




Federated Hermes Sustainable Global Equity Fund

Quarterly Report
Q4 2021

**Federated
Hermes** 
International

www.hermes-investment.com
For professional investors only



The Federated Hermes Sustainable Global Equity Fund is a high-conviction, fundamental strategy targeting sustainable companies: profitable businesses whose products, operations and activities help create a more sustainable future. Our ability to identify these investment opportunities – and engage companies to sustain and strengthen their positive actions – is reinforced by best-in-class ESG and stewardship integration. Through this approach, we seek long-term transformative change and financial outperformance.

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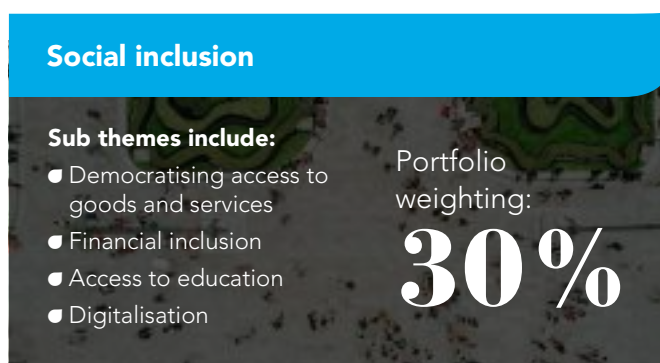
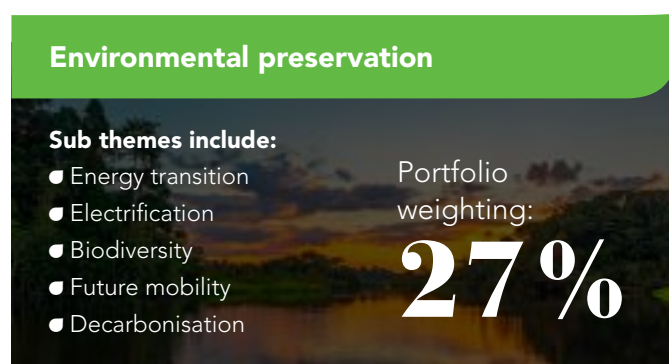
SECTION 1

Sustainable Global Equity:
This quarter's highlights

Exposure to impact themes

All portfolio holdings fit into one or more of our four investible themes, each of which consists of a number of sub-verticals.

As at 30 September 2021, exposure to these themes was as follows:





Source: Federated Hermes

Environmental footprint

The fund aims to have a smaller environmental footprint than the benchmark, the MSCI All Country World Index.

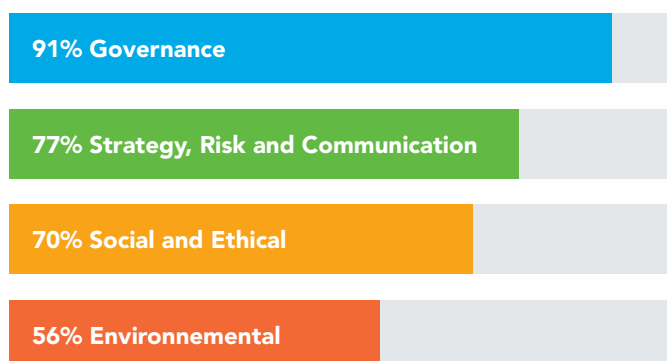
As at 30 September 2021, the portfolio's CO₂, water and waste footprint measured as follows:

	Fund portfolio (tonnes per \$m invested)	Benchmark (tonnes per \$m invested)
 CO₂ footprint (scope 1, 2 & 3)	65.2	168.6
 Waste footprint	2.3	20.5
	Fund portfolio (m3 per \$m invested)	Benchmark (m3 per \$m invested)
 Water footprint	5,000.9	59,581.8

Source: Federated Hermes, S&P Global Trucost

Engagement themes

As a percentage of the fund's AUM, the team's engagement efforts for the last 12 months breakdown as follows:



Source: Federated Hermes, as at 30 September 2021

The fund aims to have a smaller environmental footprint than the benchmark, the MSCI All Country World Index.



Portfolio positioning

As at 30 September 2021, the portfolio's top 10 active positions were as follows:

Holding	Portfolio active weight (%)*
Nvidia Corporation	3.21
Mastercard	3.20
AIA Group	3.17
ASML	2.93
Costco	2.87
APTAR	2.81
Bank Rakyat	2.77
Novo-Nordisk	2.75
Xylem	2.61
Trane Technologies	2.61

Source: Federated Hermes

The portfolio active weight is calculated as the fund weight minus the benchmark weight.

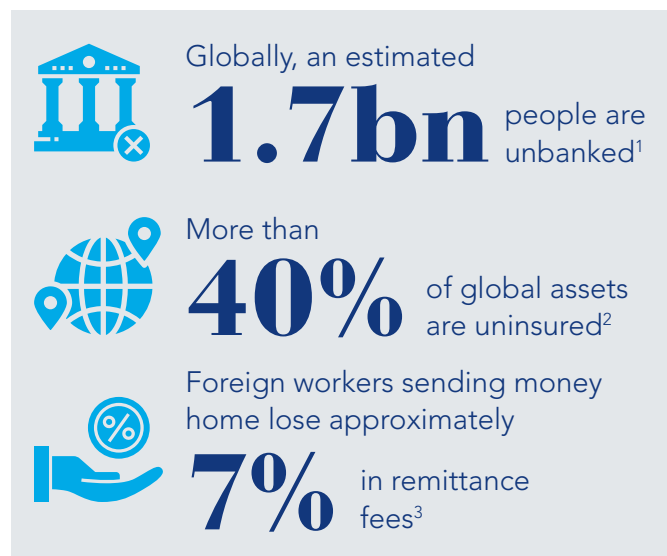
According to the World Bank, global extreme poverty worsened in 2020 for the first time in a generation, with about 120 million additional people joining the ranks of the poor worldwide.



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SECTION 2

Thematic focus: Financial inclusion

**What exactly is financial inclusion?**

- Commonly defined as the access to products and services people need to manage their money, at a reasonable cost, while having the understanding to use them appropriately.
- Services include transactions and payments, savings, pensions, investments, credit and insurance.
- Financial services provide opportunity and security for individuals and businesses.

Why is financial inclusion so important now?

It is increasingly understood that absolute levels of poverty are far from the only issue affecting the world's poor. Almost a third of adults globally (about 1.7 billion people) remain unbanked.⁴ Many more are unable to access financial services at economical prices, like loans, payment services and insurance. Being excluded from the formal financial economy can often create a vicious circle, trapping people in a cycle of debt.

The impact of the Covid-19 pandemic

According to the World Bank, global extreme poverty worsened in 2020 for the first time in a generation, with about 120 million additional people joining the ranks of the poor worldwide⁵.

The benefits of financial inclusion

Financial inclusion is an almost uniquely powerful theme in the number of areas it touches. The UN has linked financial inclusion to progress in relation to 13 of its 17 Sustainable Development Goals (SDGs). Financial inclusion:

**✓ Reduces income inequality**

International Monetary Fund (IMF) studies show a strong association between extending traditional financial services to low-income households and reducing income inequality. The data shows that the largest reduction in income inequality comes when women are given increased access to finance⁶.

✓ Fosters gender equality & political stability

Bolstering financial inclusion can improve gender equality and help build stronger institutions which, in turn, improves political stability. This minimises conflict and creates more just societies.

✓ Improves access to clean water, affordable energy

Access to formal financial services can indirectly improve access to clean water and sanitation, affordable energy and quality education.

✓ Creates economic opportunity

As well as bringing up to 1.7 billion people into the financial system, greater financial inclusion has the potential to generate 95 million jobs and boost global GDP by a massive \$3.7tn come 2025⁷.

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^{1,2} World Bank Group, Findex report, 'The Unbanked' (2017)

³ World Economy, 'Sending Money Home: Transaction Cost and Remittances to Developing Countries' (January 2021)

⁴ World Bank Group, Findex report, 'The Unbanked' (2017)

⁵ World Bank Group, 'Understanding Poverty' (October 2021)

⁶ International Monetary Fund (IMF) – Women in Finance: A Case for Closing Gaps (imf.org) – September 2018

⁷ International Monetary Fund (IMF) – Finance and Inequality (imf.org) – January 2020.

SECTION 3

Case studies

CASE STUDY

Bank Rakyat (BRI)

Investible theme and sub-theme: Social Inclusion (Financial Inclusion)



According to a World Bank study, appropriate financial services can have substantial benefits for consumers, especially women and the poor. Despite this, an estimated 1.7 billion people remain unbanked. Many low-income people rely on informal financial services, which typically means higher fees and interest rates.⁸

With banking in Indonesia languishing at below 50% of the population⁹, President Widodo committed in 2016 to increasing the percentage of adults with a bank account¹⁰. As a leading financial institution within Indonesia, Bank Rakyat (BRI) is currently driving this agenda by providing bank accounts to individuals. In 2019, it was estimated that BRI brought 19 million people into the economy¹¹, a huge achievement with respect to the longer-term security and opportunity afforded to beneficiaries.

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50% of the population, President Widodo committed in 2016 to increasing the percentage of adults with a bank account.

In 2020 the company provided RP

484.4tn

in lending for small businesses, which was

55% of total credit disbursed.



BRI also services small businesses with microloans to foster broader prosperity. At present, only 15 million out of 45 million Indonesian micro businesses are served by financial institutions¹², meaning there is a huge and profitable opportunity for BRI. Certainly, smaller loans have been growing as a percentage of their total loan book, in 2020 the company provided RP 484.4 trillion in lending for small businesses, which was 55% of total credit disbursed. What's more, compared to the bank's wider book, these loans tend to generate higher returns, with historically lower bad loan ratios.

⁸ World Bank Group, Findex report, 'The Unbanked' (2017)

⁹ Note: In 2017, was estimated that less than 49% of the adult population (aged 15 and above) held an account with a financial institution in Indonesia. Source: The World Bank (2018)

¹⁰ OECD, 'Economic outlook for Southeast Asia, china and India 2019: towards smarter urban transportation' (2018)

¹¹ Net Purpose, Federated Hermes Impact calculations. 2020 data, as at 31 July

¹² Aldiracita Sekuritas Indonesia, 'Bank Rakyat Indonesia: Slump now, hike later' (29 September 2021)

 CASE STUDY

Mastercard

Investible theme and sub-theme: Social Inclusion (Financial Inclusion)



When it comes to financial inclusion, digital payments are a uniquely powerful tool —they create a credit track record against which loans can be made, and provide convenience and security to the recipient. Through this technology, for example, a rural teacher could receive payment through a mobile phone, rather than queuing to collect their salary in a neighbouring city or town.

And it is against this backdrop that our holding – Mastercard is well-positioned. Through considered investment and innovation, Mastercard have helped enable the cash-to-card transition, which now looks set to play out over years to come. The company are poised to become leaders in this market.

Mastercard have committed to bring

1bn people into the financial system by 2025 and help **50m** micro businesses.

In recent years, and under CEO Ajay Banga's leadership, financial inclusion has risen up the company's agenda. Mastercard have committed to bring 1 billion people into the financial system by 2025 and help 50 million micro businesses¹³. If met, these targets will clearly create positive societal outcomes. They will also diversify the business' revenue stream and create brand loyalty in parts of the world which are set to see higher rates of economic growth.



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¹³ Mastercard, 'Sustainability Report' (2020), p.2

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.

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- **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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