

Sustainability Risks Policy

This policy applies to the international business of Federated Hermes (“Federated Hermes”), including Hermes Investment Management Limited and Hermes Alternative Investment Management Limited. It has been adopted by Hermes Fund Managers Ireland Limited as the Management Company for applicable funds.

Sustainability Risks

Environmental, social and governance (ESG) and sustainability risks relating to our investee companies and assets may emerge from internal issues (such as how the Board holds executives accountable, lack of board diversity, or reputational risks arising from health and safety, human rights or environmental violations) or external sources (such as supply chains, regulatory change caused by industry change or inequality). Inadequate sustainability practices of investee companies can lead to, among other things, inefficiencies, operational disruption, litigation and reputational damage. These factors have the potential to adversely affect the value of investments.

Our approach to Sustainability Risks and ESG and Stewardship Integration

Federated Hermes is guided by the conviction that responsible investing is the best way to create long-term wealth. Our goals 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 recognise that risks to investors’ wealth come from well beyond the short-term. We integrate our deep understanding of ESG and sustainability risks into our analysis of every company and our investment decisions. The consideration of ESG and sustainability factors involves the incorporation of longer-term risk factors including a company’s relationship with its stakeholders as well as its impact, through both its operations and the products and services it offers, on the environment and wider society. For the largest systemic risks, such as climate change, we use our influence as active owners to drive positive change, working with other investors where necessary.

Federated Hermes does not see the integration of ESG and sustainability information into investment decisions as a separate category of investing. Rather, we believe that material ESG risks and opportunities should inform all investment decisions. That is why we integrate ESG and sustainability considerations into all of our products and across all parts of our investment process, from idea generation and portfolio construction to exit. It is also why we have invested in such strong engagement and advocacy capabilities.

At Federated Hermes, we have championed this approach for decades. As our own research has demonstrated, investors do not need to sacrifice financial returns when integrating sustainability risks into investment decision making. On the contrary, our research shows that companies with good governance and social performance indicators tend to outperform others over the medium and long-term.¹

Whilst with any investment, capital is at risk, we have demonstrated through the almost 40-year history of our firm that responsible investment and stewardship often leads to better financial outcomes.² Moreover, robust research increasingly indicates the positive impact of stewardship on investment performance, with high-quality academic evidence showing that engagement can pay off financially and deliver beneficial environmental and societal outcomes which are in the fiduciary interests of investors. Successful engagement can translate into significant outperformance: studies have shown that engagement can generate significantly higher annualised returns³, while also leading to lower downside risk.⁴

The role of engagement and advocacy in managing sustainability risks

Engagement and advocacy are key to managing sustainability risks. To effectively measure and manage sustainability risks, we aim to be a good steward and owner of companies and assets through our asset engagement and advocacy. These activities are resourced by extensive in-house technical expertise in our investment and stewardship teams and the Responsibility Office.

As a responsible owner, we actively engage with companies and the other assets we invest in to align their actions with the long-term interests of the end investor. This engagement encourages appropriate governance structures and behaviours and a clear business purpose and strategy, taking into account the interests of all relevant stakeholders including the environment and society at large.

In addition, we have a substantial advocacy programme, where we engage with public policymakers, regulators and industry bodies to enhance industry norms, market rules and regulatory requirements in relation to corporate governance, stewardship and environmental and social policy globally and regionally. We are involved in a wide range of industry initiatives. Our advocacy work also acts as a source of information to inform our engagement and investment processes.

Integration of sustainability risks and engagement insights in investment decisions

We integrate ESG considerations and engagement insights into our investment processes in all of our products, across all asset classes.

¹ See, for example, Gordon L. Clark, Andreas Feiner, and Michael Viehs. “From the Stockholder to the Stakeholder”, Research Paper: University of Oxford and Arabesque Partners, 2015; Gunnar Friede, Timo Busch, and Alexander Bassen. “ESG and financial performance: aggregated evidence from more than 2000 empirical studies”, *Journal of Sustainable Finance and Investment*, 2015.

² <https://www.hermes-investment.com/uki/insight/equities/esg-investing-a-social-uprising/>; <https://www.hermes-investment.com/uki/press-centre/fixed-income/new-research-shows-relationship-esg-factors-credit-spreads/>; <https://www.hermes-investment.com/uki/insight/fixed-income/pricing-esg-risk-sovereign-credit/>

³ Dimson, E., Karakas, O. and X. Li. (2015). Active Ownership. *The Review of Financial Studies*, 28(12), 3225-3268.

⁴ Hoepner, A.G.F., Oikonomou, I., Sautner, Z., Starks, L.T., and X.Y. Zhou. (2020). ESG Shareholder Engagement and Downside Risk. ECGI Finance Working Paper 671/2020.

Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, material risk and ESG factors, and the interplay between these elements. The teams supplement fundamental financial analysis with information provided through a range of proprietary ESG and engagement tools, qualitative analysis and the insights gleaned through engagement.

Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress – is a key input into this process and investment decisions at a portfolio and individual asset level. Such engagement is carried out in a co-ordinated manner both by our investment teams and by our in-house stewardship service provider EOS at Federated Hermes to maximise the impact of our engagement. These factors influence decisions to invest and are also actively monitored after investment, with the potential to influence decisions to sell an asset or increase the size of our investment. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and, where effective, reduce the investment risk and enhance the opportunity from the investment.

We believe that investors who want to authentically integrate sustainability risks in their investment decision making should not rely on quantitative data alone, as it is often backward looking and updated infrequently and at a time lag. As such, active ownership is an important pillar of our investment approach. The voting and engagement activities of our stewardship and investment teams can promote positive change within companies, unlocking hidden value and also providing a forward-looking view of ESG and broader performance that can lead to opportunities.

Proprietary sustainability toolkit

In addition to making use of best-in-class third party research provided by ISS, MSCI, Sustainalytics, Trucost, and others, our investment teams incorporate ESG and sustainability factors into their investment process through primary research and by using a range of in-house and team-specific proprietary stewardship, ESG and sustainability tools. These shed additional light on an investee company's or asset's ESG performance and sustainability risks and opportunities and the effectiveness of engagement in addressing these.

Independent oversight

All of our investment activity is supported by our dedicated Investment Office and Responsibility Office, both of which report directly to our CEO in order to provide independence from the investment process. The Investment Office provides a robust and transparent risk framework. On a look back, real time, and forward-looking basis the team actively monitors fund risk and helps to deliver sustainable risk-adjusted alpha, while acting as an early warning system to identify potential problem areas. It has overall responsibility for the consistency of performance and thus ensures that investment teams stay true to their processes, including oversight of ESG and engagement integration.

Our Responsibility Office is tasked with coordinating and supporting the development of our policies and their subsequent integration across our funds and stewardship services. The Responsibility Office is tasked with monitoring and overseeing every investment team's approach to integrating ESG and engagement insights into their investment decisions and the monitoring of investees. To that effect, the Responsibility Office meets with every investment team on a quarterly basis to review the portfolio holdings from an stewardship and ESG perspective and flag, if necessary, particular holdings which primary research or our third-party ESG data vendors might have highlighted as controversial.

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:

