SDG Engagement Equity Fund

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2021 H1 Report
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Federated Hermes
International

www.hermes-investment.com

Federated Hermes SDG Engagement Equity Fund: H1 2021 highlights

98
engagement actions
were carried out in H1 2021

90% of portfolio companies were engaged, with progress towards objectives made in:

53% of companies

> **We believe that engaging with businesses can lead to tangible improvements in the way that they operate, in support of the SDGs.**

In H1 2021, the proportion of our engagements were focused on:

30% environmental issues and objectives

34% social issues and objectives

20% governance issues and objectives

15% strategic issues and objectives

The most intensively engaged Sustainable Development Goals (SDGs) were:

5 GENDER EQUALITY — **48%** of engagement actions

7 AFFORDABLE AND CLEAN ENERGY — **46%** of engagement actions

8 DECENT WORK AND ECONOMIC GROWTH — **46%** of engagement actions

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — **41%** of engagement actions

13 CLIMATE ACTION — **39%** of engagement actions

> **The impact of the pandemic has led to a heightened interest in issues of sustainability, among investors and corporates alike. We have been pleased to see ever more of our investee companies coming forward with sustainability reports.**

Completed objectives: **12**

Total issues or objectives engaged: **174**

Total SDG-related issues or objectives: **137**

Source: Federated Hermes, as at 30 June 2021.

Contents

Federated Hermes SDG Engagement Equity Fund

The Fund, launched at the beginning of 2018, is based on the fundamental guiding principle that the best way to create long-term wealth is through responsible investing.

Our aim is to generate attractive returns for investors in a way that has a measurable positive impact on people and the planet.

As a result, the Fund employs an investment strategy of buying into companies that have the clear potential to deliver long-term social and environmental benefit. We believe that we can help harness this capacity through a process of engagement, underpinned by the UN's 17 Sustainable Development Goals (SDGs).

This is an ambitious set of objectives, agreed to by all UN member states in 2015. Its goals are to eliminate poverty, protect the planet, and improve the lives of the world's population, by 2030.

The targets against which we benchmark our investee companies include generating affordable and clean energy, building resilient infrastructure, and ensuring that patterns of consumption and production are sustainable.

The engagement commitment

We are committed to being a responsible owner of the companies that we invest in, and we believe that engaging with businesses can lead to tangible improvements in the way that they operate, in support of the SDGs.

Our investment approach has led us to find compelling opportunities among the small and mid-sized players (SMID). Many of these are not the typical targets of engagement-minded shareholders. The Fund's managers, however, believe that these companies' operational models and supply chains offer rich opportunities. They also believe that the direct access the companies tend to offer increases the prospect of successful engagement considerably.

Using the SDGs as a mechanism for assessing companies and benchmarking their performances provides investors with valuable insight into how sustainably a business operates and what risks and opportunities lie ahead.

The long-term success of companies is bound into their environments. The position of businesses within their communities and the direct relationships they have with their workforces and supply chains put them in a unique position to promote change.

Companies that actively work in the interests of greater environmental sustainability – and pursue the SDGs – are more likely to enjoy the financial rewards that come from customer loyalty, staff satisfaction, and products that more ably meet the needs of consumers.

Measuring success

Although we believe that a company's success in meeting the SDGs can be monitored and assessed over the long term, we are aware that change can take time and is not always immediately quantifiable. Nor is it always appropriate to directly compare businesses inside the portfolio, which may have entirely different business models, supply chains impact opportunities, as well as differing exposures to various economies. As such the engagement impact thesis for each company is particular to that company's circumstances. In one case it may be directed towards the provision of employment to disadvantaged populations, in another it may be the need to innovate towards more resource efficient production.

We consider it important to keep our own investors informed about the progress of our engagements and developments at our investee companies, which ultimately deserve the credit for their achievements.

The Fund therefore uses reports such as this to provide regular updates to shareholders. We explain the changes that we believe needed to happen at a number of companies. We then detail the progress they have made, including in specific areas such as committing to specific goals or developing new partnerships.

Where relevant, we reference wider global initiatives, such as when a company embraces science-based targets or specific climate-related disclosures. Ultimately, we measure and report on the change in outcomes that have occurred as a result of the improved practices, allowing investors to understand the full story from an initial engagement thesis to impact generation.

Engagement commentary

Will Pomroy Lead Engager

When I was writing the commentary for our H1 report in 2020, few would have predicted that 12 months on many of us would still be working from home and Covid-19 infections would be rising again. Thankfully, there is now light at the end of the tunnel. Vaccines are being rolled out – quickly in some areas and much too slowly in others – but rolling out nonetheless.

There are silver linings. The impact of the pandemic has led to a heightened interest in issues of sustainability, among investors and corporates alike. We have been pleased to see ever more of our investee companies coming forward with sustainability reports. More pleasingly, we have welcomed them reaching out to us for our input before publication and seeking our assistance in shaping both their approach and their disclosures.

We're looking for much more than greater disclosure, of course. Nevertheless, this enhanced reporting is testament to the work that is taking place behind closed doors. It is genuinely heartening to note the real commitment of many management teams to making a real social and/or environmental contribution and their recognition that this fits well with their financial goals.

Leading the way

The European Union (EU) has long been at the forefront of sustainability matters. It is in Europe that significant regulatory changes are coming into force in the coming months, including Sustainable Finance Disclosure Regulation (SFDR). This is directed at us as investment funds in order to help you as investors better navigate the ever-expanding range of environmental, social and governance (ESG), sustainable and impact funds. In addition (but very much linked), the long-debated and detail-heavy EU Taxonomy creates opportunities. As investors, it provides us with a much more defined understanding of what constitutes sustainable economic activity (at least as it pertains to climate mitigation or adaptation). In particular, for us as an engagement fund, it gives us clear signposts, which we can then use to show companies what they need to aspire to. It also helps companies to attract new investors, gaining credit for their positive activities.

It's not just Europe making advances on enhanced disclosure, however. In the US, earlier this year the Securities and Exchange Commission (SEC) asked investors and other market participants to comment on potential requirements on climate-change disclosure. These would help the US catch up with international frameworks. In this context, we have again found our greatest traction coming from our US mid-cap investee companies. This is reflected in the case studies later in this report.

On the whole, these regulatory developments are positive . Building on our 2020 annual report which, in addition to multiple illustrative company stories, evidenced that our engagement efforts with investee companies has been delivering outperformance on a number of sustainability measures. We will be spending much time during the second half of the year developing further our approach to measuring, reporting and assessing the impact of corporate sustainability performance in advance of our 2021 annual report.

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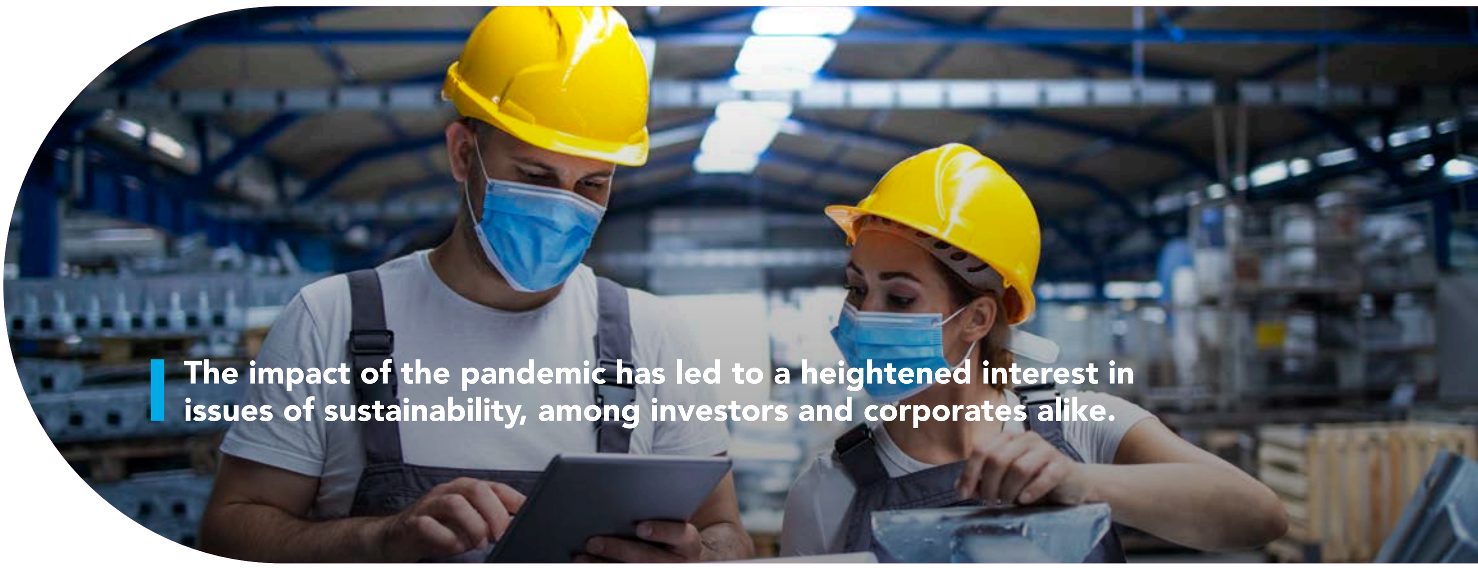


H1 engagement highlights:

Summarised below are a few of the notable highlights of the first six months of 2021. Others are covered in more detail in case studies later in the report.

Cooper Companies

We have had a long-running engagement with this US contact lens and surgical equipment manufacturer and we welcomed the publication of its inaugural ESG report this year. This is a great first effort, informed by a comprehensive materiality assessment (into which we had input), combined with a commitment to provide a data update in 2022 and comprehensive annual reporting from 2023.

Having engaged with the company over the amount of plastic waste caused by the disposal of contact lenses at the end of their life, its partnership with Plastic Bank and the marketing of the first net plastic-neutral contact lens is particularly pleasing. Importantly, the company acknowledged that its plastic neutrality initiative is one way that it can manage sustainability today, while working on the innovations of tomorrow. These include exploring alternative materials, resources and processes to continue to manage their impact.

We will continue to engage on these issues. We will also pursue further discussions around the potential social impact of broadening the market's awareness and adoption of the company's Paragard product. (This is a non-hormonal, long-lasting and reversible contraceptive device.)

Eagle Materials

Having engaged with this US cement and wallboard manufacturer for a number of years about its need for a detailed climate change strategy, we welcomed the publication earlier this year of its first detailed ESG report for a decade. This sets out its performance over multiple years using a number of headline metrics (CO_2 emissions, air emissions of particulates, Nox, and accident and injury rates). Most significantly, the company also set out its plan to become net zero by 2050. Its strategy covers the steps needed across clinker and cement production, as well as concrete, construction and carbonisation. It is encouraging to note that the company is focusing on opportunities to lower the carbon-fuel mix at every cement plant and developing strategies for blended cements (i.e. lower clinker content).

Nifco

Our engagement with this Japanese auto parts manufacturer has continued to progress positively. We were pleased that during the first six months of the year it moved to a unitary board, with an audit committee and significant improvements made to the level of board independence. These changes show how the culture of the organisation has changed since the previous generation, when the founder's influence remained. More pertinently, given our ongoing focus on gender inequality in Japanese working practices, we were heartened that the company significantly improved its disclosure of data on human capital management and gender diversity. Less positively, the company failed to meet its modest target of improving its female manager ratio to 8% by the end of the previous financial year. It has, however, appointed a female executive from outside the company, changed its personnel system and focused on identifying and developing young talent to be managerial candidates. It is now working on a new target and our engagement here continues. We will separate to this report soon provide an update on the progress we have seen across our engagements with Japanese companies on gender equality.

Swedish industrial group Trelleborg has formally committed to the SBTi and is intending to set a net-zero target in line with a **1.5°C** future.

Climate change

A number of our portfolio companies made meaningful climate-related commitments during the first half of the year.

- Dairy and sports nutrition business Glanbia has had its targets approved by the Science Based Targets initiative (SBTi). These are to reduce absolute Scope 1 and 2 greenhouse gas (GHG) emissions by 31% by 2030 and to cut Scope 3 GHG emissions from purchased goods and services by 25% per tonne of dairy produce, also by 2030. Both targets are based on 2018 levels. Its subsidiary Glanbia Ireland has committed to the same initiatives.
- Swedish industrial group Trelleborg has formally committed to the SBTi and is intending to set a net-zero target in line with a 1.5°C future.
- Environmental and industrial services provider Clean Harbors (see page 14 for case study) acknowledged that its role in mitigating climate change means that it has to do more to develop and grow its recycling and re-refining services while seeking ways to reduce the environmental impact of its operations. The company's announced acquisition at the end of June 2021 of Vertex Energy will increase its motor oil re-refining capacity by 40% and is a positive sign that it is further scaling its net positive impact.
- Others have started on the journey. Home and security consumer products company Fortune Brands is developing its climate strategy, with targets to come. Power tools and equipment manufacturer Techtronic Industries has signalled its intention to announce Science Based Targets within its 2021 ESG reporting and real estate investment trust Retail Opportunities Investment Corp has put in place its first set of energy-use reduction targets.

The progress of our engagements in H1 2021

Key engagement metrics

% of companies engaged
90%

Total engagement actions
98

% of companies with progress towards objectives:
53%

Completed objectives
12

Total issues or objectives engaged
174

Total SDG-related issues or objectives
137

Total SDG-related engagement actions
79

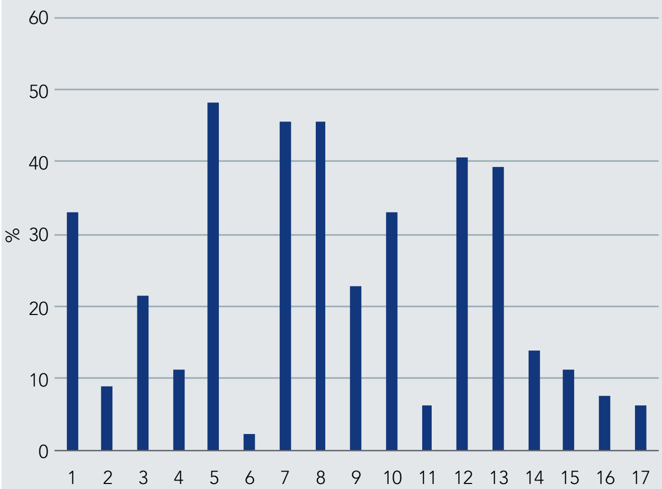
Total meetings voted
55

Number of meetings voted against management on at least one resolution
21 (38%)

Total resolutions voted against
32 (4.9%)

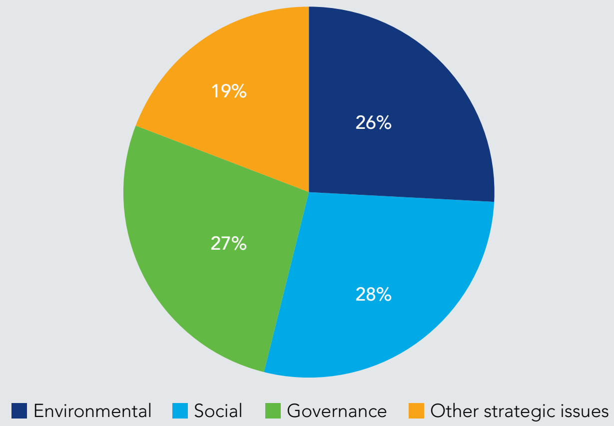
Source: Federated Hermes, as at 30 June 2021.

Figure 1. H1 2021 engagement actions per SDG



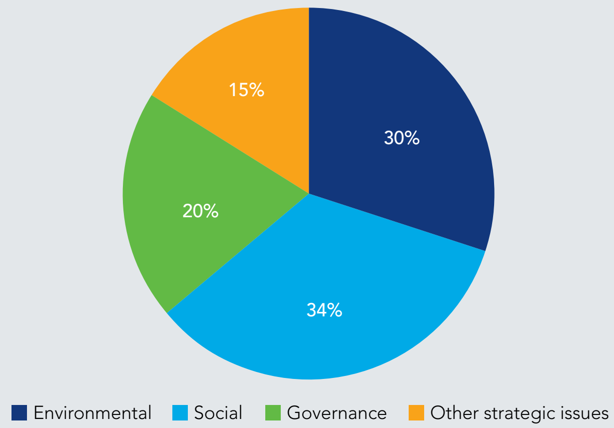
Source: Federated Hermes, as at 30 June 2021.

Figure 2. Proportion of engagement actions



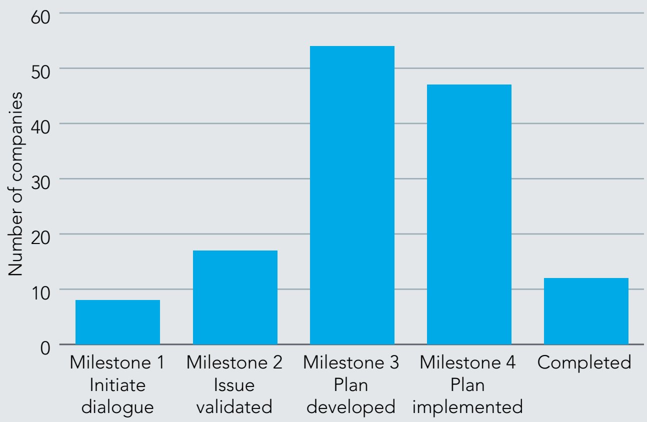
Source: Federated Hermes, as at 30 June 2021.

Figure 3. Proportion of engaged issues and objectives



Source: Federated Hermes, as at 30 June 2021.

Figure 4. Total engagements – milestone status at the end of June



Source: Federated Hermes, as at 30 June 2021.

Investment review

Hamish Galpin Lead Manager

Market review

Stock markets rose during the first half of the year, fuelled by vaccine roll outs and increasing expectations of an economic recovery. The strong growth of cyclical shares that started in the last two months of 2020 continued until mid-May.

Progress was held back by a resurgence of Covid-19 and this led to a renewed interest in growth shares, which had previously languished based on the prospect of rising interest rates. In other words, there has been further substantial market rotation this year.

The Fund's benchmark is the MSCI World ACWI SMID index, covering small and mid-cap stocks in the developed and emerging markets up to a value of around $15bn. This indicator rose by nearly 14% in dollar terms during the first half. This compares with increases for equivalent large caps of around 13%, and 15% for the S&P 500. All sectors rose during the period, with Energy the best performer, rising by 37%. Consumer Discretionary and Financials also posted gains, of 19% and 18% respectively, driven by greater consumer activity and expectations of an increase in rates. Utilities and Consumer Staples, having performed resiliently the previous year, were the weakest-performing sectors, returning less than 4% and 6% respectively.

Regionally, emerging markets in Asia and North American equities were the strongest performers, each of them rising by 17%, whereas Japan was the weakest, up less than 2%. India was one of the best-performing countries in EM Asia, whereas Columbia and Peru were the weakest.

Fund performance

The Fund achieved a net return of 10.6% in US dollars[1], but this was not enough to keep up with the benchmark. This was mainly because the Fund has a number of defensive and steady growth stocks (e.g. Japanese supermarket operator Yaoko and US building materials company RPM), which the market has shunned in favour of more cyclical names. The Fund has a very clear correlation with low volatility, one of the worst performing areas this year, and we took advantage of this to add to our holdings in a number of names with this characteristic.

Figure 5. Rolling five-year performance (%)

	30/06/20-30/06/21	30/06/19-30/06/20	30/06/18-30/06/19	30/06/17-30/06/18	30/06/16-30/06/17	Since inception
Fund	38.8	-8.7	4.9	–	–	7.9

Past performance is not a reliable indicator of future results. Source: Federated Hermes, as at 30 June 2021. Performance shown is SDG Engagement Equity Fund, net of all costs and management fees, relative returns calculated arithmetically. Benchmark is the MSCI All Country World SMID index. Inception date is 29 December 2017.

With regards to attribution, stock selection was the predominant factor of the underperformance, while sector allocation and currency movements also slightly detracted from relative returns.

The Fund's positions in Health Care fared particularly well (the opposite of 2020), but this was outweighed by negative stock selection elsewhere, principally within the Materials and Consumer Discretionary sectors. Regionally, negative stock selection was largely concentrated in Japan and EM Asia, but positive in the Pacific and Europe.

In terms of individual stocks, the biggest contributors to performance were AMN Healthcare Services, a nursing staff agency, Eagle Materials, a manufacturer of wallboard and cement, and Brunswick, which makes boats and boat equipment. AMN's shares rose after it announced quarterly earnings that beat expectations and prompted broker upgrades. Eagle gained on hopes of increased US infrastructure spending and following the announcement of better-than-expected earnings. Brunswick shares moved higher after brokers upgraded their price targets due to increased demand and, in our view, the company's effective execution of its strategy in recent years.

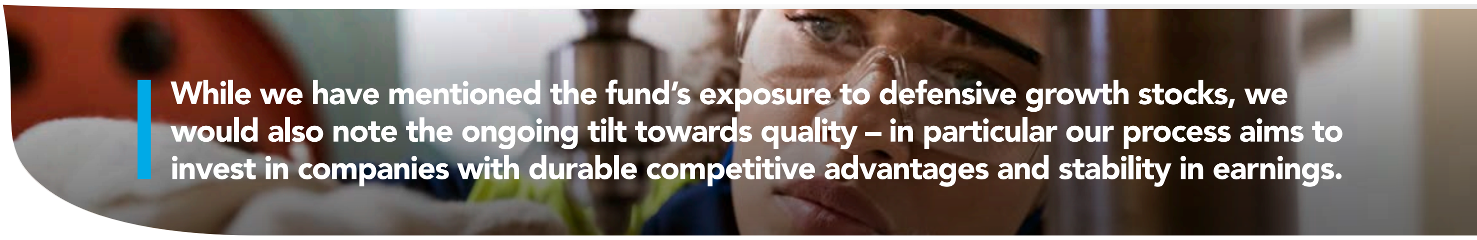
Japanese defensive growth companies Nissan Chemical, a speciality chemicals producer, and Yaoko were the greatest detractors. Nissan Chemical was the weakest performer, despite announcing robust earnings and completing a share repurchase, although the firm's outlook statement offered a mixed picture. Shares in Yaoko also fell after the company reported earnings that were just below expectations even though year-on-year growth was strong. Shares in Credicorp, a Peruvian financial services business, dropped after the market reacted to the vote by the country's congress to cap the interest rates of personal finance and micro loans (which we believe will impact smaller lenders more than large ones such as Credicorp's subsidiary BCP). Election uncertainty also weighed on Peruvian equities.

Activity and positioning

New holdings included Draper Esprit, a European technology investor. This gives the Fund exposure to early-stage tech businesses, something that is becoming harder to find as these companies now tend to stay private for longer. Here we can have an influence on environmental, social and governance issues as Draper builds its own approach to sustainability. We also bought into LKQ, a used and replacement car-parts business, and Vistry, a UK housebuilder with a substantial social housing division.

The Fund sold its shares in Tong Yang, a supplier to LKQ, after the company fulfilled its engagement objectives. It exited the investment in Relo, a Japanese provider of executive relocation services and company benefits packages, after we failed to make progress in our engagement efforts with the company. Our holding in Diversified Energy was also sold in a move to take out fossil fuel exposure from the fund.

[1] **Past performance is not a reliable indicator of future results.** Source: Federated Hermes, as at 30 June 2021. Performance shown is SDG Engagement Equity Fund, net of all costs and management fees, relative returns calculated arithmetically.

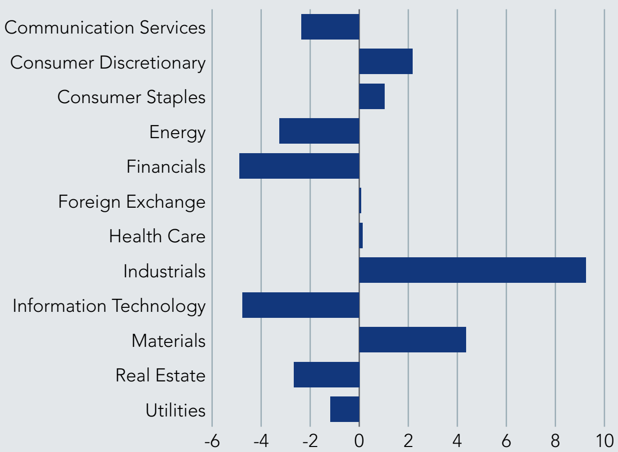


Given the nature of the SDGs, the Fund continues to have a greater exposure to resources-based businesses (i.e. those deploying physical capital and human capital) and less to resource light intellectual capital-driven businesses such as those in the technology and healthcare sectors. While we have mentioned the fund's exposure to defensive growth stocks, we would also note the ongoing tilt towards quality – in particular our process aims to invest in companies with durable competitive advantages and stability in earnings. In our view, management of higher quality stocks are more likely to be conducive to undertaking SDG-related initiatives and will see the benefit of these for their companies.

Figure 6. Style Skyline

Source: Federated Hermes, as at 30 June 2021.

Figure 7. Positioning by sector



Source: Federated Hermes, as at 30 June 2021.

Outlook

Market volatility, particularly between sectors, is likely to continue as investors react to the pace, or lack of it, of reopening and the ongoing tug of war between inflationary and deflationary forces. In this context, we are very happy to be structurally positioned in a mixture of growth and value-oriented stocks (but at neither extreme), with a clear tilt towards quality and stability. We think this is appropriate for our long investment horizon, which we believe is a strong creator of shareholder value and is necessary to realise the strategy's social and environmental objectives.

In our view, management of higher quality stocks are more likely to be conducive to undertaking SDG-related initiatives and will see the benefit of these for their companies.

THEMATIC COMMENTARY:

SDG 1, No poverty – end poverty in all its forms everywhere

The Sustainable Development Goals (SDGs) are a blueprint for a better and more sustainable future for all. It is therefore right that the first of them is to "end poverty in all its forms everywhere". However, the onset of the Covid-19 global pandemic has dealt a big blow to this aim, with global poverty increasing last year for the first time in decades.

1 NO POVERTY

SDG 1.2, By 2030, reduce by at least half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.
Of course, poverty is not only an issue for the developing world and the spirit of the SDGs, of leaving no-one behind, also applies to rich countries. As of 2019[2], the poverty rate (the share of people living with less than half the median disposable income in their country) in the US was 17.8%, and in the UK stood at 11.7%. We know the pandemic has exacerbated pre-existing inequalities.

We also know certain groups are disproportionately represented among the poor, including women, children, indigenous peoples and those with disabilities. They face additional barriers to escaping their predicament, such as limited access to productive resources and markets.

There is a self-evident need therefore to redouble efforts, international and collective, public and private, in pursuing the goal of poverty eradication.

As of 2019 , the poverty rate (the share of people living with less than half the median disposable income in their country) in the US was

17.8%

and in the UK stood at

11.7%

SDG 1.3, By 2030, ensure that all men and women, particularly the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership, and control over land and other forms of property, inheritance, natural resources, appropriate new technology, and financial services including microfinance.
Poverty is not just about income. It is also about the access individuals have to basic services. Businesses clearly have a role to play here, not least in terms of thinking about adopting scalable and commercial models to broaden their reach.

Business response

Businesses can make a profound contribution to the achievement of this goal. They can proactively take steps to address constraints faced by disadvantaged groups, by making their business models more inclusive, their products more innovative and by providing services that better meet their needs. Companies can also build on the unique perspectives of these groups as consumers, employees, suppliers and distributors and community members.

Most fundamentally, businesses have an impact by providing employment and paying a living wage. This extends both to those they employ directly and their indirect employees in the supply chain, which is where poverty wages are more common. At the same time, the attentions of social media and non-governmental organisations (NGOs) are shining a light on those workers hidden away. Companies therefore need to be sure that their business models, pay and practices ensure the economic sustainability of the individuals concerned.

[2] Inequality – Poverty rate – OECD Data.

Credicorp

Credicorp is Peru's biggest bank and the owner of Mibanco, the largest microfinance business in Latin America.

According to Worldbank data, as of 2018, 43% of adults in Peru have a bank account. While that is up from 29% in 2014, it is still below the region as a whole and there is a 17% gender gap and a 26% gap between richer and poorer.

Mibanco has a broad portfolio of products aimed at entrepreneurs of micro, small and medium-sized enterprises (MSMEs) as well as individuals. Its focus is on providing the population with access to financial services, not just credit but also savings and investments.

As of 2018 **43%**
of adults in Peru have a bank account

Over the last ten years, Mibanco has set up bank accounts for more than 974,000 Peruvians.

- **In 2020, Mibanco provided accounts to 150,000 people**, more than 37,000 of whom were accessing the financial system for the first time.

> **Mibanco has a broad portfolio of products aimed at entrepreneurs of micro, small and medium-sized enterprises (MSMEs) as well individuals.**

Yape, Credicorp's app, enables people to send money to another mobile phone number free of charge, securely and instantly. All that's needed to open an account is an official ID.

- **As a result of Yape, 650,000 have now been included in the financial system**. The app is adding 300,000 customers per month, 80,000 of whom are new clients and have received a debit or prepaid card from the bank for the first time. The company is targeting 3m more Yape users in 2021.

Positively, financial education and inclusion, including with a gender-specific lens, are key pillars of the bank's newly launched sustainability strategy.

The app is adding
300,000
customers per month

Half of Mibanco's clients are women and the bank has designed a specific product to cater to their financing needs. Women over the age of 23, whether they are head of the household or a second earner, are eligible for financing for working capital, fixed assets, housing or personal consumption. The minimum loan is 300 soles and the maximum is 3,500 soles.

Gender inequality is structural. The majority of accounts are in men's names. Therefore, targeted financing such as this should help bolster female financial independence and fuel economic growth. Importantly, the loans do not need a spousal signature.

- **In 2020, 19,386 female-targeted loans provided.**

> **Half of Mibanco's clients are women and the bank has designed a specific product to cater to their financing needs.**

ENGAGEMENT CASE STUDIES

We publish two engagement stories from the SDG Engagement Equity portfolio each quarter. Please find four summaries of these case studies here: Glanbia (originally published in Q4 2020), Alliant Energy (originally published in Q1 2021), Clean Harbors (originally published in Q1 2021) and Fortune Brands (originally published in Q1 2021).

Glanbia

2 ZERO HUNGER | 3 GOOD HEALTH AND WELL-BEING | 13 CLIMATE ACTION

We have been engaging on sustainability issues with Glanbia – an international dairy, nutrition, and ingredients company – since 2016.

The company operates primarily in the UK, Republic of Ireland, and US, with more than 80% of its revenues coming from the US. As of 2019, it employed 7,385 people across 34 countries.

As an investment proposition, Glanbia is attractive due to its exposure to the increasing trend among consumers to be health-conscious and physically active. The company produces some of the leading brands in the area, including Optimum Nutrition in sports and Slimfast in weight management.

The issues

Glanbia sources more than 8bn litres of milk per year from 5,000 suppliers, which accounts for nearly 90% of its emissions (assessed across all of the activities it takes to make a Glanbia product).

Dairy cows are a significant contributor to global warming: each one generates about three tonnes of carbon-dioxide equivalent (CO_2e) per year, in the form of manure and enteric (or burped) methane. However, while more potent than CO_2, methane is a short-lived pollutant, and so reducing emissions of the gas could help mitigate climate change within our lifetimes.

Cows in North America emit far more methane than elsewhere, but their average milk yield is higher, meaning fewer are needed. For Glanbia, the most material issue is to cut methane emissions at the farm level, while also growing its revenue from non-dairy protein products.

Our engagement

Our engagement with the company is aligned with three of the SDGs, namely SDG 2 (zero hunger), SDG 3 (good health and wellbeing), and SDG 13 (climate action). Among our aims is for the company to target reducing its carbon footprint across its value chain, to undertake a packaging audit, and to tie sustainability into the chief executive's performance-related pay.

Against the backdrop of increased consumer interest in the environment, health, and wellbeing, we would like the group to be clearer about its growth plans in alternative proteins, including plant-based products, and how these fit in with its carbon-reduction ambitions.

Glanbia has made progress since it published its first sustainability report in 2016, since then we have had more than 20 engagements, including with senior management and board members. As well as working with the Carbon Trust to map its total value-chain emissions, the company is trying where possible to eliminate the amount of its waste that goes to landfill, and has started to use recyclable packaging.

Positively, the company has now committed to the Science-Based Targets initiative and investments to bring about dairy farm emissions intensity reductions (25% by 2030). We will continue to engage with the firm, including on issues of diversity and inclusion, with the aim of supporting its long-term commercial success and greater positive societal impact.

Alliant Energy

Alliant Energy is a diversified US utility company that supplies electricity and natural gas to residential, commercial, and industrial customers and to wholesale bulk buyers of energy. It operates in the economically diverse regions of Wisconsin and Iowa.

This well-managed business trades within a favourable regulatory environment and has clear capital-expenditure targets.

By investing in its clean-energy capacity, battery technology, and infrastructure, the group should be able to move away from its traditional reliance on fossil fuels (principally coal) for electricity generation.

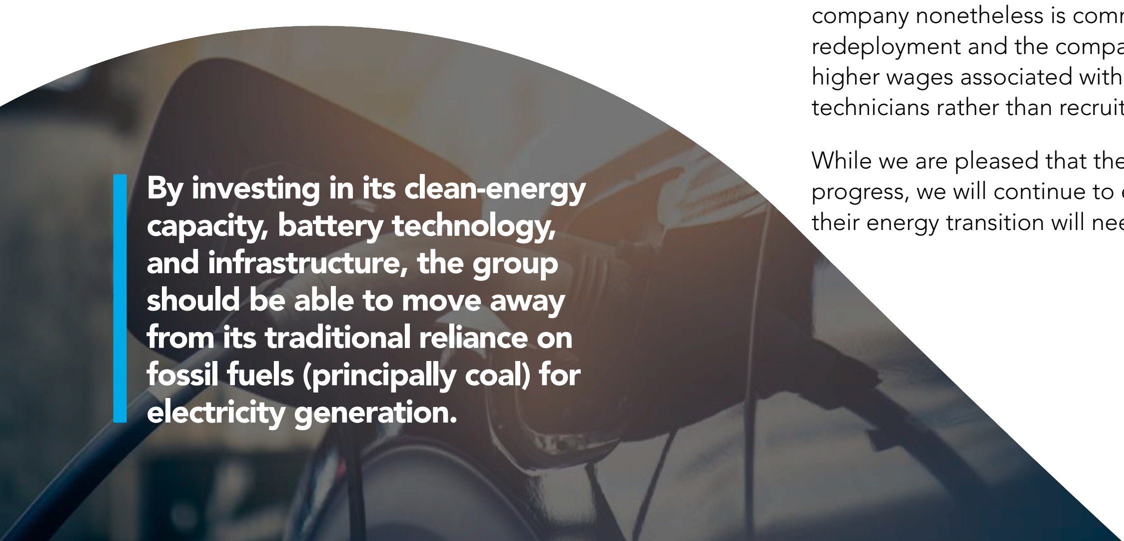
Not only would that help reduce greenhouse-gas emissions, it would also provide its customers with affordable and reliable modern energy. The lower costs of producing renewable energy should also increase profits.

Our aims

We engage with Alliant using seven of the UN's 17 Sustainable Development Goals (SDGs), including to provide affordable and clean energy for all (SDG 7) and to take urgent action to combat climate change and its effects (SDG 13).

As part of a clearly articulated strategy to use renewable sources rather than fossil fuels in its energy generation, we wanted to see the company set out meaningful capital-expenditure targets for the short, medium, and longer term, together with specific plans for its energy mix.

Our objective is also for the group to focus more clearly on meeting its customers' needs, with the aim of improving its performance in satisfaction surveys. To that end, we are pleased by recent initiatives to support customers in arrears by encouraging prompt payment practices in return for writing off portions of debt.



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This well-managed business trades within a favourable regulatory environment and has clear capital-expenditure targets.

Company progress

In 2018, Alliant said that it would reduce its carbon emissions by 80% from 2005 levels and eliminate its coal use by 2050. In an encouraging sign that it recognised the need to raise its game, the company put a new set of targets in place in 2020: it brought forward the planned date for eliminating coal from its energy mix by a decade to 2040; revised its CO_2 emissions-reduction target to 50% by 2030; and stated its intention to become a net zero emitter from its electricity generation activities by 2050. Between 2017-2024 the company will have increased its owned renewables generation more than five-fold (taking owned renewables capacity to >40% of total capacity).

In 2020, Alliant said that it would reduce its carbon emissions by **50%** 2030 and eliminate its coal use by 2040.

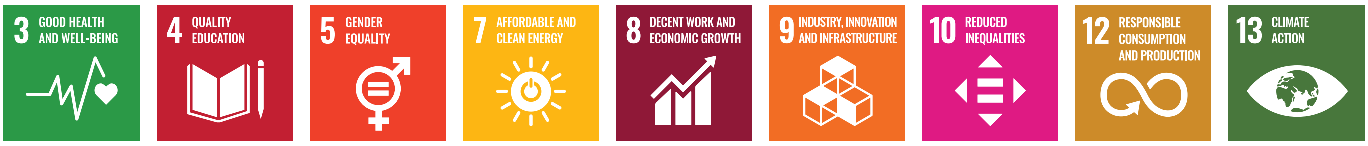
A just transition

The transition from coal to natural gas and, ultimately, to renewables is already having a knock-on effect on Alliant's employment levels. A coal plant needs about 150 people to run it, while a natural-gas facility requires 20-25, and only a handful are needed at a wind farm. It is inevitable that the company will reduce its staffing levels further as it changes its energy mix; while this should reduce costs, it would also impact people's lives.

Alliant tries to give affected workers three to four years' notice. About 40% of the workforce is more than 51 years old, and therefore approaching retirement, and local unemployment rates are below the national average. Both characteristics help to mitigate the negative impact. While both characteristics help to mitigate the negative impact, the company nonetheless is committed to supporting redeployment and the company has decided to pay the higher wages associated with internally retrained solar technicians rather than recruit externally.

While we are pleased that the company is making overall progress, we will continue to engage in the recognition that their energy transition will need to accelerate further.

Clean Harbors



Clean Harbors, Inc is a waste-management company and the leading provider of environmental, energy, and industrial services across North America.

With a workforce of 14,000, it handles and disposes of hazardous and non-hazardous waste, provides environmental clean-up services, and collects used oil, primarily for re-refining.

As the owner of nine of the 13 incinerators in North America that accept high-hazard and ozone-depleting waste, Clean Harbors has strong pricing power and is positively exposed to the market's long-term growth. Historically highly acquisitive, its low leverage and ample cash make it well positioned for future M&A.

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Positive signs

Having engaged extensively with the firm, we are encouraged by the progress it has made, but we believe more can be done. In our view, Clean Harbors can make a positive contribution by investing in its recycling and incineration services, reducing emissions from its large fleet of vehicles, and further improving diversity in the workforce.

Drivers and trucks

Clean Harbors operates around 8,000 vehicles, among the biggest private fleets in North America. According to the company's 2020 sustainability report, these trucks are responsible for 255,000 metric tonnes of CO_2 emissions annually, or 16.5% of the group's total Scope 1 emissions (from sources it owns or controls).

There are several things the company, which is currently setting itself a Scope 1 emissions-reduction target, can do. It can refurbish vehicles to improve fuel efficiency and make greater use of alternative fuels, such as biodiesel or a mixture of hydrogen and electric. Supply and price issues complicate the process, but Clean Harbors aims to make alternative vehicles account for 10% of its light-duty fleet by 2030, up from below 1% in 2019.

Handling the shortage in the truck-driving workforce – roughly 60,800 in 2018, according to the American Trucking Association – has been problematic for Clean Harbors.

It spends about $10,000 on specialist training for each driver, only to have them regularly poached shortly afterwards. Despite their additional skills, the company pays no premium over its competitors.

Having invested an additional $75m between 2018-20 to improve its employee pay and benefits proposition, alongside restructuring its hiring interaction between employees and line managers, Clean Harbors has saved roughly $8-11m per year (driver voluntary turnover down from 25% to 20% p.a.) in costs by improving its retention rate. Although the firm has improved the diversity of its workforce, including by hiring military veterans, we believe that in order to address its labour shortfall, it can provide opportunties to disadvantaged groups such as ex-offenders.

More positive impact

Clean Harbors' presence in 480 US locations and its seven industrial landfills – in addition to its incinerators and fleet of vehicles – makes its emissions levels meaningful. Meanwhile, the firm's oil re-refining, and disposal and incineration activities, avoid emissions elsewhere. Re-refining one gallon of used motor oil saves 8 kilograms of greenhouse gas compared to a gallon of motor oil refined from crude oil.

The company plans to grow its net positive greenhouse-emissions profile (those avoided as a result of its incineration and recycling services offset against those generated through its operations). We continue to engage in this respect.

Fortune Brands

Fortune Brands Home & Security produces a wide range of products for kitchens, bathrooms, hallways, and outdoor living areas, including taps and showers, entry doors and locks, and cabinets.

The company has 86 manufacturing sites and distribution centres worldwide. It generates more than 80% of its revenues from the US, and is headquartered in Illinois.

We see the group as an attractive investment for its leading market share in several areas and its highly competitive product offering. The company is positively exposed to improvements in the US housing market, where there is a structural undersupply of properties. It is well managed, with a strong long-term track record, a healthy balance sheet, and strong free cashflows.

Our engagement

In our view, Fortune Brands can have a positive environmental impact in three ways.

Firstly, the main raw materials in the company's cabinets consist of various woods, including maple, birch, and oak, making it a contributor to deforestation. As a large manufacturer, however, the group can influence its supply chain to ensure that all wood comes from certified sources and that opportunities to foster biodiversity and pursue reforestation are actively pursued.

Secondly, it can generate an increasingly net-positive contribution to mitigating climate change by investing in areas such as resource-efficient manufacturing to reduce the environmental impact of its operations.

Thirdly, as a leading manufacturer of plumbing products, it can promote greater water efficiency in the home. The average American family uses more than 300 gallons of water per day at home, roughly 70% of which occurs indoors. Of this, toilet use accounts for 24% and taps 19%.

Meaningful progress

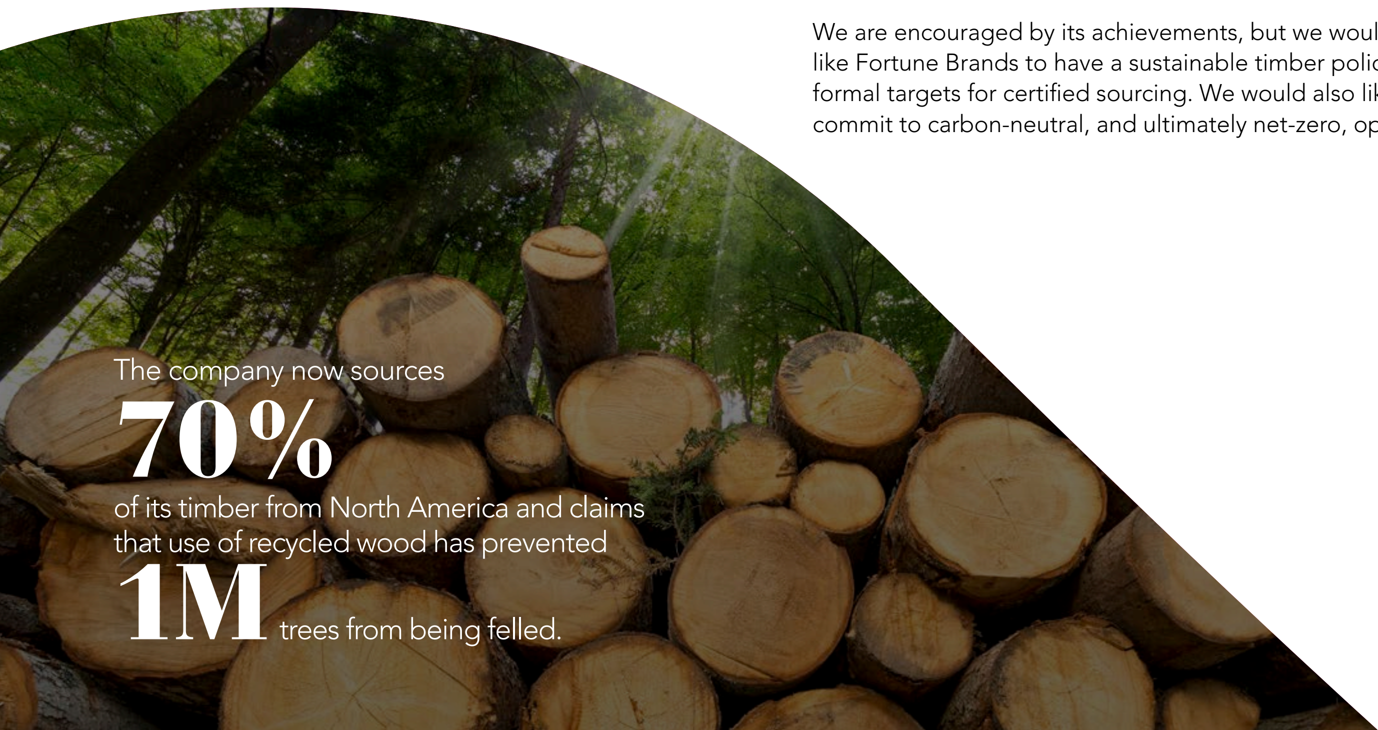
During our extensive engagement with management, we have been encouraged by the significant improvements in company practices that have been achieved. Notably, the firm's environmental, social, and governance disclosures are way ahead of its main domestic peers and approaching the level of its international competitors.

In wood, Fortune Brands now sources 70% of its timber from North America, has committed to actively managing its supply chain, and suggested that it favours suppliers that participate in product-certification programmes. It claims that its use of recycled wood has prevented 1m trees from being felled.

Although it has achieved less in resource-efficient manufacturing, this year the company is reviewing whether to pursue climate-change reporting, exploring renewable-energy opportunities and formulating a carbon-mitigation strategy. Fortune Brands is setting carbon-related targets that it will later make public.

The group's plumbing business, one of its growth engines, has a commitment to innovation and saving water that puts it ahead of both regulations and the competition. We estimate that its annual sales of its faucet products are saving 8m M3 of water per annum. Its main bathroom brand, Moen, has committed to saving 1trn gallons of water per year, equivalent to the average annual water use of 11m homes.

We are encouraged by its achievements, but we would still like Fortune Brands to have a sustainable timber policy and formal targets for certified sourcing. We would also like it to commit to carbon-neutral, and ultimately net-zero, operations.



Federated Hermes

International

Federated Hermes

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