



Stewardship Report 2020: key takeaways

July 2021

Introduction

Stewardship is “the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society” (UK Stewardship Code, 2020).

Since first engaging for stronger UK corporate governance in 1983, to chairing the development process of the Principles for Responsible Investment (PRI) in 2006 (and becoming a founding signatory), we have been at the vanguard of a movement that is now redefining the practice of investing. We seek to continue to drive improved standards industry wide.

This document outlines the key takeaways of our 2020 Stewardship Report, in which we present our purpose, our responsible investment and ownership approach and examine how the principles of the Stewardship Code are reflected in all areas of our firm.

The investment industry can be a powerful force in building a better world – and at the international business of Federated Hermes, we believe active stewardship is the best way to achieve this.²

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40yr

history of our firm that responsible investment and stewardship often lead to better financial outcomes.

We have demonstrated through the almost 40-year history of our firm that responsible investment and stewardship often lead to better financial outcomes.¹ As an active investment manager, we have concluded that successfully making money over the long term is much more sustainable than doing so over the short term. We believe there are two mutually reinforcing strands of responsible investment management: responsible investment and responsible ownership. Together, these aim to generate sustainable wealth creation for the end beneficiary investor, encompassing investment returns and their social and environmental impact. Throughout this summary report, we seek to communicate how these core values and beliefs have informed our decisions and activities across the business.

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¹ <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/>

² The statements, references to officers, practices and policies, and discussions in this report pertain to the international business of Federated Hermes, and not to other businesses engaged in by Federated Hermes, Inc.

Our purpose

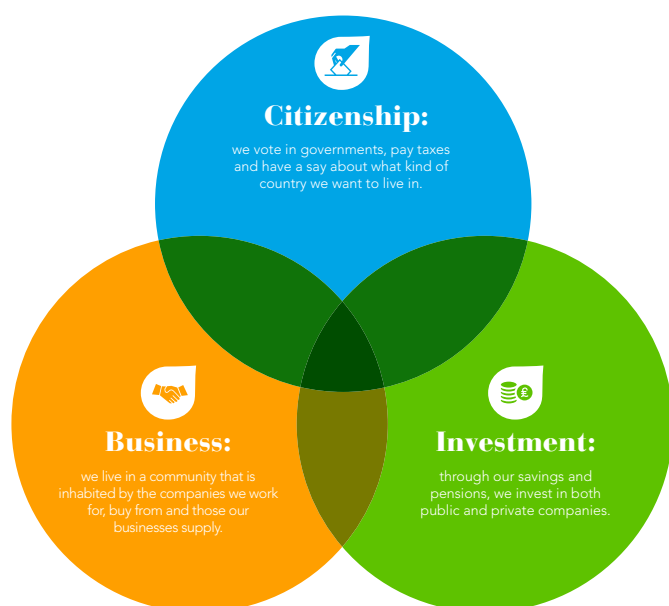
Our investment beliefs

We are an active asset manager with a difference.

Since our beginnings, we have helped clients achieve strong risk-adjusted returns through our specialised equity, fixed-income and private-market strategies and, more recently, our multi-asset and proven liquidity-management solutions. Through these strategies and solutions, we continue to help individuals to save and retire better, and support positive change in the wider world.

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Figure 1. Citizens, businesses and investors share a common duty



Source: Federated Hermes, as at February 2021.

We believe that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment. Responsible, active ownership helps create businesses that are much more resilient to exogenous shocks. These firms are more likely to survive over the long term, and by doing so create better outcomes for our investors and society. As the world continues to be affected by the coronavirus pandemic, investing responsibly matters more than ever.

We have one of the largest dedicated stewardship resources of any fund manager in the world, in the form of our public markets engagement team, EOS at Federated Hermes ("EOS"). EOS offers a shared service model, engaging on behalf of both the international business of Federated Hermes and third-party clients. EOS provides a platform for like-minded investors to pool resources, creating a powerful force for positive change.

How we have ensured a culture of effective stewardship

The Federated Hermes Pledge, established in 2015, compels us to put clients' interests first and to act responsibly.

The actions we have taken to ensure our investment beliefs, strategy and culture enable effective stewardship, include:

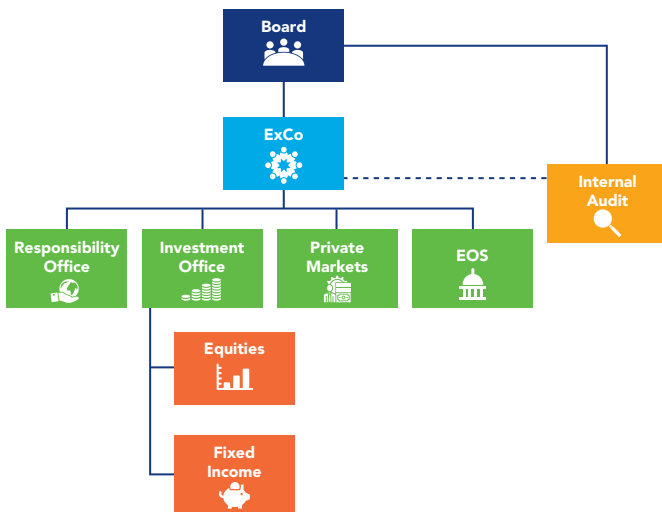
- **Governance:** We have embedded the need for effective stewardship in governance structures across the business.
- **Embedded throughout the product lifecycle:** Stewardship is incorporated into our product development process from the start, and we act as responsible stewards of all the capital which we invest, through allocation, management and engagement with assets.
- **Transparency:** Transparency around our activities is key to enabling scrutiny and continuous improvement. We publish a number of reports each year – including our Stewardship Report – demonstrating our approach to responsible investment and ownership.
- **Resourcing:** We have ensured that we have appropriate resourcing, including by carrying out a significant expansion of our stewardship team in recent years.
- **Expert support:** Our Responsibility Office offers support to our all investment teams in their integration of ESG and engagement information.
- **Long-term focus:** A lot of our engagements are longer term efforts, and we carry out a continuous dialogue with companies.
- **Collaboration:** Our collaborative approach acknowledges the significant quantity and quality of resource needed for effective stewardship and the importance of cooperation to deliver maximum impact across asset classes, sectors and geographies.

³ <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/>

Our governance structures

All of our staff are responsible for implementing our stewardship approach, although there are several functions within the business that play a particularly significant role.

Figure 2. The internal structure of key stewardship functions of the international business of Federated Hermes



Source: Federated Hermes, as at February 2021.

The Responsibility Office coordinates and supports the integration of our responsibility approach and activities across our funds and stewardship services. It is also responsible for leading our advocacy and corporate citizenship work, as well as holding each department accountable for ensuring that we act as a responsible firm.

Our Investment Office is the guardian of the investment outcomes we deliver to clients. It acts independently to ensure that our strategies are performing in the best interests of clients and embodies our commitment to acting as a responsible and transparent asset manager. The Head of the Investment Office is a member of the Executive Committee.

Portfolio managers and investment analysts: Each of our investment teams has formulated their own responsibility plans that explain how, in the context of their particular strategy and investment universe, they incorporate ESG factors and engagement into their investment process. This is the responsibility of all of our analysts and portfolio managers.

EOS – our public markets engagement team – has built a diverse team of experienced and international voting and engagement professionals. Our diverse engagement team draws on a number of skillsets and our senior engagers come from a range of backgrounds. These include – but are not limited to – corporate law, accountancy, portfolio management, international development banking, investment research, corporate social responsibility, strategy consulting, company secretarial and academia.

EOS – our public markets engagement team – has built a diverse team of experienced and international voting and engagement professionals.

Oversight of effective stewardship is integrated into all levels of our governance, and the structures and processes help us reflect on improvements to support effective stewardship. The efficiency of our governance structure is reflected in the outcomes we deliver for clients.

We have a number of Committees and Working Group that support our stewardship activities, including:

- Our **Board, Executive Committee and Management Committee**
- Our **Responsibility Working Group** reviews and makes recommendations to the Executive Committee on issues that relate to our policy, the delivery of sustainable wealth creation for our clients and beneficiaries and efforts to share best practice across the organisation. Our **Climate Change Working Group** develops and implements the business-wide climate change strategy
- Our **Governance Committee** oversees the formulation and delivery of our engagement and voting policy for all our equity funds
- Our **Business Development Forum and Customer Outcomes Group** ensure that our products are aligned with our responsible investment and ownership approach and are meeting client needs.



Managing Conflicts of Interest

Our public [Conflicts of Interest Policy](#) sets out our commitment to act professionally at all times.

We commit to keeping the best interests of our clients and their beneficiaries in mind and to take appropriate steps to identify circumstances that may give rise to conflicts of interest that entail a risk of damage to our clients' interests. Our policy covers examples of conflicts of interest – such as the receipt of confidential information, conflicts of interest between clients, personal conflicts and conflicts between our business and clients – and the appropriate procedures we have established to manage any conflicts of interest identified and prevent damage to client interests.

Due to the importance of stewardship to our business, we have developed a specific [Stewardship Conflicts of Interest Policy](#). We acknowledge our position as a fiduciary for our clients and their beneficiaries, and seek always to act in their best interests. Accordingly, we take all reasonable steps to identify actual or potential conflicts of interest. We also maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients.

The international business of Federated Hermes also is subject to Federated Hermes' Code of Business Conduct and Ethics.

We are careful to protect and pursue the interests of all of our clients.

The key aspects of our policy include minimising potential conflicts of interest concerning ownership, clients and prospects, individuals and stock lending. Across the firm we take all reasonable steps to identify conflicts of interest between:

- The international business of Federated Hermes – including its managers, employees and appointed representatives or any person with a relevant direct or indirect link to them – and our clients; and
- Any one client of the international business of Federated Hermes and the other clients.

Based on our policy, we have identified a set of conflicts of interest that are likely to arise in connection with engagement activities and have put in place controls to manage such instances.



Our approach to systemic risks

Identifying risks

The Investment Office is responsible for the daily oversight of market risk across the international business of Federated Hermes, as well as the oversight of the underlying portfolio managers' adherence to their pre-defined/client-agreed investment processes. The Investment Office's main remit is to act as an independent investment risk consultant on behalf of our clients.

To identify risks, we run a series of both hypothetical and historical stress tests across our portfolios that vary according to the asset class and strategy in order to enhance our portfolio managers' analysis and strategy. This includes geopolitical events and shocks to markets, interest rates and currencies. We may also identify market failures or barriers to responsible investment and stewardship through our investment and engagement activities. Where this is the case, we will identify the relevant policymakers to engage with on the topic as well as direct engagement with investees to ensure they have appropriately assessed, managed and mitigated the risks.

Advocacy and involvement in industry initiatives

We recognise that, as investors, we have an opportunity and a responsibility to help address market-wide and systemic risks. 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. This includes addressing barriers to responsible investment and stewardship. We seek to go beyond the minimum standards set by regulators and to demonstrate and share best practice. We often engage directly with regulators and policymakers as well as contributing to collaborative fora and aim to be a progressive and constructive voice in the debate.

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Figure 3. Our reach: we are involved in many key industry initiatives



Source: Federated Hermes, as at February 2021.

In focus: climate change

We aim to understand both a company's contribution to climate change and its exposure to related risks and opportunities, which should allow us to play a positive role in encouraging firms to generate lower emissions and reduce the risks arising from climate change. Our annual Climate-related Financial Disclosures report sets out in more detail how we have integrated an assessment and management of climate-related risks and opportunities into our investment decision making. This includes the governance structures we have in place to ensure climate-related risks and opportunities are appropriately managed and that the outcomes of our risk-management processes feed into our business strategy.

The primary means through which we monitor and measure the climate-change exposure of our public markets investment portfolios is through our proprietary carbon tool, which measures a fund's carbon footprint relative to its benchmark and calculates its carbon efficiency/intensity. 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, identify whether high-emitting companies in the portfolio are being engaged with or whether engagement needs to be initiated, and understand the progress on any climate or wider environmental engagements already underway.

Engagement is a crucial element of our approach to managing climate change and climate is a specific engagement focus in EOS' public-markets engagement programme. EOS aims for all companies to have a business model consistent with achieving net-zero emissions and an effective transition plan to deliver this by 2050 or sooner. EOS is leading or co-leading the engagement on 29 companies as part of the Climate Action 100+ initiative, a major global investor initiative engaging with more than 100 of the world's biggest greenhouse-gas emitters.

As part of this commitment, on behalf of our clients, we have set our proposed pathway to achieving net-zero emissions by 2035 across the managed assets included within our

£6.1bn UK real-estate portfolio.

Our Real Estate team has integrated climate risk management throughout its investment decision-making and asset-management processes. In 2019, we joined the Better Building Partnership Climate Change Commitment (along with 22 other signatories) with the aim to achieve net-zero emissions across our real estate portfolios by 2050. As part of this commitment, on behalf of our clients, we have set our proposed pathway to achieving net-zero emissions by 2035 across the managed assets included within our £6.1bn UK real-estate portfolio. One aspect of our strategy to achieve this is stakeholder engagement.



Advocacy: delivering positive industry-wide change

Looking beyond investment and stewardship, we also believe that policymakers have a key role to play in determining the investment risks and opportunities created by climate change. In 2020, we carried out extensive advocacy work on climate-related issues. This aimed to promote positive change relating to the rules governing both financial markets and the real economy. We were actively involved in a range of industry initiatives, responded to a number of consultations and supported the development of the IIGCC Net Zero Investment Framework. We are members of the FCA-PRA Climate Financial Risk Forum (CFRF), chairing its Disclosures Working Group. Finally, we founded and now chair the UK chapter of the Partnership for Carbon Accounting Financials (PCAF). The UK PCAF was launched in September 2020 and is an industry-led group to standardise carbon accounting in the financial sector, enabling firms to measure the level of financed emissions and to work collaboratively in enacting genuine change.

Looking beyond investment and stewardship, we also believe that policymakers have a key role to play in determining the investment risks and opportunities created by climate change.

Ensuring our policies support effective stewardship

Our policies are regularly reviewed to ensure they remain effective. We also have several internal and external processes to maintain high standards of stewardship. This includes the work of our Compliance and Internal Audit functions.

Our independent Responsibility Office meets quarterly with each of the investment teams to discuss their approach to ESG and engagement integration and to talk about how this has been applied to specific investments.



Meeting our clients' needs

Our approach is to seek opportunities to deliver sustainable wealth creation for investors.

It is this understanding that informs our belief that we have a duty to consider the longer-term risks and opportunities when investing. This means carrying out extra work when analysing companies to understand externalities, governance practices, environmental impacts, treatment of workforces and the influence of operations on local communities. It also means using our influence to improve the behaviour of those companies in which we have invested, the operations of the assets that we directly manage and advocating for systematic improvements to the financial system in which we participate.

How we have sought and incorporated our clients' views

We meet regularly with our clients to seek their views and feedback and the majority of our clients have an appointed client team to meet their needs. The client teams are trained to listen to clients, support them and develop new ideas in tandem with them.

In response to client feedback, we are also developing a client sustainability training programme. This should help foster a greater understanding of sustainability criteria and is an opportunity to conduct conversations and generate ideas with clients through small, focused group sessions. We also employ the services of third-party market-research agencies to help identify client demands and needs.

We use our Customer Outcomes Group (COG) to conduct post-implementation annual reviews on an ongoing basis. This is to confirm that all products continue to meet a customer need, perform in line with their stated objectives and have continued commercial viability.

Finding the right fit

We offer a range of strategies across asset classes, each with their own investment style and stewardship approach, so that clients are able to invest in products that meet their needs.

All of our products are high active share, integrate ESG considerations and engagement insights in investment decision making and deploy best practice stewardship. The stewardship approach will be informed and aligned to our firm-wide policy. While each investment strategy is responsible for the investment and stewardship decisions it will apply on behalf of all clients in a fund, significant time is taken to listen to clients' views and inputs. In addition to creating segregated mandates tailored to individual clients and their investment policies, we also offer pooled products with additional types of ESG approaches to suit client needs, including: exclusionary screening, positive tilting (best-in-class), and impact investing.



To ensure that we continue to manage our assets in line with the approach we market to prospects and agree with clients, our Compliance department monitors fund guidelines and the Investment Office monitors adherence to internal risk guidelines.

Communicating with our clients

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.

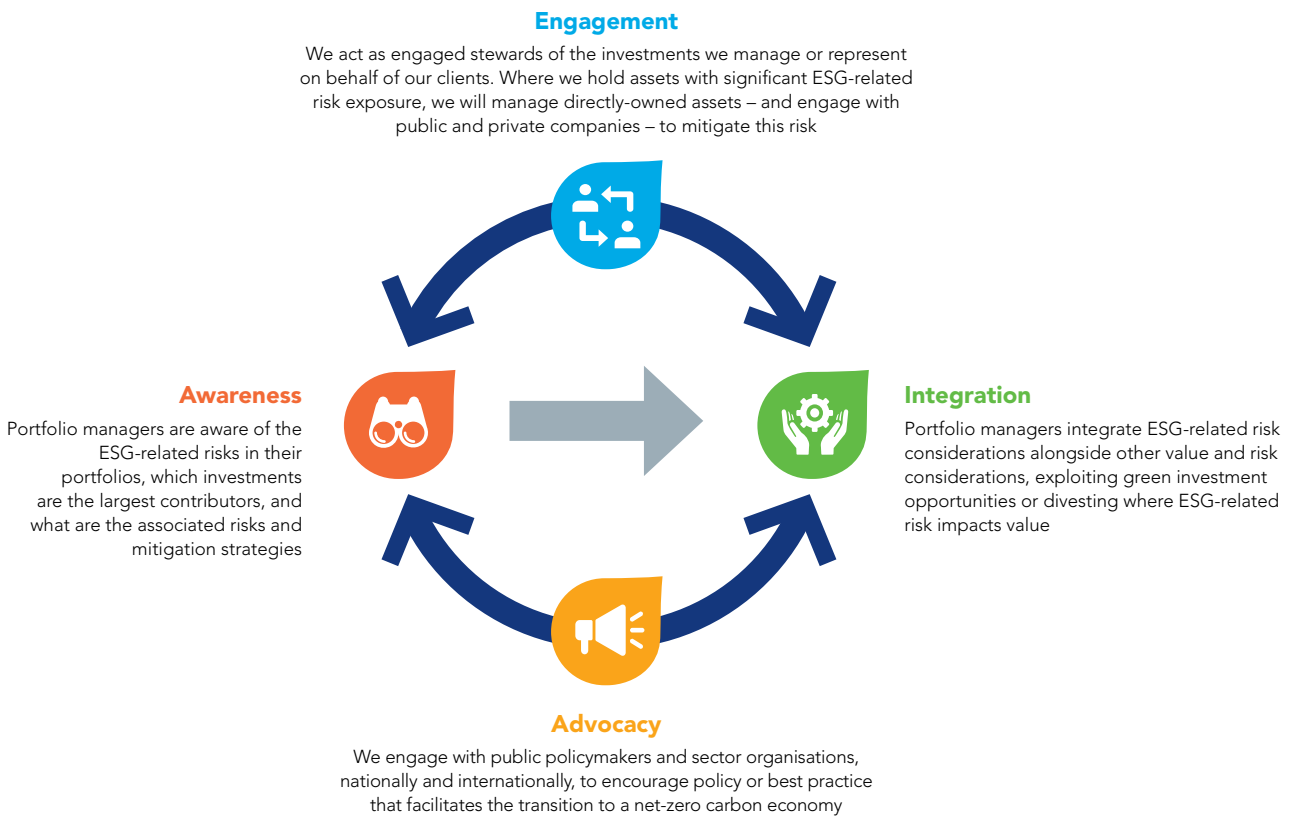
Reporting is critical to demonstrate our activity on our clients' behalf. We have therefore developed a suite of high-quality, activity-based, qualitative and quantitative communications to support internal and external stakeholder communications. This includes:

- Our publicly available [Annual Report and Accounts](#) –with details and statistics on responsibility, ESG, corporate social responsibility-related activities and engagement activities alongside financial reporting –
- Our inaugural [Responsibility Report](#), which provides clear information about our responsible business practices, our approach to responsible investing (specifically, what that means in practice) and our firm-wide advocacy activities.
- Our annual [Climate-Related Financial Disclosures report](#), which is aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures.
- Our annual [Responsible Property Investment report](#), which publicly discloses environmental and social outcomes for our real-estate funds.

ESG and Engagement Integration

We do not see the integration of ESG and engagement insights within investment decisions as a separate category of investing. Instead, we believe that all material ESG risks and opportunities should inform all investment decisions. That is why we integrate ESG considerations and engagement insights into our investment processes in all of our products, across all asset classes.

Figure 4. Creating wealth sustainably



Source: Federated Hermes, as at February 2021.



We consider all material investment factors, including those relating to material ESG issues. While the most pressing material risks are those that will crystallise in the short term, we are long-term investors that strive to deliver holistic returns for our end investors. This means that our definition of materiality is necessarily wider.

ESG issues will rarely be the sole or standalone driver behind any investment decision. Instead, material ESG factors are integrated into fundamental analysis and inform the teams' investment decision making. The presence of ESG risk does not necessarily preclude investment, but rather helps investment teams reach a more holistic view of the risk profile of a company or asset. Investment teams may also identify opportunities in companies that are improving their ESG practices, particularly given our strong engagement capabilities.

ESG issues are prioritised at the sector level and we look at material areas of concern for each of the sectors and insights from EOS. Relevant ESG issues – whether macroeconomic risks or those specific to that company – are then considered on a company-by-company basis, with implications for both inclusion and weighting in an investment portfolio, as well as engagement. The ESG Integration team within the Responsibility Office also works very closely with the investment teams to help identify material ESG issues that are specific to the investment manager's strategy.

All our investment activity is supported by our dedicated Investment Office and Responsibility Office. Regular meetings are held between the two offices and with the investment teams to ensure proper coordination and integration of ESG factors and engagement insights. However, it is the responsibility of our investment teams to effectively integrate ESG and engagement information into their investment processes and ultimately our portfolio managers have discretion on investment decisions. This ensures that ESG factors are fully integrated into investment analysis and decision making.

Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, risk and material ESG factors, and the overlaps 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. Such engagement is carried out both by our investment teams and by EOS on their behalf.

While the most pressing material risks are those that will crystallise in the short term, we are long-term investors that strive to deliver holistic returns for our end investors.

For public markets, the firm's proprietary ESG tools include our ESG Dashboard, Carbon Tool, Portfolio Snapshot and Corporate Governance Tools. Through these tools, the teams have access to third-party ESG data as well as insights from engagement carried out by EOS.

The information we gather through stewardship enables us to develop a more comprehensive view of both the risk and opportunities a company is exposed to and to factor this into valuations and investment decisions.

In private markets, ESG data is often less readily available. As such, the teams are heavily reliant on their due-diligence process and have developed their own frameworks for assessing ESG risks within their investments. The private-debt teams consider ESG behaviours when carrying out credit analysis for each potential investment. ESG considerations are tabled at the Private Debt Investment Committee and are considered as part of the research presented for all new transactions. Material ESG issues will often form part of engagement with the company prior to investment and once invested. A consideration of ESG principles is embedded into the property selection and investment process, including through initial screening and due diligence and as part of the investment decision.

Responsible Property Investment (RPI) is integrated into the investment strategy and working practices of all of our real-estate portfolios. ESG and engagement information continue to be integrated into the development and monitoring of our real-estate assets after purchase.



Monitoring service providers

All voting recommendations to our investment teams are made internally by EOS and engagement activity across asset classes is carried out by EOS or the investment teams themselves.

We use a number of external ESG data providers, as each data provider has developed their own methodology which can result in differing views. Taking this range of views into account, along with our qualitative fundamental analysis and insights from engagement by EOS or the investment teams, helps us to form a more comprehensive view of the company.

For our Real Estate team, all day-to-day property management – including rent and debt collection and active responsible property management – is dealt with by external property management agents. They are selected following a rigorous process that includes ESG considerations, while ESG requirements and targets are included in their contractual service agreements.

In terms of our investment operations, our middle-office employees are responsible for monitoring outsourced functions on a day-to-day basis. Contractual agreements with all service providers are in place and we hold regular reviews of the service provided.

For our Real Estate team, all day-to-day property management – including rent and debt collection and active responsible property management – is dealt with by external property management agents.



Our approach to engagement

How we identify issues for engagement and develop objectives

Our engagement is outcomes-driven and focused on ensuring that the companies and assets we invest in are creating wealth sustainably. Given the long-term time horizons of our strategies, to meet our clients' needs we are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies. We believe that this approach delivers the best results for our clients and end beneficiaries.

Public markets

We adopt a systematic approach to identifying companies for engagement. We select companies and tailor the intensity of engagement based on the size of our investment, materiality of the risks and issues and feasibility of achieving change through engagement. We believe that this enables us to most effectively serve our clients' needs by focusing our efforts on where they are needed the most and can have the most impact.

EOS has established a detailed public markets engagement plan on a rolling three-year basis, with themes ranging from human and labour rights to pollution, waste and the circular economy. EOS focuses its stewardship on the issues that have the greatest potential for long-term positive outcomes for investors and their beneficiaries. We focus on the most material themes, with four priority areas being:

- climate change,
- human and labour rights,
- human capital management,
- and board effectiveness.

In addition, following the pandemic, we will focus on companies putting in place a business purpose and sustainable business model looking at corporate response to the pandemic in the near term and resilience to the next crisis in the longer term.

Figure 5. Engagement themes for 2021-23



We select around 400 companies for the core EOS Engagement Programme, of which approximately 150 are held by the international business of Federated Hermes' equity and credit teams. These companies are formally identified on an annual basis, and intermittently throughout the year. Each company in our engagement programme is given an appropriate intensity tier, based on the likely impact of engagement and ultimate benefit to the value of the underlying investment.

There are many companies that we engage with that sit outside of our formal engagement plan. These engagements relate to issues around voting at general meetings or are in reaction to events that cannot be predicted in advance. We reactively engage with around 600 companies, of which approximately 200 are held by the international business of Federated Hermes. There are also an additional 60 companies which are not in the core engagement programme. These are selected as EOS engagement targets by our investment teams based again on the size of our holding, the materiality of the issues and the feasibility of engagement. During 2020, the dedicated engagers in our SDG Engagement strategies engaged with a further 68 companies in addition to those companies engaged with by EOS. Our investment teams also conduct engagements with companies directly.

In addition, EOS provides voting recommendations for around 9,000 companies to both the international business of Federated Hermes and third-party clients, using engagement insights to inform its rationale where possible.

EOS conducts engagements using specific milestone-driven objectives for most companies in its engagement programme. We develop corporate engagement objectives initially at the thematic and sector level based on a top-down understanding of relevant thematic and sector risks. These are then reconsidered at the company level – or the bottom-up level – for materiality and feasibility, together with our company-specific knowledge on how well the risks are being managed.

Measuring and monitoring progress on engagements is carried out by setting clear engagement objectives and systematically using the system we pioneered of measuring progress against four milestones. Our dialogue with investee companies is conducted through in-person meetings, calls, letters or emails, either directly or as part of a collaborative group.

Figure 6. EOS' proprietary milestone system



Source: Federated Hermes, as at February 2021.

Through stewardship activities, led by EOS, in 2020, we engaged with 595 of our public-markets holdings, covering 1,997 identified objectives or issues, and we made progress on 58% of all objectives related to our holdings. This equated to 78% of our equity and credit AUA⁴, an increase from 71% in 2019.



⁴ Our AUA refers to our public markets holdings for which EOS provides engagement services, and so excludes, for example, cash and derivatives.

SDG ENGAGEMENT EQUITY STRATEGY CASE STUDY

Brunswick

Brunswick is a global leader in recreational marine products, producing marine engines, parts and accessories, and recreational boats.



In March 2018, we began our engagement with Brunswick, led by our SDG Engagement Equity strategy. This started with a positive introductory meeting with management where it was agreed that the company needs to replicate the good work already in place at Mercury across the wider business. From 2018 through to 2020, our SDG-aligned engagements with Brunswick focused on:

- 1 Replicating Mercury's sustainability strategy across the wider group
- 2 Ensuring provision of decent pay and conditions
- 3 Developing solutions for end-of-life recycling of fiberglass vessels
- 4 Further 'green' product development
- 5 Aiming for carbon neutral production

Since the inception of the strategy, we have had multiple interactions with Brunswick, including a number of meetings with the company's management team, a visit to its principal manufacturing facility and considered exercising of our voting rights. We have been impressed by the human-capital management and sustainability practices of specific divisions, notably its engine business Mercury Marine. Pleasingly, the company has extended these practices across the group and is taking a leadership position on important issues for the industry. In May 2020, we received confirmation that the group has analysed its pay practices pertaining to both its direct employees and tier one suppliers and was able to confirm that it pays at least a living wage. The group now intends to extend this due diligence to its tier two and tier three suppliers. In its 2020 enterprise-wide sustainability report, the group established the goal of transitioning to 50% of electricity to be derived from renewable sources by 2030.

We are encouraged by the positive progress that Brunswick has made during the course of our engagements. Our focus going forward is to continue to engage constructively with management and, in so doing, encourage them to keep raising their ambitions. We remain particularly focused on developing options for more circular usage at the end-of-life for the fiberglass material in vessels, as well as further innovations to reduce the group's direct (production) and indirect (product usage) emissions impact. Read the case study [in full](#) on our website.

Private markets

For our private-market strategies, engagements are prioritised according to the exposure of the portfolios.

For our Direct Lending and Real Estate Debt teams, the key is to identify both current and potential meaningful ESG risks before investing. Due to the difficulty of divesting and the capped upside, it is important to manage the downside ex-ante. Because of a lack of third-party data, the teams often use more qualitative information – often gained through dialogue with the borrower – as well as information contained in the due-diligence packs. The teams collaborate with EOS to ensure that their engagement is outcomes-focused and impactful. Should an ESG issue arise during the life of the investment, the team will seek to engage to rectify or improve the ESG issue.

Our real estate business is an industry leader in responsible asset management and has developed its own responsible property investment (RPI) principles. The Real Estate team has been monitoring the sustainability performance of its directly managed assets since 2006 and has annual targets which are monitored and reported against in our public responsibility report. The team has also created a range of dedicated tools and procedures that cover all aspects of our real-estate operations. These tools enable us to assess, monitor and manage social and environmental risks and opportunities in the real-estate portfolio, and therefore inform the objectives of our engagement.

Our Real Estate team has an extensive community and occupier engagement programme across our retail and office assets that focuses on governance, skills, safety, culture and wellbeing. We aim to positively impact the health and wellbeing of our occupiers and local communities by establishing a constructive dialogue through a range of activities carried out during the life cycle of real-estate assets. In 2020, we achieved world's first BREEAM In Use certificate for residential development at The Cargo building at Liverpool in addition to our ongoing programme of BREEAM in Use across our directly managed commercial estate, which has been running since 2017. We also achieved Fitwel certificates for two more developments in our portfolio. Our property managers have continued to engage with our tenants during the pandemic, and this ongoing engagement creates a relationship with the tenants that helps us achieve some of our wider sustainability goals.



Our 'impactful intent' approach aims to deepen our RPI practice by intentionally seeking a defined positive environmental or social outcome in a particular place or market as a core focus of our responsible investment strategy, in addition to strong risk-adjusted financial returns. At the heart of our 'placemaking' approach is our commitment to creating a 'meaningful city' – or a place that people want to live and work in, and which foster a sense of belonging among inhabitants.

Through our placemaking activities, we have created significant social and economic growth in a number of our real-estate construction projects. This has been achieved through generating construction jobs, apprenticeships and local supply-chain spending. As we expand our reporting to cover the eight social hubs identified for real-estate placemaking initiatives, we are developing a comparative framework which will enable us to clearly measure and analyse the positive impact that the investment on social infrastructure has on the local economy and social infrastructure.

NOMA, Manchester:

Over **1,000** construction workers received on-the-job training and over

80 apprentices were involved in the redevelopment.



Around **70%** of construction spend was with Greater Manchester based contractors.



Collaborative Engagement

We see value in both direct and collaborative engagement, and it is the combination of both which helps us influence issuers and carry out effective stewardship. Where there are shared objectives – in particular the promotion of long-term sustainable value – we use both formal fora and other more informal links to work collaboratively with other investors on a global basis.

Crucially, the primary concept of EOS' stewardship service is to provide a mechanism for like-minded asset owners to pool their resources and in so doing create a stronger and more effective stewardship voice. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert.

We seek collaboration where interests are aligned and the objectives are based on material issues.

Collaborative engagement with issuers

We may collaborate with other investors in our engagement with companies when this may be beneficial for the engagement and could influence the actions and governance of investee companies. We seek collaboration where interests are aligned and the objectives are based on material issues. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert.

In Real Estate, we work with the other investors within our real-estate joint ventures at both the ownership and asset-management levels.

CASE STUDY

BHP Billiton



Although we had long engaged with BHP on climate change, our engagement as a member of the Climate Action 100+ investor group on its climate change mitigation plan and its contribution to the achievement of the goals of the Paris Agreement commenced in 2019. BHP adopted a collaborative approach, proactively seeking our input in various meetings with the sustainability team in 2019 and 2020, as it progressed the development of its medium-term carbon emissions reduction target. Through engagement, we emphasised the importance of using science-based targets and discussed decarbonisation options, mainly diesel

replacement, the use of renewable energy and how to secure a stable and reliable supply. Although we acknowledged that 20% of emissions may be hard-to-abate with available or prospective technologies, we emphasised that the use of offsets should be kept to a minimum and independently overseen. In Q3 2020, the company announced its scopes 1 and 2 carbon emissions reduction target of 30% by 2030 relative to 2020, using the science-based absolute contraction method. We continue to engage on the plan for the reduction of scope 3 emissions, particularly initiatives related to shipping and steelmaking.

Collaborative engagement on thematic issues and public policy

We contribute to policy discussions both directly and in collaborative fora and initiatives. Investment institutions are typically absent from public-policy debates, even though they can have a profound impact on shareholder value. We seek to fill this gap.

Through these debates we aim to protect and enhance value for our clients by improving shareholder rights and boosting protection for minority shareholders, as well as to tackle thematic issues that impact the assets that we invest in. This work is carried out by both our Responsibility Office and EOS.

The work extends across company law, which in many markets sets a basic foundation for shareholder rights. It also covers securities laws, which frame the operation of markets and ensure that value creation is reflected for shareholders. Finally, it encompasses codes of best practice for governance and the

management of key risks and disclosure. In addition to this work on a country-specific basis, we address regulations with a global remit.

We are a member of a number of industry bodies and initiatives around the world and are founders of many of them. We take on advisory roles in many of these organisations to share our practical expertise. Given the global nature of our investments, this work spans asset classes and geographies. Such work often involves collaborative engagement on thematic issues and public policy that will impact issuers.

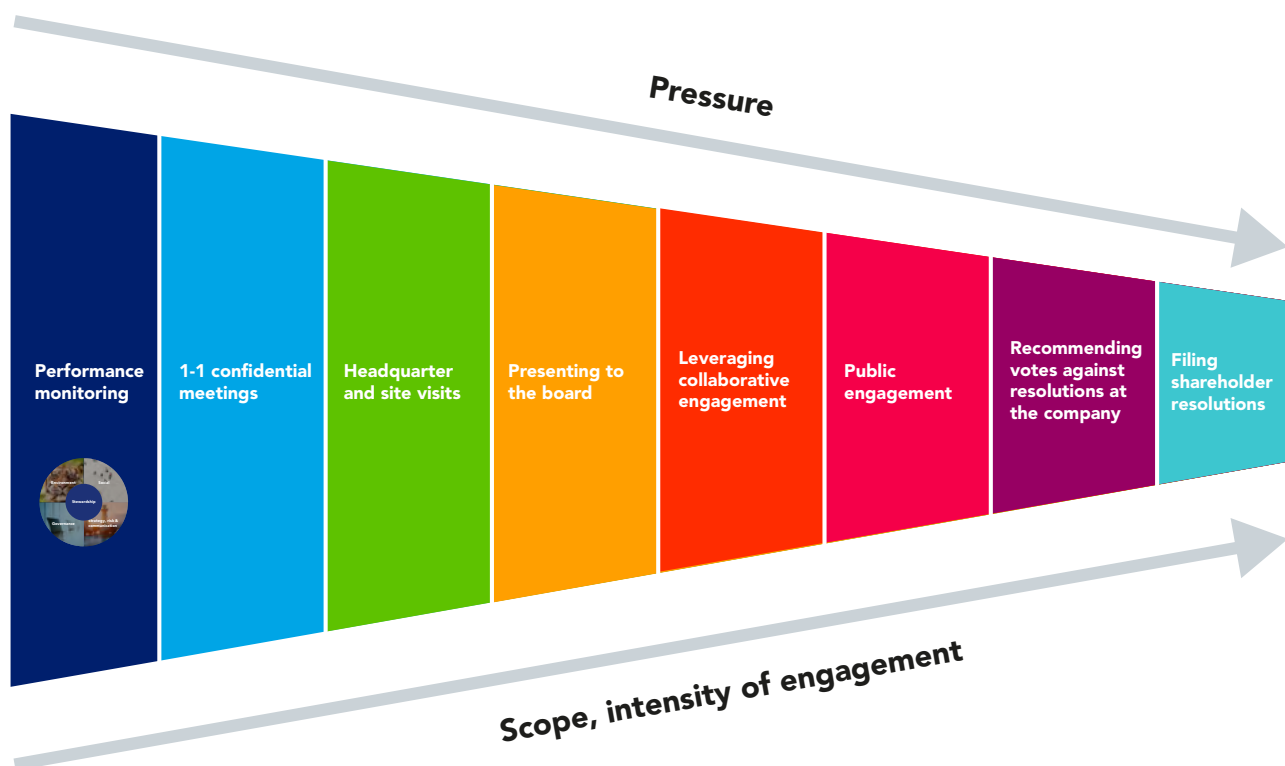
In addition to 1600 interactions (including meetings, phone calls and letters) with our public market holdings in 2020, EOS also had 173 interactions with regulators, standard-setters and other third parties in the pursuit of public policy and market best-practice objectives. It also made 52 public policy consultation responses or proactive equivalents such as letters.



Escalation

Our engagements across all asset classes are outcomes focused, although the nature of escalation varies depending on both the rights we have available and the specific context.

Figure 7. Engagement tools employed by EOS



Source: Federated Hermes, as at February 2021.



Public markets

The companies identified for the core engagement programme at the beginning of each year are assigned an engagement intensity tier. We escalate the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue. Generally, our engagement activity becomes more active where we believe that engagement will lead to an increase in or prevent/limit a decrease in the value of a company over the long term.

Our long-term and diverse perspective enables us to persist with the more difficult and time-consuming engagements to bring about changes in either strategy, financial structure, operational or risk management or governance, including in relation to ESG risks. Any change we encourage a board or management team to make will be with the intent of improving a company's long-term performance.

While we can be robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines which could undermine the trust that we believe should otherwise exist between a company and its owners. As a result, we generally prefer to conduct engagement privately, although details of all engagement meetings of our stewardship team with companies are shared across investment teams and EOS third-party clients. In our experience, working constructively with boards and management in private is the most effective way to achieve positive change as it allows us to build trusted relationships with companies, which results in more open and frank discussions.

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However, on the occasion that we should not be able to achieve success by using our usual methods of conversations behind closed doors, we may escalate our engagement by choosing to speak publicly or at the company's annual general meeting (AGM) – to garner additional investor support and add further pressure. When doing so, we would normally notify a company in advance. We may also vote against a resolution or management/the board at a company's AGM – we consider this choice carefully as we only want to use this technique if our usual engagement has consistently stalled and we are not confident that the company is taking any action to address our concerns. Given the assets we represent, this sends a strong signal to the company and can help progress our dialogue with it.

Private markets

For most of our private-markets teams, a lack of liquidity means that it is not easy to divest or decrease exposure to investments. As a result, investments in this space are considered to be a long-term relationship and it is down to the investment team to conduct appropriate due diligence prior to investing to ensure that the firm is willing to work with us to drive positive change. At this point, positive behavioural changes in relation to ESG risks can be included as a requirement in the documentation. However, it is not always possible to envisage all ESG risks that could arise during the life of the investment. In these situations, our private-debt teams would engage with the borrower, often with the help of EOS, to escalate and resolve any issues through dialogue. Our Direct Lending team may also involve the private-equity shareholder.

There can be additional points at which we have a significant ability to influence the company's behaviours, primarily when the borrower seeks to alter the loan terms – for example, because the company wishes to make an acquisition. While we have enforcement rights when a borrower defaults on a loan and breaches the agreed terms, we use these rights only as a last resort. In the first instance, we seek to negotiate a positive outcome for all parties involved, although we will always act in our investors' interests in line with our fiduciary duty.



How we exercise our rights and responsibilities

Investor rights are themselves an asset and we view the exercise of these rights as part of our fiduciary duty and a responsibility of effective stewardship.

Listed equities: voting approach

For listed equities, our voting and engagement are cointegrated as part of our overarching approach to stewardship. As such, our voting decisions – as well as EOS’ recommendations to third-party clients on voting decisions – are informed by the insights and experience from engagement with the investee company. The international business of Federated Hermes [Global Voting Policy](#) and [Guidelines](#), which are aligned with EOS’ [Global Voting Guidelines](#), inform the investment decisions made by our investment teams. Our Guidelines are informed by a hierarchy of external and internally developed global and regional best-practice guidelines. The most of important of these are our EOS-developed regional corporate-governance principles, which are available on [our website](#).

Voting rights are exercised with a view to achieving best practice standards of corporate governance and equity stewardship and with the aim to support the delivery of long-term value in our funds. Ultimately, our investment teams make all voting decisions, based on EOS recommendations.

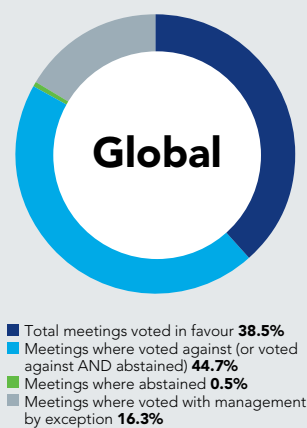
EOS engagers, who are well versed in the policies, make recommendations to our investment teams based on our voting guidelines, as well as any further information that they receive through their research, engagement and specialist knowledge of the company.

Listed equities: 2020 Voting

Our 2020 voting records and rationale

[Our voting records](#) are published online in arrears. This ensures that we are transparently accountable, but that our dialogue with companies around voting issues is not compromised. The records include all voting decisions of the international business of Federated Hermes. Company meetings where we have recommended voting in line with management on all resolutions are condensed. In 2020, we cast votes at 730 meetings involving 8089 resolutions.

Figure 8. 2020 voting statistics



Source: Federated Hermes, as at 31 December 2020.



On occasions when our policy may suggest a vote against management but engagement with the company has provided additional insight – for example, a company that has committed to making a change but that will not implement it until the following year – we may vote for, by exception to our policy. These instances are highlighted in our voting disclosures and are within the scope of our overall voting policy. We retain the ability to go against our high-level policy when warranted. This is on the basis of particular company circumstances or engagement insights and is in line with what we believe to be in the best interests of long-term shareholders such as ourselves.

We may attend the AGMs of investee companies or arrange for representation at the AGMs by the EOS team. We support the selective use of shareholder resolutions as they can be a useful tool for communicating investor concerns and priorities, asserting shareholder rights or supplementing or escalating direct engagement with companies. We consider such resolutions on a case-by-case basis and encourage boards to engage with serious, committed long-term shareholders like ourselves. We may also file or co-file shareholder resolutions.

Fixed income: how we use our investor rights

For our fixed-income products, the rights we have vary between the type of assets we invest in and even between individual investments. We seek to achieve mutually beneficial outcomes while protecting our clients' interests in line with our fiduciary duty.

Real Estate

As investment agents, we use the rights granted to us by our real-estate client mandates to improve the value of the assets in our portfolios in line with our fiduciary duty. For all our mandates, our investment strategies reflect market conditions and consider ESG factors. Our asset management activities seek to improve the assets – including by improving their ESG profiles and through tenant engagement – and thereby deliver positive social and environmental outcomes and benefit our clients and their end beneficiaries.

Our full 2020 Stewardship Report is available [online](#)

EOS at Federated Hermes have a separate [Stewardship Report](#). Hermes GPE are not in scope of this reporting.



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:



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