

ESG Dashboard

Enabling ESG integration across our investment teams

Responsible investing is part of our heritage. It is entrenched in our investment decisions: we believe that environmental, social and governance (ESG) integration is a vital component of an effective long-term investment strategy.

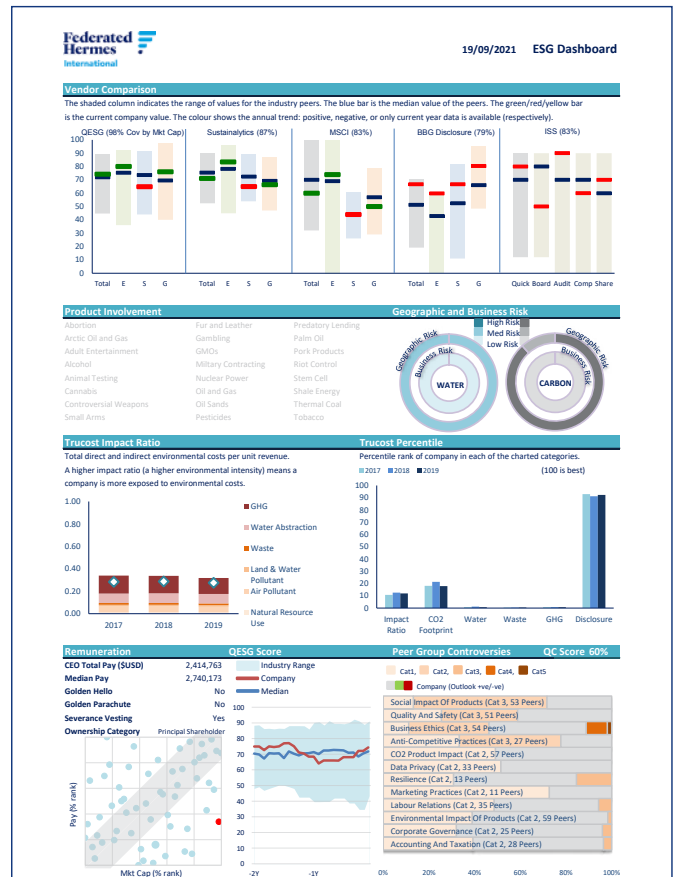
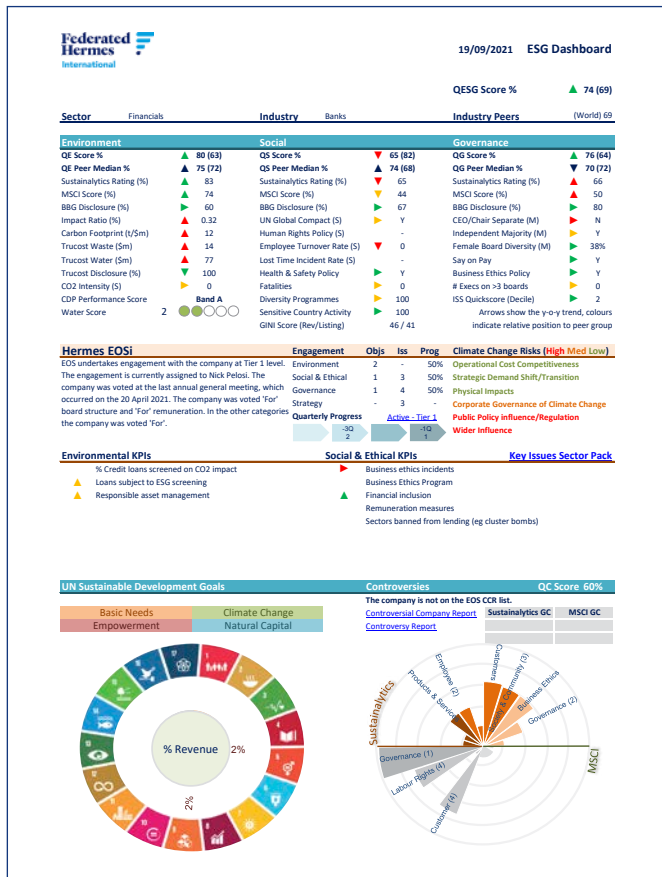
Our focus on ESG considerations is illustrated well through our bespoke analytical tool, the ESG Dashboard, which collates and views stock-specific data on important ESG risks.

The ESG Dashboard was developed by our Global Equities team in conjunction with leading responsible investment and engagement specialists, EOS at Federated Hermes (EOS). It is used by investment teams across the firm, enabling analysts and portfolio managers to easily incorporate ESG analysis into

their stock-picking processes and, importantly, to flag stock-specific sustainability risks.

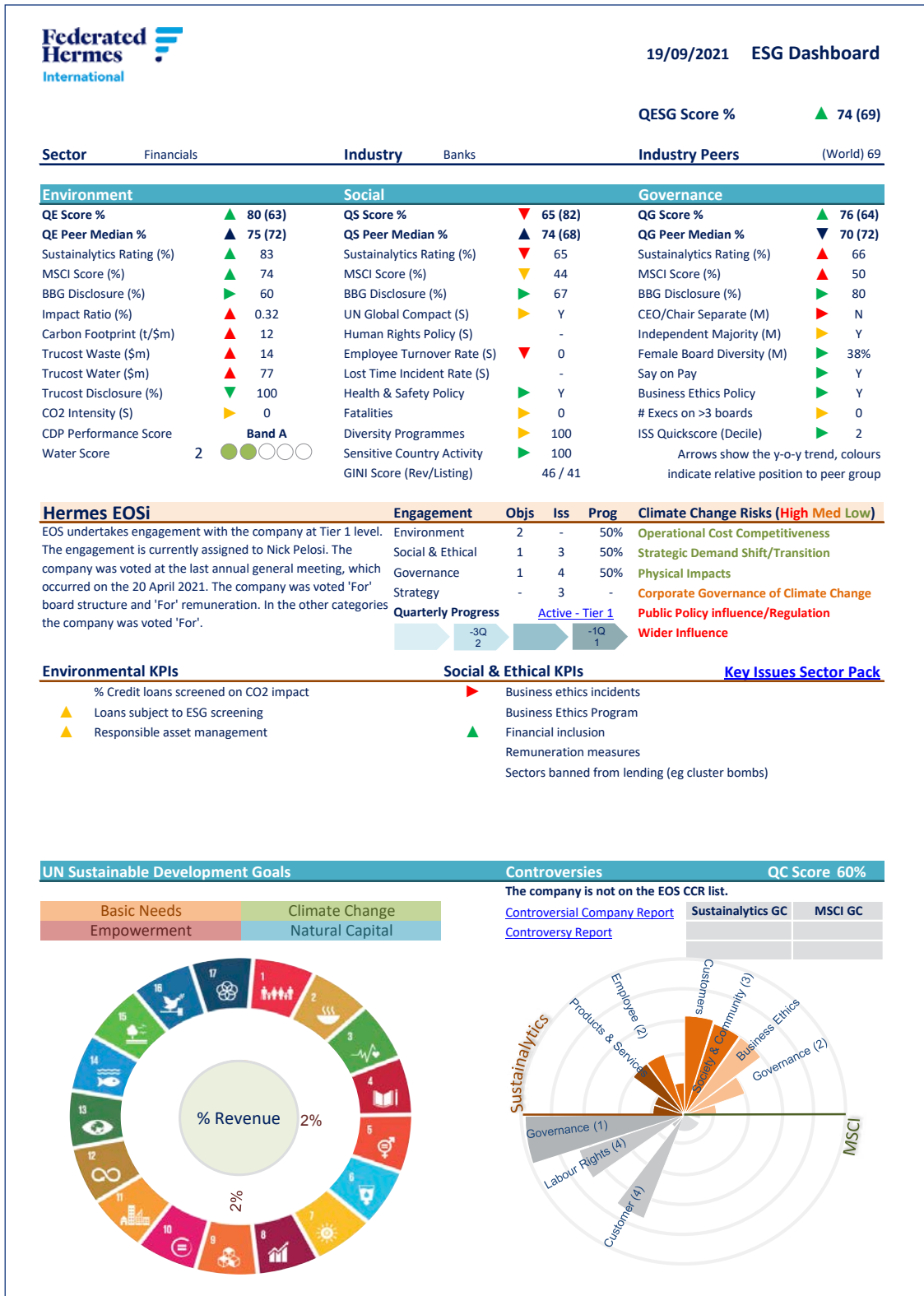
The Dashboard provides a concise digest of the ever-increasing amount of data on ESG risks. As well as incorporating a wide range of research from leading providers – Sustainalytics, Trucost, Bloomberg, MSCI, FactSet, ISS and CDP – the report includes proprietary information from EOS on voting and engagement.

The expertise of EOS has also helped define the key performance indicators or risk factors on which each company is measured. These are either generic, such as board structure, or sector specific, focusing on the major risks by industry – such as CO₂ emissions and fleet consumption for the automobiles industry, paper sourcing for media and energy efficiency for airlines.



For illustrative purposes only

A clearer view of the ESG Dashboard is provided below.

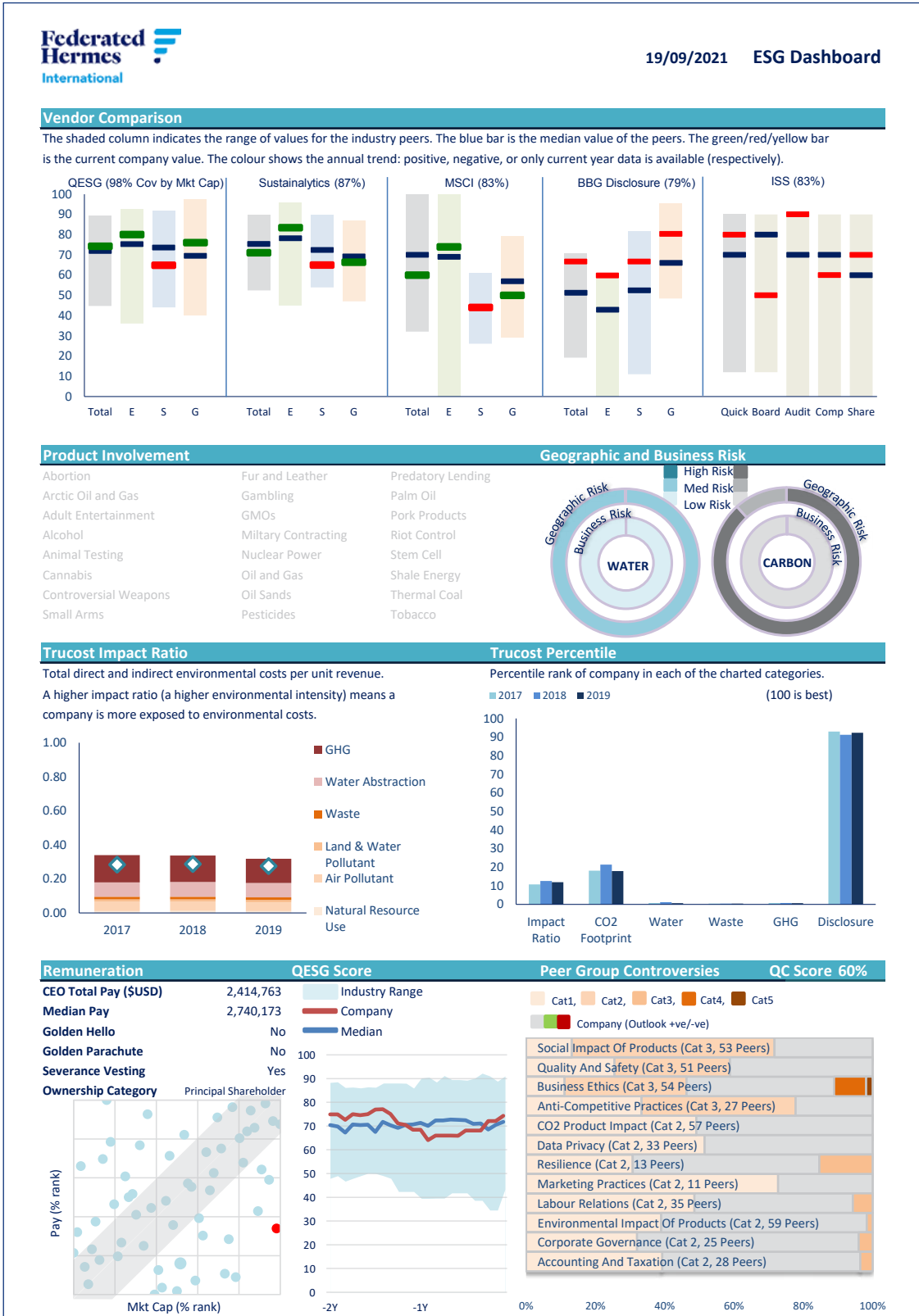


The UN Sustainable Development Goals (SDG) metric decomposes a company's revenue across the 17 goals. The Dashboard uses the SDGs as a framework to identify a company's specific focus, highlighting its reliance on green revenue sources, such as renewable energy or transformative technologies, or social themes, such as nutrition, sanitation or social finance.

The Dashboard therefore identifies forward-thinking companies that are aligned with SDGs and delivering positive environmental and social impacts.

The risk radar shows ESG controversies and issues. The larger the segment, the more severe the issue. For example, according to Sustainalytics, Category 4 and 5 are deemed severe issues and they have high reputational impacts.

For illustrative purposes only



Geographic and business risk metric: The environmental impact lenses show the percentage of a company's assets at high, medium or low-risk based on water and carbon by business and geographical grouping.

The QESG scoring mechanism pits companies directly against the KPIs of the industries to which they are exposed.

The remuneration metric identifies companies that are not aligned to our Remuneration Principles. It also highlights areas for improvement in a company's incentive structure thanks to greater transparency and regulation on remuneration data.

Source: Federated Hermes, as at September 2021.

The QESG Score: a pivotal ranking

A valuable component of the Dashboard is the QESG score, a ranking applied to each company, based on the information collated. This score is used to systematically direct the capability towards companies with an attractive ESG profile.

Not only does this score capture how well a company manages ESG risk, but also the trend in this exposure. We have observed that changes in a company's approach to ESG risk may be as important to its share price performance as its current exposure.

The QESG score can act as an early indicator of changing ESG risks, thereby alerting analysts and portfolio managers to potential issues and opportunities. In such situations, our investment teams can interrogate the elements of a company's ESG risk management through the Dashboard's hyperlinks to analytical reports, and if desired follow up with our in-house experts at EOS. Moreover, forward-looking metrics available on the Dashboard, such as a company's revenue exposure to the SDGs provide a view of future ESG risks.

The QESG Score is used in the stock-selection process of our ESG-focused global equity solution.

Key features of the ESG Dashboard

Since its inception in 2010, the ESG Dashboard has enhanced our ESG analysis. It has also been subject to a number of improvements, reflecting recent developments within ESG investing and the availability of more information. The latest version of the Dashboard was released in January 2018.

Proprietary input

The Dashboard draws on the insights of EOS, which advises on proxy votes and engages company directors and executives about ESG risks that concern shareholders. It can also highlight company-specific risks through the Controversy Indicator employed by EOS. This provides an information advantage: proprietary insights into engagement progress and forward-looking views of the ESG risk exposures of companies, compared to the retrospective analysis of external data vendors.

Best-of-breed data

Rather than using just one or two commercial providers of data, the ESG Dashboard incorporates research from more than 10 different vendors with specialist areas of focus. ISS, for instance, ranks each company for its adherence to global governance standards, and CDP helps inform our judgments about which companies are leaders or laggards on carbon intensity. The MSCI ESG database is also connected to the Dashboard. Data from MSCI provides broad coverage of ESG matters and offers a different perspective on each company compared to other data providers. This helps our investment teams fully understand the materiality of these ESG risks.

Quantitative and qualitative data from our vendors are complemented by engagement insights from EOS, which provide an in-depth view of how companies are responding to ESG risks.

Customisable peer group

Investment teams are able to evaluate a company's ESG risks relative to other companies in their investable universe, regionally or by market capitalisation. Industry peer groups are used to ensure that the metrics applied are relevant.

Forward-looking

One of the most salient insights to a company's ESG profile comes from how it is changing over time. However, the majority of ESG metrics are backward-looking as the underlying data supplied by vendors is generally updated on a monthly basis. This is where the ESG Dashboard differs: it gauges both the current level and the degree of change in ESG risk. The Dashboard includes a number of forward-looking metrics, such as a company's revenue exposure to the SDGs, exposure to regions experiencing water stress, and to those countries with extreme inequality, which may highlight future risks to their operations and customer base.

Moreover, the insights from EOS create a powerful force for positive change. Specifically, engagements with companies provide an information advantage, which is a crucial component of our forward-looking approach.

QESG Score

The QESG Score assesses a company's ESG metrics compared to its peers and, crucially, how its ESG profile is changing. It pits companies directly against the KPIs of the industries to which they are exposed. The Dashboard also presents any KPIs which could represent a weakness for the business, thereby alerting investors to any red flags or issues worthy of corporate engagement.

We also use raw data metrics, where available, and apply our experience to assess materiality. This is a crucial part of our investment approach, as it identifies value and opportunity from ESG signals.

Moreover, the Dashboard provides the tools needed to interrogate the QESG Score. The use of new and enhanced data sources means that companies undergo a rigorous examination to identify ESG risks. This additional data also helps our investment teams ensure that companies' business models are fit for purpose.

Using the ESG Dashboard

The ESG Dashboard forms an important part of the qualitative analysis performed by our investment teams. For example, our Global Equities team uses it to identify ESG risks within companies and determine the materiality of these risks. Any change in the level of ESG risk and progress on current engagements are key factors that could influence an investment decision.

The governance component of the QESG Score is integrated into the team's stock-selection process for all of its strategies, enhancing its analysis of these risks. Environmental and social considerations continue to be assessed as part of the fundamental due diligence on companies. This approach ensures that ESG analysis is integrated into the team's investment decisions – from idea generation to portfolio construction and monitoring.

Across the business, the Dashboard ensures that our investment analysts and portfolio managers are ESG-aware and can monitor company specific risks. The Dashboard provides a systematic framework, enabling a sharper analysis of the available information.

Accessible through Bloomberg, the Dashboard has helped our teams integrate ESG research into investment decisions and foster dialogue with EOS about shareholder votes and engagements. This promotes company-wide discussions about material ESG considerations.

EOS: Engaging on ESG

Established in 2004, EOS is one of the leading providers of corporate engagement, intelligent voting, portfolio screening, public policy engagement and advisory services. It aims to create a powerful force for positive change on behalf of a growing client base of international investors.

Crucially, the team's engagement approach is to establish constructive partnerships with companies in order to deliver better outcomes for them and their investors. Discussions often take place in the local language and at the highest level, for example with the chair or the senior independent director.

The services provided by EOS help asset owners add long-term value to their investments and manage risks by engaging with companies and policymakers on ESG and strategic issues.

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 indicator of future results and targets are not guaranteed.

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Federated Hermes

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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

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