Responsibility Report 2020

June 2020

Federated Hermes International

www.hermes-investment.com
For professional investors only

Responsibility works

For our company
For investors
For positive change

Foreword

As the world continues its fight against the coronavirus pandemic, investing responsibly matters more than ever. Indeed, we believe that it is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment.

The international business of Federated Hermes[1] has long advocated and applied this approach. Since first engaging for stronger UK corporate governance in 1983, to becoming a founding signatory of the Principles for Responsible Investment in 2006, to spearheading the global 2017 Climate Action 100+ initiative involving 370 investors with more than $35tn in assets, we have been at the vanguard of a movement that is now redefining the practice of investing.

Indeed, it is this fiduciary heritage and expertise in responsible investment that ensures our clients' interests come first. Since our beginnings in 1983, we have helped our clients achieve strong risk-adjusted returns across our capabilities in public and private markets (including active equities, fixed income, liquidity and private markets), thereby helping individuals retire better. What's more, we have supported positive change in the wider world – and continue to do so.

Responsibility starts at home – with our behaviours, people and culture – and so, as a business, we must strive to meet the expectations that we have of others. The Federated Hermes Pledge places responsibility, integrity and client focus at the heart of everything our people do.

Additionally, investors deserve transparency and clarity about what they are buying – and we are committed to being open about our approach to responsible investing. This requires higher standards for disclosures rather than a one-size-fits-all label for what counts as truly good.

For this reason, we have developed our inaugural Responsibility Report to demonstrate our responsible business practices and our approach to responsible investing and advocacy. This year our Responsibility Office will establish new internal responsibility commitments and document our progress towards achieving them in our 2021 Responsibility Report. By working together across the firm to achieve these commitments, this will help us strengthen our position as a global leader in active, responsible investment.

Saker Nusseibeh, CBE
CEO, International at Federated Hermes

[1] Note: within Federated Hermes Inc., all activities previously carried out by Hermes now form the international business of Federated Hermes.

Contents

Our story has always been – and will always be – driven by our way of responsible investing.

1983
Our first Chief Executive Ralph Quartano urged Marks & Spencer to do the right thing in 1983, when the company's board made special loans available to its directors. St Michael[2], he told them, should be on the side of the angels.

1993
We campaign for FTSE100 companies to end long-term rolling contracts for directors and split CEO and chairmen roles. The initiative, later developed and adopted by the Hampell Committee on corporate governance in 1998, was led by the late Alistair Ross Goobey, our CEO from 1993-2001.

1996
Our first team dedicated to engaging companies on corporate governance is established. It grows to focus on companies in the UK, Europe and Japan.

2002
We coin the term 'engagement' to define our long-term, collaborative work with companies to improve their ESG and strategic performance.

2004
EOS at Federated Hermes, our stewardship services team, is established. It now has more than $1tn assets under advice.[3]

2006
We become a founding signatory of the UN Principles for Responsible Investment (PRI), having played an integral role in their development.

[2] St Michael was a brand that was owned and used by Marks & Spencer from 1927 until 2000.
[3] Source: EOS at Federated Hermes, as at 31 March 2020.

Executive summary

Since our first CEO openly challenged a major UK company to improve its governance, to our current leader Saker Nusseibeh being awarded a CBE for services to responsible business, the international business of Federated Hermes has always been at the forefront of responsible investing.

In recent years, however, environmental, social and governance (ESG) investing has entered the mainstream as governments, regulators and clients demand that both companies and their owners consider the wider implications of their business activities. And to ensure that they do so, transparency will be key.

We are committed to being open and transparent. The Federated Hermes Pledge underpins our firm-wide commitment to always put clients first, and to act responsibly. Our Annual Report and Accounts reflect this approach and go beyond the minimum disclosure expectations.

We recognise that risks to investors' wealth come from well beyond the short-term. We integrate our deep understanding of these ESG risks into our analysis of every company and our investment decisions. These risks 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). For the biggest risks, such as climate change, and where necessary working with other investors, we are willing to use our influence as asset owners to drive positive change.

As we look towards the future of responsible investment, we want to become even more transparently accountable as a responsible firm. As such, we have developed our inaugural Responsibility Report – an annual publication that will provide clear information about our responsible business practices, our approach to responsible investing (specifically, what that means in practice) and our firm-wide advocacy activities.

During the course of this report, we document why transparency should not stop at investment. As a firm, we should strive to meet the expectations we have of others – and so, we explore our responsible business practices, spanning our environmental footprint and supply chain to our inclusion policy and governance.

Recognising that ESG investing has entered the mainstream, we dive into two key topics – climate change and impact investing – to demonstrate how we integrate and engage on material issues across public and private markets. In addition, we explain how we advocate for the interests of our clients and the need for greater responsibility throughout the investment industry in our interactions with policymakers.

To remain at the forefront of developments in responsible investing, we cannot stand still. That's why we are setting ourselves ambitious new internal responsibility commitments in 2020. We will monitor our progress throughout the year, documenting our achievements – as well as areas we have fallen short – in our 2021 Responsibility Report.

The Responsibility Office

2010

We publish our Responsible Ownership Principles.

2014

- We establish our Responsibility Office.
- Our inaugural study 'ESG investing: does it just make you feel good, or is it actually good for your portfolio?' unearths a strong correlation between corporate responsibility and shareholder returns. It finds that companies with poor governance practices consistently under-performed their peers.

2015

We announce a staff Pledge of Responsibility and Transparency (now the Federated Hermes Pledge). It has been signed by 99% of employees.

2018

Our study 'ESG investing: a social uprising' finds that companies with good or improving environmental, social or governance characteristics on average outperformed companies with negative characteristics. This is driven by the strength of their corporate governance and, for the first time since our investigation began in 2014, social metrics.

2020

- Our CEO Saker Nusseibeh is awarded a CBE (Commander of the Order of the British Empire) in recognition of his services to Responsible Business and Finance.
- Hermes Investment Management and Federated Investors rebrand as Federated Hermes, strengthening the companies' position as a leader in active, responsible investing.

The Responsibility Office

The Responsibility Office acts as a hub of expertise and support to assist every employee in our business to work towards our mission of delivering holistic returns.

It develops and leads the implementation of our advocacy positions.

It holds each department accountable for ensuring that we act as a responsible firm and keeps the interests of clients and their beneficiaries at the centre of what we do.

It works with the Investment Office to ensure that our investment and engagement teams integrate stewardship and ESG factors into their activities.

Federated Hermes as a responsible firm

At the international business of Federated Hermes, while our primary purpose is to help beneficiaries retire better by providing world-class active investment management and stewardship services, we believe that our role goes further.

We believe that we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial and consider the impact our decisions have on society, the environment and the wider world. In doing so, we invest our clients' capital to create wealth sustainably – aiming to deliver sustainable long-term growth, while at the same time helping to build a better society for all.

As an active investor, we believe we have an important role to play in engaging companies to encourage responsible business practices. As a result, we frequently engage companies on a range of issues from accelerating the transition to a net-zero carbon economy to good corporate governance and the protection of human rights in their workforces, supply chains and the communities in which they operate.

It follows then that we are keenly aware of the need to act as a responsible firm ourselves. Here we present our responsible business practices.

The Federated Hermes Pledge

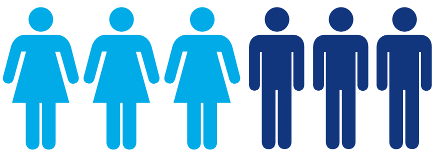
The Federated Hermes Pledge underpins our firm-wide commitment to always put clients first, and to act responsibly and transparently. At the international business of Federated Hermes, the Pledge, which is voluntary, has been signed by 99% of employees.

I pledge to fulfil, 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.

Our Governance

- The Hermes Fund Managers Limited Board (HFML Board) is responsible for maintaining and reviewing the effectiveness of risk management and internal controls and for determining the nature and extent of the risks it is willing to accept in achieving its strategic objectives.
- Led by an independent chair, the HFML Board considers all stakeholders when establishing our objectives as a business. It operates with majority independent Audit, Remuneration, Risk and Nomination committees. Detailed disclosures are also provided within our integrated Annual Report and Accounts.
- The composition of the HFML Board changed after Federated Hermes, Inc. (formerly Federated Investors)[4] acquired a majority stake on 1 July 2018 from the BT Pension Scheme (BTPS). It now comprises 13 Directors, of whom a majority are Federated Hermes, Inc. appointees. The Directors who joined the Board in the past year are Federated Hermes, Inc. employees. Four of our board members (31%) are Independent Non-Executive Directors and, in line with good practice, four of our board members (31%) are women. Saker Nusseibeh, our Chief Executive, and Harriet Steel, Head of Business Development, represent the international business of Federated Hermes on the board, while one of our Non-Executive Directors represents BTPS, which retains a minority stake.
- The board of our Irish-domiciled management company, Hermes Fund Managers Ireland Limited, has an independent Chair. It comprises six Directors, two of whom are Independent Non-Executive Directors (30%). Three of our board members (50%) are women.



50% of our Hermes Fund Managers Ireland Limited board members are women

In addition, our CEO established an Executive Committee, as well as a number of oversight committees to support our governance framework, including:

- Business Development Forum
- Climate Change Working Group
- Corporate Citizenship Working Group
- Customer Outcomes Group
- Governance Committee
- Internal Capital Adequacy Assessment Process Working Group
- Portfolio Review Committee
- Responsibility Working Group
- Risk & Compliance Executive

These structures work alongside our Responsibility Office to ensure the highest standards of governance within our firm.

Our People

Performance management and incentives

Through pay awards, we look to ensure that those aspirations we articulate in the Federated Hermes Pledge are reinforced. In that way, our philosophy is to reward individual contribution, as demonstrated by the delivery of long-term sustainable results that are aligned with our business strategy, values, behaviours and which serve the best interests of our clients and shareholders while enabling the business to grow to its full potential[5].

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Individuals are assessed on a combination of technical and behavioural key performance indicators. Non-financial metrics include the demonstration of our corporate behaviours as outlined in our Pledge. Individuals will be highly rated if they perform successfully while embodying our corporate behaviours as conveyed in the Pledge.

Remuneration is reviewed annually: it is linked to both technical and behavioural performance and benchmarked to the external market. Our Remuneration Committee also works closely with the Risk and Compliance Committee to ensure that remuneration principles are governed by a sound and risk-aware management system.

Senior investment managers co-invest in the funds they manage, and so their bonuses are linked to long-term performance.

Our Remuneration Report details how CEO pay is aligned with performance. In addition, the CEO to median employee ratio forms part of the key remuneration measures. In 2019, that ratio stood at 23x (up from 22x in 2018, excluding the one-off additional impact of the Change of Control when Federated Hermes, Inc. acquired a controlling stake from BTPS). While our CEO's compensation has remained broadly flat year-on-year, the increased bonus pool is being shared across an increased number of staff and thus the ratio has increased. Other key measures published include the compensation to revenue ratio and bonus to revenue ratio. These measures allow us to benchmark performance against industry peers and align compensation with the company's financial performance.

[4] In February 2020, Federated Investors, Inc. and Hermes Investment Management rebranded as Federated Hermes. Within Federated Hermes, Inc., all activities previously carried out by Hermes now form the international business of Federated Hermes.
[5] For more information, please see our Remuneration Policy: https://www.hermes-investment.com/ukw/remuneration-policy/.

Human Capital Development

We believe that good human capital management, including the provision of living wages, robust health and safety practices, and investment in training and development programmes form the foundation of stable and productive workforces and are integral to businesses' social licences to operate.

In 2016, we started including anti-slavery clauses in any new or renewed property management service agreements. Since 2012, we have been accredited as a Living Wage employer, affirming our commitment to provide all employees and on-site contracted staff with compensation and benefits above the London Living Wage.

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In addition, staff are provided with a rich and diverse range of bespoke but also in-house training opportunities. These range from technical courses relating to asset management, wealth management and capital markets to personal development opportunities such as inclusive leadership training, managing talent courses, minus the bias training and courses on positive communication.

In 2019, we launched a new series of Responsibility Seminars – in-house seminars that feature leading thinkers on a plethora of topics relevant to responsible investing. Last year, we hosted nine seminars which covered a range of topics from renewable energy and climate risks to the economics of healthy soil.

Inclusion

In 2018, our Executive Committee and Board endorsed an inclusion strategy and a three-year implementation plan which is reviewed on a regular basis. It aims to foster and promote a culture of inclusion that celebrates all forms of diversity, enables our people to maximise their potential, and encourages innovation and creativity. In turn, this enables us to become an employer of choice, support our wider responsibility aims and deliver sustainable wealth creation for our clients.

The objectives and actions of our inclusion strategy are focused on three key themes: leadership, practices and people, and the environment. It will be managed from the top down but also driven from the bottom up. A dedicated full-time Talent & Inclusion Development Partner is responsible for implementing the initiatives set out in our inclusion strategy, alongside the support of our Inclusion Committee which has been established to hold the Executive Committee and Board to account on our objectives.

Federated Hermes is a member of the Investment 20/20 Initiative, which works to promote the investment management industry to interested and diverse talent on behalf of the UK's largest investment companies. Each year, we take on up to three trainees across all business areas and, to date, this has resulted in two permanent hires and one apprenticeship contract. A number of our employees have also engaged with the Investment 20/20 Ambassador's programme, showcasing investment management in community schools and encouraging a more diverse group of individuals to consider it as a career. In 2019, we supported the work experience programme in one of our investment teams. We are planning to expand our support of the scheme in the future.

SPOTLIGHT ON:

UNITY

Last year, we relaunched Unity – a staff network that promotes an open environment for people to be themselves. It hosted six inclusion-themed weeks in 2019, including those focused on wellness, pride and ethnicity – and more than 430 staff took part.

Gender diversity

In 2016, we set Women in Finance Charter targets and, having achieved our original 2019 targets, our Board has established new 2021 targets which are the minimum we hope to achieve while ultimately working towards gender parity.

Gender diversity: employed women across our business

Firm-wide:	Board:	Senior management:
45% 2021 target	35% 2021 target	35% 2021 target
42% 09/19	31% 09/19	31% 09/19
40% 09/18	31% 09/18	28% 09/18
39% 09/17	29% 09/17	23% 09/17
34% 09/16	37% 09/16	24% 09/16

Source: Federated Hermes, as at 31 December 2019.

We are also committed to diversity in the boardroom. Four of the 13 Directors (31%) on the HFML Board are women[6]. Specific criteria govern our appointments to the Board, including appropriate expertise and experience alongside all measures of diversity.

Every year, we report gender-based mean and median pay and bonus gaps. In 2019 our pay gap remained at 27%, which is flat compared to 2018 but down from 30% in 2017. This is largely due to our Long-Term Incentive Plan (LTIP) being paid out to senior staff following our acquisition in 2018 by Federated Investors, Inc. (before we re-branded in February 2020 as Federated Hermes). With low numbers of women at senior levels, the female eligibility for the LTIP was lower than for men.

As part of our inclusion strategy, we will continue to report this going forward and work towards closing the gap by interrogating the data and implementing diversity and inclusion-related initiatives. We are a member of The Diversity Project, the Employers Network for Equality and Inclusion, and the 30% Club. We have also established a 'returners' coaching programme for members of staff who have been out on long-term absence, including maternity, parental or adoption leave, as well as for their line managers.

Pastoral Care

Our employees' well-being and development are central to the ongoing success of our business. Our Employee Assistance Programme provides information and guidance on personal and practical matters. Staff also receive ongoing development support, including management, soft skills and role-specific training.

[6] As of 31 December 2019.

Supply Chain

Like many businesses, we use external service partners to supplement our own infrastructure to deliver our clients' needs. We have a Supplier Code of Conduct which we require all suppliers to adhere to in order to achieve our goal of living up to this commitment. In 2019, we increased our levels of due diligence for all suppliers. The enhanced due diligence, which covers our outsourcing suppliers, targets all levels of information security. We also report the average number of days taken to make payments to suppliers. As at 31 December 2019, we took an average of 24 days to pay our suppliers with our standard payment terms being 30 days. This compares favourably with our peers in the sector.

In addition, we observe all laws and regulations and are committed to the pursuit of honest and fair corporate activities that conform to the norms accepted by society. These values are contained within our Modern Slavery Statement, which underpins our business and the way in which it operates, and we consider them to be wholly in line with our obligations under the Modern Slavery Act 2015.

Environmental Footprint

In 2010, we achieved the ISO 14001 in recognition of our efforts to manage our own operations as environmentally efficiently as we can. We maintained this standard when we moved offices in 2018.

We also measure and offset our own operational carbon emissions by working with Trees for Cities – a UK charity working at national and international scale to improve lives by planting trees in cities. For every tonne of greenhouse gas emissions that we generated from our day-to-day operations and our business travel during 2018, verified carbon offsets of 824 tonnes of CO_2 have been generated in 2019 by planting 2,200 trees.

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Making strides in improving our environmental footprint

	Energy consumption	Paper usage	Waste
2018	584,491 kWh	9 tonnes	297,048 tonnes
2019	452,443 kWh	8 tonnes	146,166 tonnes

Source: Federated Hermes, as at 31 December 2019.

In addition, we cut our annual energy consumption from 584,491 kilowatt hours (kWh) in 2018 to 452,443 kWh in 2019 and reduced our paper usage from nine tonnes to eight tonnes over the same period. We also decreased our waste from 297,048 tonnes in 2018 to 146,166 tonnes in 2019.

Our Taskforce for Climate-related Financial Disclosures (TCFD) report sets out our approach to climate-change issues. It shows that we were fully compliant with TCFD reporting recommendations in 2019. As part of this process, we have measured the carbon footprint of 88% of our AUM in 2019, up from 86% in the previous year.[8]

In addition, our internal Climate Change Working Group is working to strengthen our understanding and analysis of climate-related financial risks. We are developing a comprehensive process to better identify and manage portfolios' climate risks and opportunities – covering scenario analysis, modelled climate change-related investment risk and an enhanced company-level risk and opportunity analysis – which will feed into a strengthened strategy in 2020.

Communities

Through our community engagement programme, ACE, we engage with and contribute to the community in which we operate to address local priority needs. In addition to supporting our local community and leading by example as a firm, this enhances our employees' ability to collaborate and lead. It also increases their awareness of social issues that can inform our investment strategies. In 2019, 36% of staff participated in at least one community programme, which focused on three key themes: employability (e.g. mentoring schemes and mock interviews), social and financial inclusion (e.g. providing reading and number support to local primary school students) and strategic advice for charities and community organisations (e.g. providing strategic advice workshops with our front office).

Supporting our local community and leading by example as a firm enhances our employees' ability to collaborate and lead.

SPOTLIGHT ON:

Our community engagement programme




In 2019:

We spent **800** hours fundraising, volunteering and participating in community engagement activities

We worked alongside **19** community partners

We raised over **£34,000** for our Charity of the Year 40tude[7]

Tax

We strive to act as a responsible global corporate taxpayer in compliance with applicable tax law and regulations, seeking to minimise the risk of uncertainty or disputes in tax matters. We do not use tax avoidance schemes.

An important part of our good governance approach is to maintain a constructive and transparent relationship with HM Revenue & Customs in matters of tax.

Accounting and audit

Company law requires our Directors to prepare the Annual Report & Accounts in accordance with applicable laws and regulations. The Directors must only approve the financial statements when they are satisfied that they give a true and fair view of the affairs of the company. The international business of Federated Hermes strives to be best in class, our integrated Annual Report emulates the approach taken by our majority owner, Federated Hermes, Inc., with respect to transparency and disclosure. Our disclosures cover a range of matters including detailed and transparent remuneration and risk reports. The Directors are assisted with the oversight of the company by a number of committees, each of which are chaired by Non-Executive Directors. The Audit Committee, which is chaired by David Watson and consists entirely of Non-Executive Directors, ensures the highest standard and best practice for all material accounting judgements and estimates.

[7] 40tude is a group committed to preventing and transforming the management of colon cancer. For more information, see: http://40tude.org.uk/.

[8] "Climate-related Financial Disclosures Report 2019," published by Federated Hermes in February 2020.

Responsible investment in practice

Summary

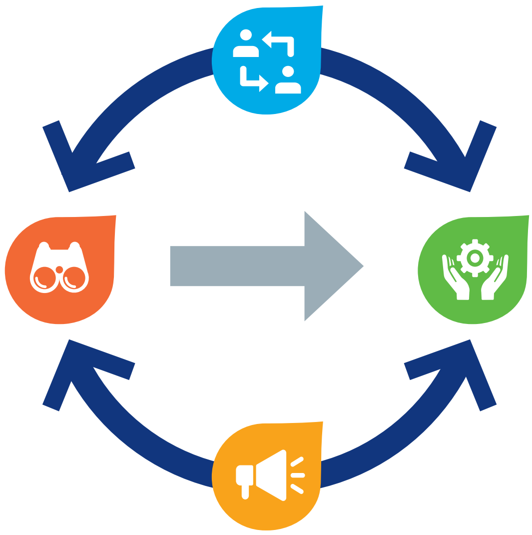
Responsible investment and responsible ownership go hand in hand

At the international business of Federated Hermes, we believe there are two mutually reinforcing strands of responsible investment management: responsible investment and responsible ownership. Within these strands, we aim to generate sustainable wealth creation for the end beneficiary – the investor – by delivering both robust investment returns and positive social and environmental impact.

Creating wealth sustainably

Engagement

We act as engaged stewards of the investments we manage or represent on behalf of our clients. Where we hold assets with significant ESG-related risk exposure, we will manage directly-owned assets – and engage with public and private companies – to mitigate this risk



Awareness

Portfolio managers are aware of the ESG-related risks in their portfolios, which investments are the largest contributors, and what are the associated risks and mitigation strategies

Integration

Portfolio managers integrate ESG-related risk considerations alongside other value and risk considerations, exploiting green investment opportunities or divesting where ESG-related risk impacts value

Advocacy

We engage with public policymakers and sector organisations, nationally and internationally, to encourage policy or best practice that facilitates the transition to a net-zero carbon economy

ESG investing is mainstream investing

We do not see the integration of ESG information into investment decisions as a separate category of investing. Instead, we believe that ESG risks and opportunities should inform all investment decisions. That is why we integrate ESG considerations into all of our products and across all parts of our investment process, from idea generation and portfolio construction to exit. At the international business of Federated Hermes, we have championed this approach for decades and it is now being rolled out across the strategies of Federated Hermes, Inc.

As our research has demonstrated, investors do not need to sacrifice returns to invest responsibly. 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[9]. For this reason, we aim to ensure that investors' capital is deployed to create wealth sustainably, delivering sustainable long-term growth and helping to build a better society and planet for all – dual perspectives that in our view should not be separated but considered as one.

This focus on the delivery of additional and measurable societal and environmental benefits that will endure is increasingly at the heart of our approach to investing. It is this understanding that informs our belief that we have a duty to consider the longer term ESG-related risks and opportunities when investing.

Engagement and advocacy are key to managing ESG risks

Another integral element to responsible investment management is responsible ownership – that is, being a good steward and owner of companies and assets through asset engagement and advocacy:

Asset engagement: actively engaging with companies to request that they align their behaviours with the long-term interests of clients and their beneficiaries by improving the strategic, financial and ESG-related performance of companies and assets

Advocacy: engaging with public policymakers, regulators, governments and industry bodies on enhancing governance, environmental, social and stewardship standards globally as well as regionally, at a thematic-level (such as climate change, human rights or board diversity) or by industry sector

Our research shows that companies with good governance and social performance indicators tend to outperform others over the medium and long-term.

ESG investing approaches

Prevalent responsible investment approaches can be categorised into four different – but not mutually exclusive – activities:

Negative exclusion: applying exclusions – or negative screening – to the investment universe at sector or thematic level, typically based on moral, ethical or religious beliefs. For example, avoiding investments in the tobacco industry or those that generate income from climate-damaging activities (such as fossil fuel exploration or burning)

Positive screening: actively investing more – or overweighting – in companies and assets that demonstrate relatively better environmental, social and governance credentials

Impact investing: investing in (and/or engaging with) companies which have (or could have) a central purpose of solving societal problems, such as those set out by the Sustainable Development Goals (SDGs)

Mainstream ESG integration: integrating material ESG and other sustainability factors as well as insights from engagement, alongside fundamental business-performance factors, in mainstream investment decisions

[9] "ESG investing: a social uprising," published by Federated Hermes in October 2018.

In focus

At the international business of Federated Hermes, we integrate a wide range of ESG factors into our investment process and engagement efforts. Indeed, our stewardship service, EOS at Federated Hermes ('EOS'), has established a detailed engagement plan – with themes ranging from human and labour rights to pollution, waste and the circular economy – for 2020-2022[10].

EOS at Federated Hermes: 2020-2022 engagement plan

Source: EOS at Federated Hermes, as at February 2020.

[10] "EOS Engagement Plan 2020-2022," published by EOS at Federated Hermes in February 2020.

Climate change

The physical and transition risks posed by climate change represent a systemic threat to financial stability, to our economy and to our society. A landmark report published by the Intergovernmental Panel on Climate Change in October 2018 set out a very strong case for limiting the atmosphere warming to just 1.5°C above pre-industrial levels. Despite the report's stark warning about the projected impact of breaching a 1.5°C increase, the world is way off course – and the outcome could be catastrophic.

In 2019, the second-hottest year on record, the growing impact of climate change was undeniable: Japan endured a record typhoon, while unprecedented fires raged in Australia, the Amazon and California. As we witnessed a profound shift in awareness of – and engagement with – the climate crisis, protests were staged all over the world, led by Swedish teenage activist Greta Thunberg who encouraged young people to join in a 'School Strike for Climate' to protest against political inaction.

Asset managers, too, have an important role to play in accelerating the transition to a net-zero carbon and resilient economy. By engaging with companies, asset managers can understand and challenge their operational and strategic climate change responses – from shifting to renewable energy sources to selling products and services and developing real assets that align with the needs of a net-zero carbon and resilient world.

At the international business of Federated Hermes, we aim to understand both a company's contribution and its exposure to climate change. In doing so, we can play a positive role in encouraging a lower carbon footprint as well as strategic decisions that reduce risk to a company's operations and supply chains.

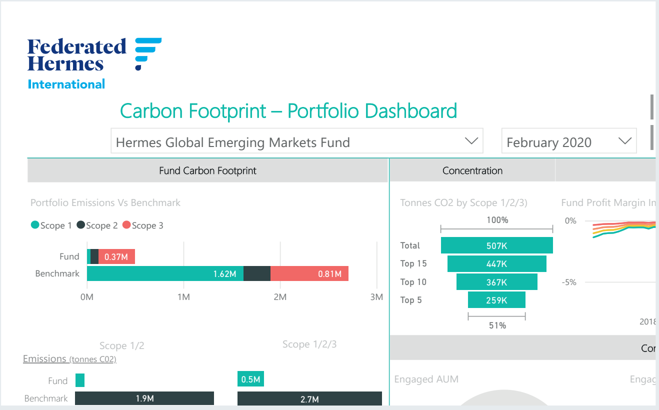
Integration of climate change considerations into investment decision-making and engagement

The primary means through which we monitor and measure the climate change exposure of our investment portfolios is through our proprietary carbon tool. Launched in 2018, and updated several times since to include new features, the tool helps teams assess the carbon risk in our public market portfolios by measuring a fund's carbon footprint relative to its benchmark. Scope 1, 2 and 3 emissions are included and are used to calculate a portfolio's carbon efficiency/intensity, using the methodologies recommended by the TCFD. As well as providing a carbon 'heatmap', the tool enables portfolio managers to stress test the resilience of our portfolios to a range of carbon prices, thus identifying whether carbon-related risk and therefore engagement may need to be initiated.

Our proprietary carbon tool helps teams assess the carbon risk in our public market portfolios by measuring a fund's carbon footprint relative to its benchmark.

The tool also includes engagement information, promoting the flow of decision-useful information between the investment and stewardship teams. Our portfolio managers can use this information to identify whether high-emitting companies in portfolios are being engaged – or whether engagement needs to be initiated – as well as easily identifying whether progress is being made on any climate, and indeed wider environmental, engagement already underway. The information is used to ensure that any engagement undertaken by our stewardship team on behalf of portfolio managers is well targeted and progressing sufficiently to manage the carbon-related risks identified. The information also helps increase our investment team's awareness of carbon-related risks, which can lead to updated valuations, and, potentially, changes in investment decisions.

Snapshot of the carbon tool in action

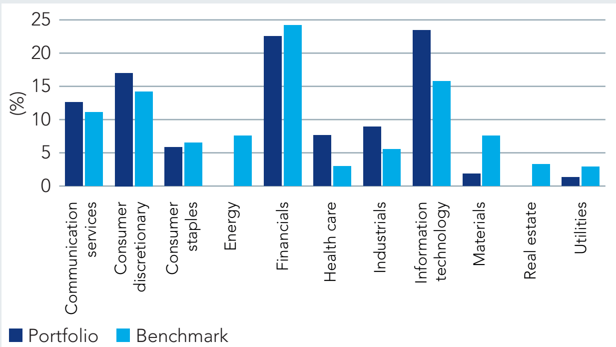


Source: Federated Hermes. For illustrative purposes only.

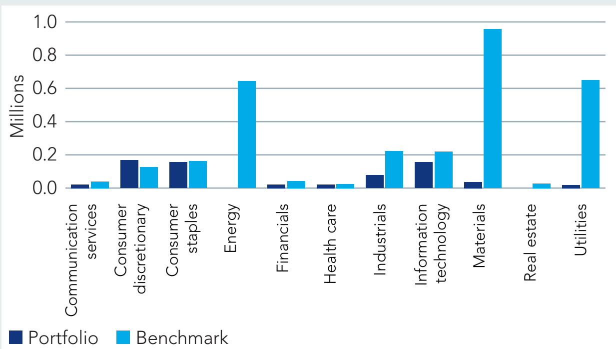
A new feature of our carbon tool is its attribution analysis. When integrating climate change considerations into the investment decision-making process, it is useful for portfolio managers to understand the role of sector-specific choices in driving a fund's carbon footprint up (or down) relative to its benchmark. Attribution analysis enables the managers to identify specific sector exposures relative to the benchmark – helping them to pinpoint sources of high or low emissions caused by these sector allocations.

Our carbon tool provides an attribution analysis

Fund allocation by sector



Scope 1/2/3 emissions by sector



Source: Federated Hermes. For illustrative purposes only.

The carbon tool in action: how does it help inform investment decisions?

In the search for potential new positions in the materials sector, our Global Emerging Markets team had been considering several stocks for its investment pipeline. Proud of its portfolio's low carbon footprint relative to the benchmark, the team assessed its environmental considerations first during the research phase of its investment process. In doing so, this led the team to identify a number of issues worthy of further consideration – both in relation to the impact of the holding on the portfolio's carbon footprint but also, it turns out, in relation to the quality and reliability of the data provided in relation to the company's ranking by third-party providers. While the company in question offers high beta and could be considered as being in a risk-own market, concerns were raised about its CO_2 emissions. Based on the available data, the team found giving the company a theoretical 1% weight in the portfolio would have a detrimental impact on the carbon footprint of the existing portfolio, increasing emissions by 159%. This prompted further interrogation of the data provided to us, which in turn showed a string of gaps relating to a series of transformative acquisitions by the company that had not been captured by third-party data providers. This simulation exercise, undertaken using our carbon tool and our attribution analysis, thus helped the team to better understand and respond to the potential risks of the stock both in isolation and in a portfolio context. The fact the third-party data were found not to be robust also acts as a cautionary tale, illustrating the need to treat with diligence – and interrogate carefully – any ESG data provided.

SPOTLIGHT ON:

EOS – engagement in action

Within EOS, one of our landmark engagements to date is BP (2009 – present)

Our engagement with BP prior to the Deepwater Horizon drill rig explosion found that its health and safety function was becoming excessively decentralised. Following the disaster, we intensified our efforts to improve BP's risk management processes and emergency response plans, and engaged across the oil and gas industry to test the robustness of risk oversight structures. We also engage with BP on climate change. As part of Climate Action 100+, an initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change, we have been co-leading the collaborative investor engagement with BP. In 2019 BP supported a shareholder resolution that we had developed, which called on the company to set out a strategy consistent with the goals of the Paris Agreement.

Advocacy

Beyond our investments in and engagements with companies exposed to climate-change risk, policymakers also have a key role to play in determining the investment risks and opportunities created by climate change. Our Responsibility Office engages with public policymakers and regulators, nationally and internationally, to promote positive change to the rules governing both financial markets and the real economy markets they serve. For example, through our membership of the Green Finance Institute, the Institutional Investors Group on Climate Change (IIGCC) and the UK Sustainable Investment Forum, we ensure these progressive policy messages are heard and that the targets and tools investment managers need to fully play their part in delivering the net-zero carbon transition are available. We also co-sponsored the development of the British Standards Institute's Sustainable Finance PAS, the first of which was published in January 2020.

In 2019, we signed:

An Energy Efficiency Declaration co-ordinated by the Energy Efficiency Infrastructure Group (EEIG) alongside other businesses and NGOs calling on the government to make energy efficiency an infrastructure investment priority and to allocate at least £1bn of additional public investment every year to household energy efficiency

A letter to the then Prime Minister Theresa May asking for a 2050 net-zero carbon target, which the UK has now adopted as a policy, with cross party support

An investor expectations statement on corporate lobbying on climate change to the 47 US-based Climate Action 100+ focus companies, which will be integrated into the CA100+ engagement agenda with these companies

The Better Buildings Partnership (BBP) Climate Change Commitment, a commitment to collective action to tackle the growing risks of climate change through the delivery of net zero carbon real estate portfolios by 2050

The IIGCC's 2050 vision statement showing support for the EU Strategy for Long-Term Greenhouse Gas Emissions Reduction

In addition, we are part of a group of investors who have engaged with the 'Big Four' audit firms asking them to explicitly incorporate climate considerations into the audit of companies that are materially exposed to transition risk through decarbonisation.

We are also members of the Climate Financial Risk Forum set up by the Prudential Regulation Authority and the Financial Conduct Authority "to build capacity and share best practice across financial regulators and industry to advance financial sector responses to the financial risks from climate change"[11].

[11] Bank of England, as at March 2019.

CASE STUDY

Climate change integration in public markets

Climate change is a critical element of our broader strategy to integrate ESG factors and stewardship into all of our funds. As already mentioned, consideration of carbon risk, where relevant, informs our idea generation, investment decisions and risk monitoring and our approach is set out in more detail within our annual carbon risk report. Our Global Emerging Markets Equity team's approach to responsible investing is documented below.

Global Emerging Markets Equity: our vision for responsible long-term investing

- We aim to select companies with **attractive business models** and, if we identify material ESG issues, we seek to improve them through engagement.
- In the case of companies with material ESG issues, management teams must be willing to confront **sustainability challenges** and enter the transformative process of engagement.
- We maintain a very **low carbon footprint** and prioritise engagements with any holdings in the extractive industries or those with higher levels of emissions.
- **We may engage** on strategic and/or ESG matters, including issues which are relevant to achieve the SDGs, and our engagements may seek positive impact across companies' value chains.

In focus: NARI Technology

For example, we have exposure to NARI Technology, a company that manufactures products that are used to improve the energy efficiency of China's electricity grid network, thereby connecting renewable energy projects. NARI also produces solar and wind power control equipment as well as charging infrastructure for electric vehicles.

We have no exposure to thermal coal miners or coal-fired utilities.

CASE STUDY

Climate change integration in infrastructure

Our infrastructure business treats the evaluation of climate change and wider ESG considerations as a key part of its risk management framework. The team has an infrastructure specific Responsible Investment Policy which provides the foundation for a systemic approach to ESG integration, which is applied to all investment due diligence, management and advisory activities and produces a stand-alone responsibility report. Our team assesses transition and physical risk related to climate change as part of its investment decision-making process and is able to seek investment opportunities arising out of, or contributing to, the global decarbonisation agenda.

In 2019, Hermes Infrastructure Fund II acquired a 20% stake in an 813MW portfolio of five Swedish onshore wind farms in conjunction with an experienced international consortium partner. The portfolio is estimated to offset 156,000 tonnes of CO_2 per annum and contributes to a number of the SDGs.[12] In April 2020, Hermes Infrastructure funds signed an agreement to acquire a 10% stake in a UK leading waste-to-energy, recycling and waste management company, optimally positioned to benefit from the dynamic transition to a sustainable circular economy.

As responsible asset owners, our infrastructure team seeks a culture of awareness, engagement and continuous improvement in both its business and the businesses in which it invests – including in relation to climate change. In 2019, this approach enabled Hermes Infrastructure Fund (HIF) I to rank second out of 20 participating European Diversified Funds in the 2019 GRESB Infrastructure Assessment, a global ESG engagement and benchmarking exercise that measures effective management of ESG risks and opportunities.

156,000 tonnes

of CO_2 is offset by the portfolio every year.

[12] Based on current Swedish energy mix. Assumed CO_2 emissions in Sweden of 60g/kWh and total annual expected generation of 2.6TWh.

CASE STUDY

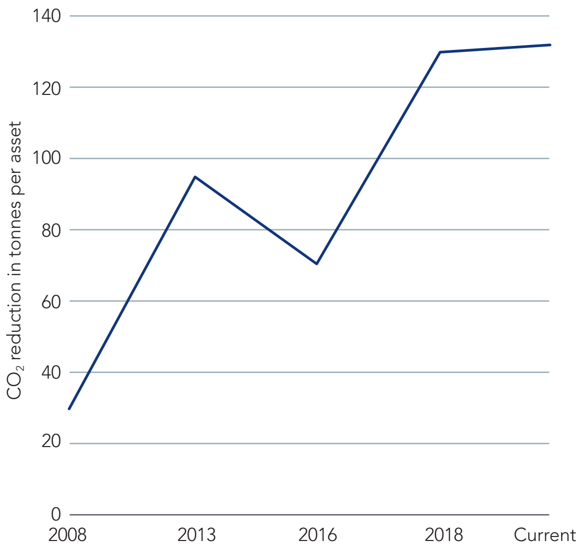
Climate change integration in real estate

Improving the environmental performance of our commercial properties – which benefits the environment while attracting higher quality occupiers and reducing void periods – has been a hallmark of our responsible property investment (RPI) principles.

Office buildings consume vast amounts of energy to both operate business functions as well as maintain the health and comfort of the people using them. In today's world, energy and waste-disposal costs, combined with greater climate-change awareness and pressure to reduce carbon emissions, further incentivises the development of energy-efficient solutions.

We have long championed energy efficiency in the properties we manage. And the last decade of returns from our flagship UK commercial property fund proves that our conviction has been rewarded by stronger financial returns: we have achieved a dramatic reduction in CO_2 emissions from 2008 to 2019 corresponding with a 1.5% increase in the outperformance of the Hermes Property Unit Trust (HPUT).

Carbon reduction: Hermes Property Unity Trust, 2008-2019



Note: Against 2008 baseline year of Carbon Dioxide equivalent emissions.
Source: Carbon Intelligence.

Highlight:
One recent highlight in the environmental performance of assets within the portfolio is that of **8-10 Great George St, Westminster, London**.

Despite a slight increase in emissions in 2018 following the harsh winter and unexpected change to plant operating times, the asset exemplifies the success of the CAPP+ programme – which targets better energy efficiency, tenant wellbeing and air quality – run in collaboration with Carbon Credentials. Since entering our portfolio, the Westminster office building has produced a 36% lower volume of emissions and gained a prestigious Green Apple Award in 2018.

Since entering our portfolio, the Westminster office building has produced a

36%

lower volume of emissions

Green Apple Award in 2018

Impact investing

Believing that good outcomes drive good business, we perceive sustainability and long-term profitability to be interconnected. As such, we aim to have a positive impact on – and through – the companies in which we invest. We aim to help them to create wealth more sustainably as a consequence of our engagement.

Impact investing can be defined as an investment that:

- is intentional and additional – an investment are marked by an intentional desire to contribute to measurable social or environmental benefits that would not occur but for the investment.
- uses evidence and data in investment design – to drive intelligent strategies that will be useful in contributing to social and environmental benefits.
- manages impact performance – engagement with investees focuses on managing them towards the delivery of the intended social or environmental benefit.
- measures outcomes – and learns lessons that can be applied to the support of subsequent impact investments.

Our company engagement goes hand-in-hand with our advocacy work: we seek to positively influence at the individual company level and the markets in which they operate.

In recent years, we progressed beyond ESG integration by launching three impact strategies focused on investments connected to the SDGs. The first, Impact Opportunities (launched in late 2017), is a high-conviction strategy aiming to invest globally in companies that are generating sustainable wealth through products and services that directly meet the underserved needs addressed by the SDGs. By focusing on companies exposed to these sources of enduring demand, the Strategy seeks the growth leaders of tomorrow. The second, SDG Engagement Equity (launched in early 2018), targets smaller companies across the globe with potential – through engagement – to become financially stronger businesses which generate positive impacts that support the SDGs. In September 2019, we launched SDG Engagement High Yield Credit, which aims to outperform the global high-yield market through high-conviction investment in companies with strong fundamentals that also demonstrate the potential, through engagement, to create positive change.

By respectively seeking present-day impact, and working with companies to deliver positive change tomorrow, these distinct capabilities show that sustainable investing remains core to our identity, purpose and growth strategy. Our company engagement goes hand-in-hand with our advocacy work, as we seek to positively influence at the individual company level and the markets in which they operate.

SPOTLIGHT ON:

38million

women, men and children are living with HIV

Eliminating AIDS

Although much progress has been made, the number of people becoming newly infected with HIV and dying from AIDS-related illnesses is not decreasing fast enough. Today, 38m women, men and children are living with HIV. Resources for the AIDS response must be sustained. Guided by UNAIDS' vision of zero new HIV infections, zero discrimination and zero AIDS-related deaths, in December 2019 we signed a business statement alongside a number of other companies in support of World AIDS Day.

The statement called for businesses to engage in whatever way they can by providing workplace services to workers, dependents and communities, by offering skills expertise and institutional resources, by partnering with public sector and local NGO and community groups and by advocating at all levels to support people living with and affected by AIDS.

CASE STUDY

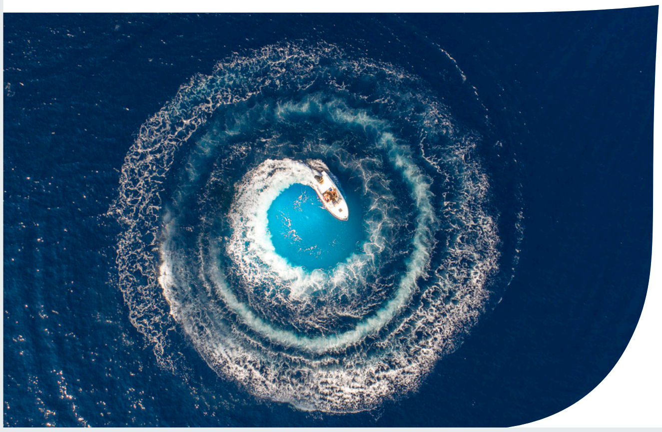
Delivering positive impact: the SDG Taxonomy

Believing the SDGs can be a powerful way of identifying impactful companies, in 2019 we created the SDG Taxonomy – a living research project that clearly demonstrates clear connections between the underlying targets of the SDGs and investment opportunities.

An example of how the taxonomy works

SDG Goal	SDG Target	Directly investable	Product or service solution	Theory of Change		Impact risk
				Issue	Contribution	
14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development. 14 LIFE BELOW WATER	**14.1:** By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.	Yes	Waste collection and recycling.	As much as 40% of the world oceans are heavily affected by human activities, including pollution, depleted fisheries, and loss of coastal habitats, while over 3bn people depend on marine and coastal biodiversity for their livelihoods. Marine pollution, such as plastic packaging in oceans or fertiliser leaching into rivers, has a negative impact on marine ecosystems, potentially reducing biodiversity.	Recycling allows for a closed-loop system where less resources are required from the environment, thus limiting environmental degradation. If managed sustainably, scarce natural resources can benefit current and future generations. While the OECD recycling average is only 25%, countries such as Germany or Taiwan are able to achieve the highest recycling rates of above 55%.	**Efficiency risks:** some recycling processes have a high environmental impact, especially when factoring in energy needs, which may be less attractive than using virgin materials in some cases. **Execution risks:** disposal of non-recyclable materials needs to be handled carefully in order to not generate pollution. **Stakeholder participation risks:** working conditions of staff and contractors may be problematic, especially in terms of health and safety.
SDG: one of the UN's 17 sustainable development goals (SDGs).	**SDG target:** an example of the 169 specific targets as outlined by the UN.	**Directly investable:** yes or no.	**Product or service solution:** goods and services that could help achieve this particular SDG target.	**Theory of Change:** describes in further detail the relevant issues, as well as the potential for related investments to contribute positively.		**Impact risks:** outlines the unintended or unexpected actual or potential negative consequences of investment in the target area.

Source: Federated Hermes, as at April 2020.



For example, the SDG Taxonomy identifies SDG target 14.1 (as detailed above) as directly investable through public equities. Our Impact Opportunities portfolio has exposure to Tomra – a company that provides sensor-based solutions which help increase recycling rates – and so, it is strongly linked to target 14.1.

14 LIFE BELOW WATER

To explore the SDG Taxonomy, use the following link: www.hermes-investment.com/ukw/sdg-taxonomy

CASE STUDY

Catalysing impact: SDG Engagement Equity

Our SDG Engagement Equity capability engages for positive outcomes by aligning corporate outputs with the SDGs, rather than investing in already impactful businesses. One such example is its exposure to Clean Harbors, a leading hazardous waste management company in the US.

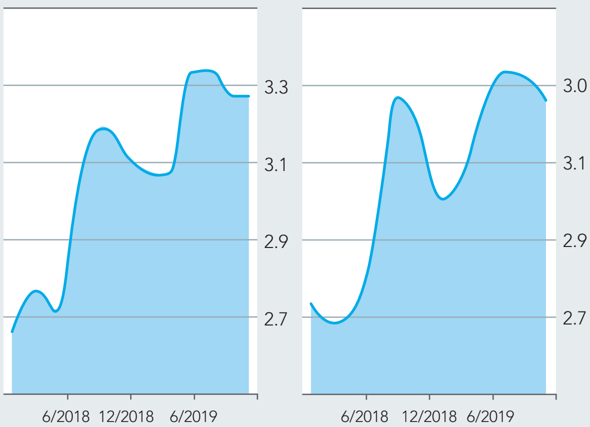
The company's network of over 100 waste management facilities across the US provides it with a significant moat, not least given the difficulties in securing new permits for hazardous-waste incinerators and landfills. It is expected to benefit from renewed investment in the domestic petrochemical industry, with new capacity driving higher-value waste streams into the Clean Harbors network.

Engaging on workplace benefits

Since April 2018, we have had multiple interactions with the company on the topic of employee benefits and welfare and it has proven to be very receptive to our dialogue. Given its reliance on logistics, the company has struggled, like others, with the US trucking industry's persistent driver shortages owing to the aging workforce, turnover rates, reduced capacity and lifestyle priorities. In recognition of the particularly tight labour market conditions, Clean Harbors has made a significant effort to widen the pool from which it recruits. By the end of 2018, veterans accounted for 6% of the company's workforce (compared to 1% of the general population).

Sentiment towards Clean Harbors has improved in recent years

Compensation and Benefits Trend Overall Trend



Source: Glassdoor, as at November 2019.

During a difficult period in 2015, Clean Harbors made cuts to its 401k (an employer-sponsored retirement savings plan) and other employee benefits. Perhaps unsurprisingly, morale suffered, and employee turnover increased, exacerbating recruitment and retention challenges. In 2018, the company announced plans to reinvest in its workforce including reinstating and improving the 401k and enhancing its healthcare benefits. More broadly, in acknowledgement of the challenges it was facing, it has been reviewing its entire employee value proposition which should stand it in good stead in future. Further progress was made in 2019. The company undertook its first engagement survey for many years, began to review its employee value proposition and importantly established clear internal targets to reduce voluntary turnover. Its actions to date have been well received as evidenced by the boost in sentiment towards the company on Glassdoor (a website where employees and former employees anonymously review companies and their management) in the past two years.

CASE STUDY

Impactful intent: creating positive outcomes through real estate

Through our Responsible Property Investment (RPI) approach, we use a purposeful framework to focus our real-estate operations on impact themes, which support the delivery of the SDGs. One such theme is meaningful place-making.

Intrinsic to our ability to generate positive impacts through RPI is the concept of meaningful cities: urban places where people want to work and live, in which they take great civic pride, and which they want to support through social, economic, leisure and community-based activities.

One such example is Wellington Place in Leeds, where we have worked with MEPC to implement a meaningful place-making approach for the past decade.

Some of the positive impacts achieved to date include:

£150m construction spend, including over £30m with subcontractors based in the City of Leeds

300 Leeds residents employed during construction

100 apprenticeships undertaken and completed during construction, supporting a lifetime earnings uplift of **£6.1m**

4,827 employees working in Wellington Place

90% of occupiers have expanded since moving to Wellington Place

85% of jobs in high value sectors identified as priorities for growth by the Leeds City Region, more than double the average for Leeds

62% of employees working in high-skilled professional occupations, more than double the average for Leeds

60% of jobs taken by Leeds residents

Total wellbeing benefits of around **£1.7m** per annum enabled by its programme of events and activities

65% of all Grade A space delivered in Central Leeds since 2009 has been at Wellington Place

1,000 tonnes of CO_2 savings due to energy efficiency of buildings (relative to typical new office developments in the UK)

75% of staff use sustainable modes of transport to travel to work compared to 70% for Central Leeds

Source: Hatch Regeneris, based on MEPC collected data, as at April 2019. Note: we acquired MEPC from the BT Pension Scheme in January 2020.

Firm-wide advocacy

At the international business of Federated Hermes, we engage constructively with regulators and policymakers globally to address environmental, social and other market failures that may prevent the financial system from operating in the best interests of its ultimate asset owners.

We seek to go beyond the minimum standards set by regulators and to demonstrate and share best practice.

We contribute to policy discussions both directly and in collaborative fora and initiatives, including the Principles for Responsible Investment, the UN Environment Programme – Finance Initiative, the Institutional Investors' Group on Climate Change, the International Corporate Governance Network and the Financial Reporting Council's Investor Advisory Group.

Our reach: we are involved in many key industry initiatives

SPOTLIGHT ON:

Our role in developing the BSI Sustainable Finance Standards

In 2019, the international business of Federated Hermes became a co-sponsor of the British Standards Institute (BSI) Sustainable Finance Standardisation Programme. A five-year initiative, the programme is focused on the development of globally relevant, consensus-based standards on the subject of sustainable finance. It aims to encourage the mainstreaming of sustainable finance, while helping organisations from the financial sector align themselves with the global SDGs.

It comprises three new UK-led, internationally relevant Publicly Available Standards (PASs) to target issues and areas where the biggest impact can be achieved. The first PAS – (PAS 7340) a framework for embedding the principles of sustainable finance into financial services organisations – has been published. The second PAS – (PAS 7341) on responsible and sustainable investment management – outlines a set of requirements to establish, implement and manage the process of integrating ESG and sustainability considerations into investment management. The third PAS – (PAS 7342) on sustainable finance products and funds – is in the early stages of planning.

Our stewardship service, EOS, has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard setters to help shape capital markets. In 2019, EOS made 36 consultation responses and held 182 discussions with relevant regulators and stakeholders[13]. These included, among others, policy work on:

- Proposed changes to Foreign Exchange and Foreign Trade Act – Japan
- Spanish proposed transposition text for SRD II
- FCA/FRC Building a regulatory framework for effective stewardship
- German Corporate Governance Code 2019
- UK consultation on ethnicity pay reporting

Public policy work conducted by EOS in 2019

Number of consultation responses made in 2019:

36

Number of discussions held with relevant regulators and stakeholders:

182

In addition to the efforts of EOS, we have two staff members working full-time on public policy in the Responsibility Office. This includes the Head of Policy and Advocacy whose team works with staff across the firm to ensure advocacy work is well informed, relevant and impactful. The result is an advocacy policy that aims to lead rather than follow the policy debate. Last year, our focus included:

The future of the investment industry: we engaged with partners and stakeholders to map out what the industry might look like in the future, with a focus on identifying the actions that industry, regulators, governments can take to deliver it. This work will continue in 2020 with an externally convened roundtable discussion a key next step.

The EU Sustainable Finance Action Plan: this plan is a major milestone in the EU's effort to place sustainability at the heart of capital markets. It has opened the way to both new legislation (for example, the sustainable taxonomy, sustainability disclosures, climate-aligned benchmarks) and regulatory changes (MIFID2, Insurance Distribution Directive). These files were drawn to a close in 2019 and we have been highly supportive of their agreement both behind the scenes and in public.

- **Sustainability-Related Financial Disclosures Regulation:** by Q2 2021, fund managers will be required to disclose how sustainability is integrated into investment processes, including any adverse impacts of investments on sustainability. The regulation will also require fund managers to disclose how remuneration policies align with sustainability. Finally, for ESG products, if a product has a reference benchmark, the index used must be disclosed as well as how it equated to sustainable outcomes, including the Paris Agreement on climate change (where relevant).
- **The Sustainable Benchmark Regulation** will require benchmark providers to prepare new EU climate transition benchmarks and Paris-aligned benchmarks by January 2022. In addition, from Q2 2021, all benchmark providers will need to state whether and how they integrate ESG factors. From Q4 2022, this will need to be done at product level.
- In 2019, **the EU taxonomy regulation** reached a political agreement – and detailed proposals setting out what will be considered sustainable economic activity in the climate change space were published. The taxonomy is a useful step forward in defining a future sustainable economy. And measures to require large companies to report against it will aid uptake in the market. We welcome the clarity the taxonomy brings to the discussion about what constitutes a sustainable capital allocation at company level.

[13] EOS 2019 Annual Review," published by EOS in March 2020.

CASE STUDY

Driving positive outcomes: the FRC Stewardship Code 2020

In 2018 and 2019, we actively and positively engaged with the Financial Reporting Council, both bilaterally and in public meetings convened by various groups, including the Investment Association, PwC and Future of their Corporation.

The objective of our bilateral engagement was simple: we wanted to share our view on key tests that needed to be met in order for the Stewardship Code to have both pragmatic ambition and, importantly, help deliver positive financial, social and environmental impact.

In our engagements at public meetings, our objective was to ensure that a positive and supportive industry was present in the room – and on record. In addition to our advocacy work on the Stewardship Code, we also spoke to the media to reinforce our positive viewpoint in the debate.

The Financial Times

> While stewardship has transformed significantly over the past 30 years, the aspiration that market forces will drive behavioural change remains a hope rather than a reality. For this reason, the overhaul of the UK Stewardship Code and implementation of regulations such as the updated Shareholder Rights Directive, which took effect in June, are important steps in pushing the industry to rethink its approach to stewardship and deliver substantive changes.

Saker Nusseibeh, CBE, CEO – International

Expert Investor

> It will no longer be enough to draft a policy and engage in a minimal fashion without a stated intent with regards to impact. Living up to the Code will require significant work for many of the current signatories, in terms of developing a strategy and programme of engagement, and may well also require an increase in staff and resources to deliver.

Ingrid Holmes, Head of Policy and Advocacy – International

Looking ahead to 2020 and beyond, we will be prioritising the following opportunities to create a more sustainable global financial system and economy.

- **A blueprint for a better investment industry:** we will develop and promote the international business of Federated Hermes' vision for a future where the industry puts clients first to deliver sustainable wealth creation. This is a key organising principle behind all of our policy work.
- **Supporting efforts to implement the TCFD and accelerate the mainstreaming of climate-related financial disclosures in the UK:** we will make the case for the mandatory implementation of decision-useful climate-related financial disclosures while demonstrating feasibility by modelling good practice ourselves.
- **A Stewardship Code for Europe:** we will explore the technical feasibility and make the case for stewardship to become the new normal for European investors.
- **Consistent and comparable corporate ESG reporting:** we will promote the mainstreaming of effective ESG integration and engagement by investors through the provision of decision-useful information.
- **Improving the effectiveness of listing/corporate governance rules:** we will focus on opportunities in South Korea, assess and promote opportunities to reform Korea's listing rules so as to ensure they work in the interests of all investors.

SPOTLIGHT ON:

Our responsibility commitments

As responsible investors, we are also driven to be a responsible business. We are therefore committed to becoming more transparently accountable as a firm, and so, we won't stand still. We will continue to challenge ourselves and innovate in 2020. We will provide an update on our progress in our 2021 Responsibility Report.

Federated Hermes

International

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: