbonisation of the wider economy. We exclude climate change laggards that show no desire to change and those exposed to controversial sectors, including fossil fuels. By investing flexibly, we target opportunities to generate strong returns and income across geographies, instrument types and credit curves.

To determine a company's progress in decarbonisation and the materiality of impact of that process, we first analyse an aggregate of historical climate-change data and scores. To create a meaningful score with an ex-ante view, we use the forward-looking perspectives of our credit analysts and engagement teams. This enables us to assess each company's climate-related risks as well as its progress towards and impact of decarbonisation.

Our bespoke framework, the Climate Change Impact Score, conveys a company's willingness to decarbonise and its potential to reduce its carbon footprint. The Climate Change Impact Score uses a one-to-five scoring system that assesses a company's decarbonisation progress and the impact it has made towards the low carbon transition. These scores, together with the insights from our dedicated engagers, inform our portfolio construction.

"In order to effect positive change on behalf of our investors and for the benefit of future generations, we lean on the strategy's financial stakeholdings as a means to engage with companies on their climate change polices. This is what sustainable investing is all about."

– Mitch Reznick, CFA, Head of Research and Sustainable Fixed Income

Decarbonisation pathway

To generate positive impact, we actively seek holdings with attractive long-term investment fundamentals as well as the willingness to decarbonise their operations, products or services.

- SBTI, Trucost, TPI, CDP, etc
- Proprietary QESG[1]
- Gross emissions
- Intensity
- Pathway

- Willingness and ability
- Innovation
- Impact materiality
- Beyond paper compliance

- CCI 1 Impact leader
- CCI 2 Credible Transition
- CCI 3 Aspirational
- CCI 4 Paper promise
- CCI 5 Indifferent

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- Screening names
- Dynamic portfolio management
- Sizing – overweight to no exposure

[1] The QESG Score is a quantitative assessment of a company's ESG metrics compared to its peers and how its ESG profile is changing.
[2] CCI denotes our proprietary Climate Change Impact Score.

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Where the strategy invests in debt instruments (such as bonds) there is a risk that the entity who issues the contract will not be able to repay the debt or to pay the interest on the debt. If this happens then the value of the strategy may vary sharply and may result in loss. The strategy makes extensive use of Financial Derivative Instruments (FDIs), the value of which depends on the performance of an underlying asset. Small changes in the price of that asset may cause larger changes in the value of the FDIs, increasing either potential gain or loss. Past performance is not a reliable indicator of future results and targets are not guaranteed.

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