Federated Hermes SDG Engagement Equity Fund

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2021 Annual Report

Federated Hermes
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Contents

SECTION 1

Federated Hermes SDG Engagement Equity Fund

Launched in January 2018, the Federated Hermes SDG Engagement Equity Fund has the dual purpose of delivering attractive returns and measurable real-world impact. We seek this by targeting both traditional financial performance goals as well as aiming for positive social and environmental change by engaging with companies around their ability to support the attainment of the Sustainable Development Goals (SDGs).

What are the SDGs?

The SDGs, created by the United Nations, are a universal set of goals, targets and indicators for global development. They serve as a blueprint for significantly changing the world by 2030. They are focused on ending global poverty, safeguarding the planet and creating prosperity for all.

There are

17 goals, **169** targets and

230 indicators.

There are 17 goals, 169 targets and 230 indicators. The targets are integrated and balance three primary dimensions of sustainable development: the economic, social and environmental. They in effect provide a sustainability roadmap for the world. We have assessed that approximately 40% of the 169 targets are relevant for dialogue between investors and corporates. Indeed, every company is affected by, or can contribute to, at least some of these goals – often in so doing, benefiting society and their own business prospects. So, companies should be integrating and adapting these goals into specific actions, that are appropriate to them, to make progress and advance society. Attaining these goals means reducing harm and finding ways to generate positive impacts. It requires company boards and management teams to be bold and ambitious.

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40% of the **169**

targets are relevant for dialogue between investors and corporates.

Our core beliefs

A number of core investment beliefs underpin our strategy, including that:

Public companies can contribute to and benefit from efforts to achieve the SDGs. Meeting the SDGs will be a primary driver of future economic growth, providing opportunities for firms to boost revenues and earnings. Companies are uniquely positioned to significantly impact lives due to their integral position within communities, direct relationships with employees and connections with suppliers.

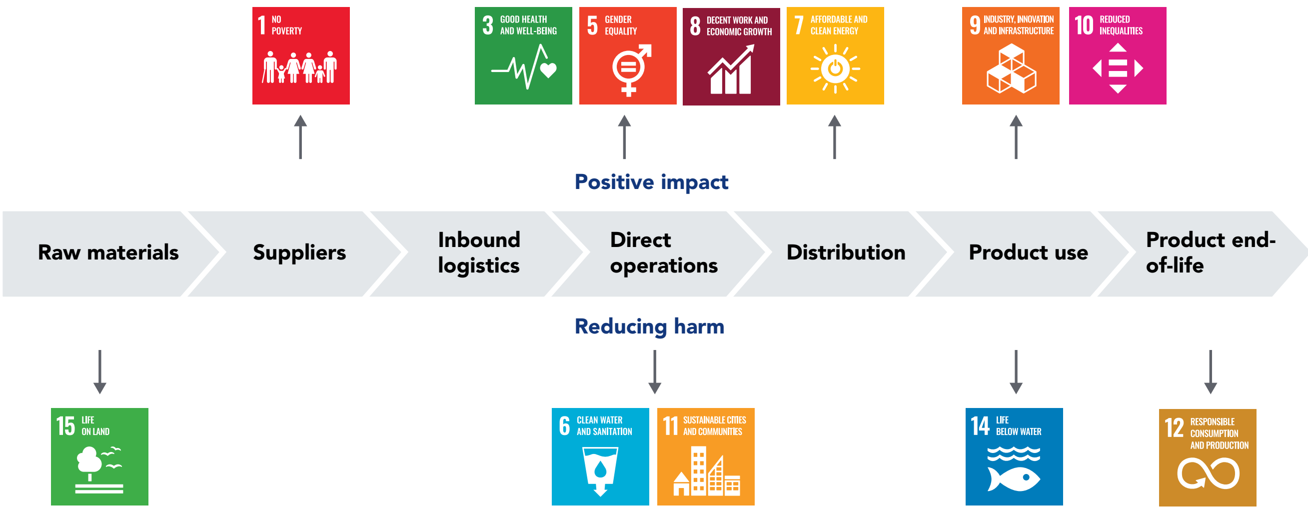
The long-term commercial performance of companies is connected with the success of the environments in which they operate and in which their employees and customers live. Firms that fulfil their responsibilities towards society will be rewarded with greater brand loyalty, employee motivation and more innovative products and services.

Investors can influence companies to improve their operations in support of the SDGs, creating a virtuous circle of change, benefiting employees, communities, supply chains and other stakeholder groups. Engaging with companies on the SDGs provides investors with valuable insights into their current levels of sustainability and longer-term commercial risks and opportunities.

How do we consider impact?

Although the SDGs were not written for corporates, they are hugely relevant. Companies are uniquely positioned to significantly impact on real lives, due to their position within communities, their direct relationships with employees, and their connections with suppliers. No company is an island.

Figure 1. Opportunities throughout the value chain



Source: Federated Hermes, as at February 2021.

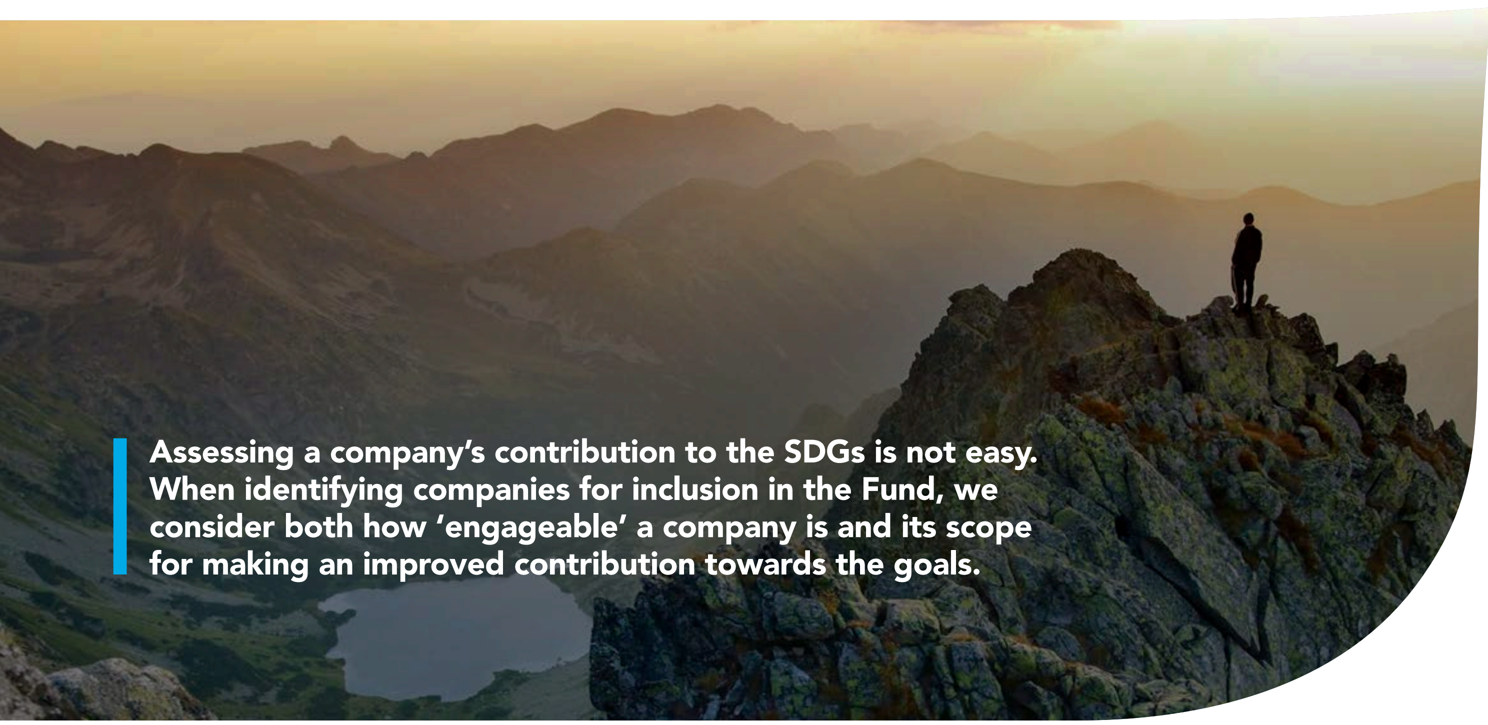
Importantly, we, as investors, can influence companies with regard to *what* business they do, and *how* they do business. We contend that, in liquid public markets, purposeful engagement is the only means by which investors can generate impact.

Assessing a company's contribution to the SDGs is not easy. When identifying companies for inclusion in the Fund, we consider both how 'engageable' a company is and its scope for making an improved contribution towards the goals. Having potential without being 'engageable', or vice versa, is no use.

In considering the potential for that improved contribution, we look at a company's supply chain, including its relationships with and influence over its supply partners.

We consider the company's direct operations, including its resource efficiency and approach to its workforce. We also examine its products and services – do they have the potential to reach under-served markets or to develop product offerings supportive of a more circular economy?

While we have to be confident in our engagement thesis before deciding to invest, the reality is that these assessments become more fully formed the more we interact with a company. What we hope to create is a meeting of minds. Management should know the business better than we ever can, and it needs to deliver the change and embed the commitment to sustainable practices within the company's culture. Our role is to bring ideas to the table, making connections between companies and other parties, and giving management the confidence to be bold and ambitious.



Assessing a company's contribution to the SDGs is not easy. When identifying companies for inclusion in the Fund, we consider both how 'engageable' a company is and its scope for making an improved contribution towards the goals.

How do we, as investors, play our part in the attainment of the SDGs?

By engaging as constructive and patient investors, we can play a critical role in bringing about positive changes within corporates. Our role is to catalyse new ideas, practices and activity; to cajole where necessary and to support companies in their implementation of new approaches.

We believe there are three characteristics needed for a meaningful and genuinely impactful approach to investor engagement.

Impactful engagement needs to be purposeful. It must be fully integrated into the investment process: informing the decision to buy the stock, and allowing active and ongoing portfolio manager involvement.

Achieving change means engaging as informed and constructive partners. The success of an engagement is dependent upon speaking to the right person, about the right issue, at the right time. Being able to deploy respected colleagues to speak to company management in their native tongue is very helpful in building relationships, especially in certain regions like Japan and China. Equally, requests need to develop from a real understanding of a company's particular business model and geographic footprint, rather than being derived from a one-size-fits-all framework.

Successful engagement takes time. Substantive, meaningful and sustainable change requires deep corporate buy-in and resource deployment. Given this, the meaningful results worth pursuing are those also worth waiting for.

How do we measure and report our impact?

We are mindful that while we set ourselves SMART engagement objectives and have recordable milestones on the way, measuring engagement progress is more art than science. For this reason, we have developed meaningful governance processes. As a team, and in conjunction with our colleagues across our stewardship team, EOS at Federated Hermes (EOS), and other investment teams, we formally review the engagement case and progress every six months. This review informs our engagement priorities with the company in our portfolio, and helps us decide the portfolio weighting. It also ensures that we remain focused on our dual objectives of delivering both investment returns and social and environmental impact.

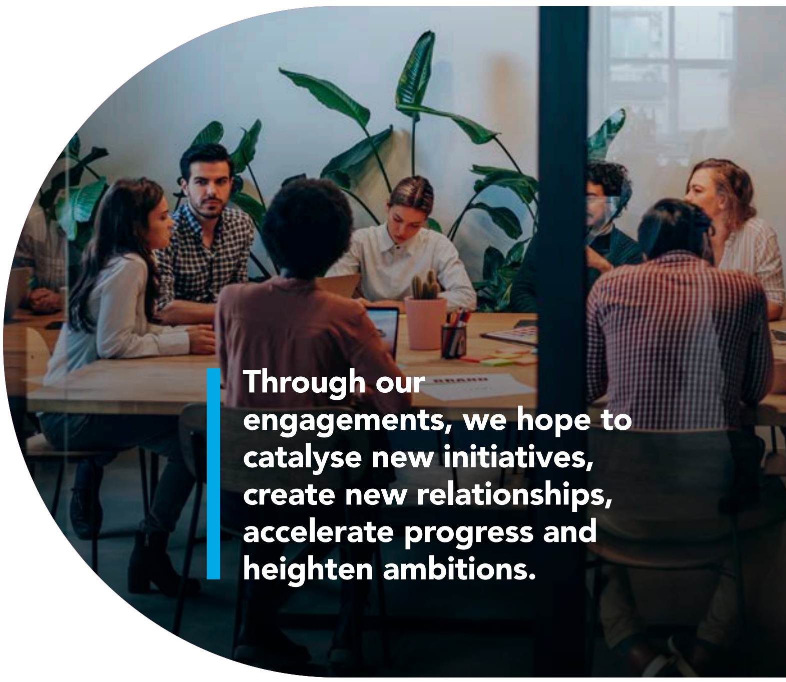
We are committed to reporting both on the progress and outcomes of our engagement efforts. First, we explain our theory of change. Second, we use narratives to communicate how our corporate engagement has generated or is generating real changes within companies, and in so doing is addressing a social challenge or need. Unless impractical, we also report widely accepted and standardised metrics targeted to the individual company in question and around its specific engagement objectives.

Targeted exclusions

Recognising that certain industries are unlikely to contribute to the SDGs, irrespective of any changes achievable through engagement, the fund explicitly excludes the following from investment consideration:

- Companies that generate over 5% of their revenues from the extraction or exploration of fossil fuels
- Electricity utility companies with a carbon intensity not aligned with a below 1.5 degrees scenario
- Companies that generate revenue from the production of controversial weapons and companies that generate over 5% of their revenues from production of conventional weapons
- Companies that generate revenues from the production of tobacco products and companies that receive over 5% of their revenues from tobacco distribution
- Companies that generate over 2% of their revenues from gambling products; and
- Companies that are in contravention of the principles of the UN Global Compact

Throughout, we are acutely aware that it is the companies we are investing in that are delivering the outcomes that create the positive impact. Through our engagements, we hope to catalyse new initiatives, create new relationships, accelerate progress and heighten ambitions. We nonetheless recognise that it is the companies that ultimately deserve the credit.



SECTION 2

2021 – review of SDG progress

As the Covid-19 pandemic continued unabated in 2021, meaningful progress towards the SDGs stuttered to a halt…

Climate change

The success, or not, of the 26th United Nations Climate Change conference (COP26) seems to depend on whether you are a 'glass half full' or 'glass half empty' kind of person. While many have expressed disappointment, the conference nonetheless resulted in some landmark commitments.

While 90% of the global economy has now pledged to reach net zero over the next 30-50 years, this target still falls short. According to estimates published by the International Energy Agency (IEA), updated government pledges put the world on a 1.8°C post-industrial warming trajectory, which is still above the all-important 1.5° C threshold. This is a significant improvement on the c.4°C trajectory of a decade or so ago and, importantly, national targets are not all that is at stake — a little over a third of the world's largest 2,000 companies now have net zero targets[1]. Investors have arguably been the driving force behind this. It is now critical that we, as investors, give the mandate to companies, encourage others to follow suit, and in turn ensure they stay true to their word.

COP26 also succeeded in shifting the climate agenda to focus more on nature and biodiversity. Over 120 countries covering more than 90% of the world's forests committed to work collectively to reverse forest loss and land degradation by 2030. This landmark announcement was championed by over 30 financial institutions – us included – representing in aggregate $8.7tn in assets under management. If fully funded, these commitments could, by 2030, reduce emissions by 3.5 gigatons (Gts) per annum beyond the limited amount of avoided deforestation that is estimated to be currently included in NDCs.[2,3]

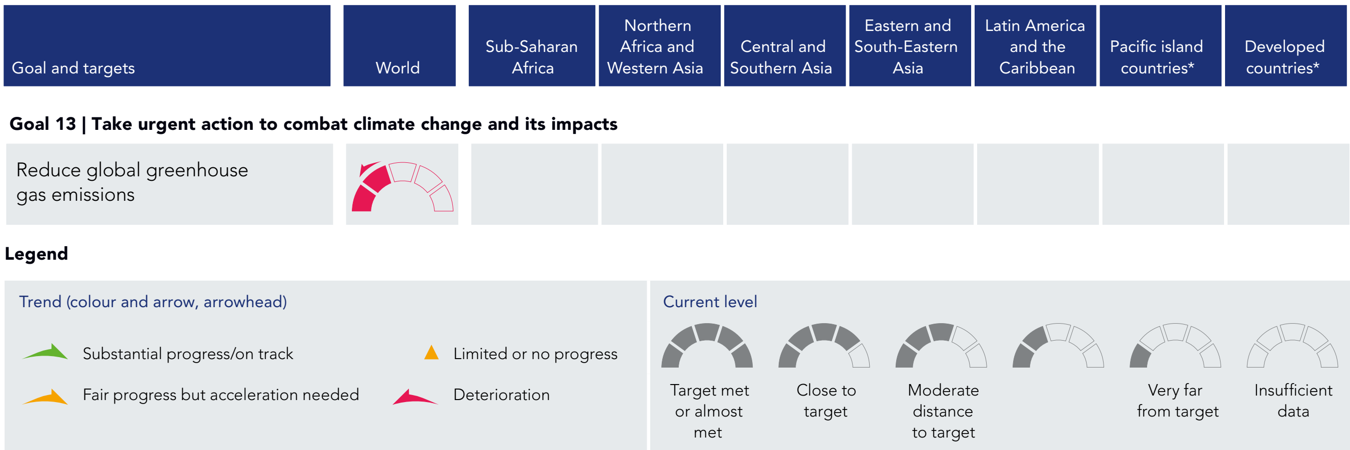
All in all, it is encouraging to see countries and the private sector making such commitments, however, the pathway remains unclear. The Climate Action 100+ initiative supports collaborative investor engagement, not least in creating change at the world's largest emitting companies. Additional coalitions, including the Global Forest Finance Pledge (GFFP), will further accelerate action in this area.

Jobs, poverty and inequality

While the pandemic started as a health crisis, it has quickly morphed into a fully-fledged economic and social crisis, the effects of which are likely to reverberate for years to come. The virus may not discriminate, but unequal societies do. Over the course of the pandemic, wealthier groups have enjoyed better health and access to treatment, while mortality rates have been high among marginalised communities with lower socioeconomic status and pre-existing health conditions.

As we have highlighted at length before, the global Covid-19 pandemic has exacerbated a number of pre-existing inequalities – economic, gender and health among them. After decades of progress, it is disheartening to observe poverty increase.

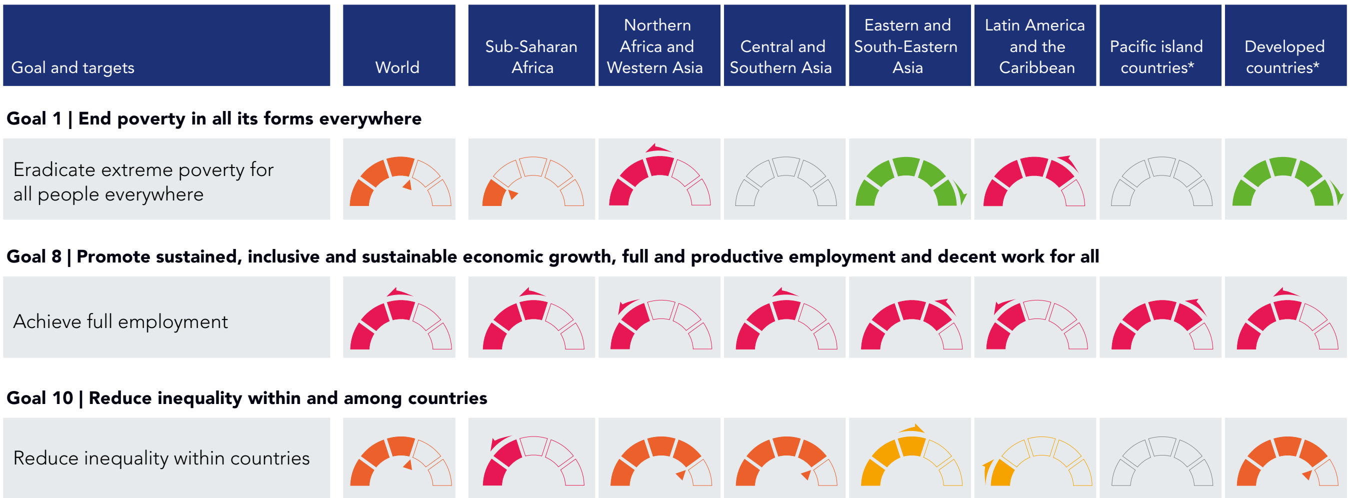
Figure 2 Progress on SDG 13



Source: UNSTATS, Sustainable Development Goals Progress Chart, 2021

[1] See Zerotracker.net
[2] Assessing the commitments from COP26 – Energy Transitions Commission (energy-transitions.org)
[3] Energy Transitions Commission, Assessing the commitments from COP26 – Energy Transitions Commission (energy-transitions.org)

Figure 3. Progress on SDGs 1, 8 and 10



Source: UNSTATS, Sustainable Development Goals Progress Chart, 2021

Beyond the absolute impact on poverty, the pandemic has sparked an employment shock. For reasons varying from increased employee burnout to a search for purpose in one's career, the United States has seen historic levels of voluntary turnover – the much talked about, 'Great Resignation'. In July, 4 million Americans quit their jobs, a record at the time. In August, 4.3 million quit; in September, 4.4 million quit; and in October, a further 4.2 million quit[4]. High, unplanned turnover rates are creating significant costs for companies. In turn, companies are rethinking their employee value proposition, which could have long run positive impacts.

We do not believe the above is solely a US phenomenon, as employers respond to tighter labour markets and heightened expectations regarding employee economic, physical and mental wellbeing. The floor of base pay has risen and a report put out by the business research group, The Conference Board, estimates that wages will increase by 3.9% in 2022, the biggest jump since 2008[5].

While this is welcome – in particular, for the lowest paid – there are still inequalities that need to be addressed. For example, nearly half (49.1%) of all women globally are employed in medium- to high-risk sectors, compared to 40.4% of men[6]. At the beginning of 2021, there were 1.4 million fewer mothers actively engaged in the labour force than during the same period of 2019[7]. Pre-pandemic, working mothers were already juggling household and workplace duties. Today, they're having difficulty navigating paid work.

At this critical moment, as the economy begins to emerge from the pandemic, we are continuing to press companies to ensure that they offer 'decent work' to all (in line with SDGs 1, 8 and 10). In the US, we are urging companies to offer expanded benefits. In particular, we would like to see improvements to paid family and medical leave, ideally extending this to include childcare, elder care, and back-up care. Most importantly, such benefits need to be inclusive of all workers[8].

Looking ahead

Over the coming year, we anticipate our company engagement will focus on companies: a) transitioning their business models towards net zero, and b) assuming greater responsibility for the economic, physical and mental wellbeing of their employees and workers. While this is similar to 2021, conversations will remain varied and broad. All companies have a plethora of opportunities to generate a positive social and environmental contribution. It is crucial that companies consider their own geographic footprint and identify their own comparative advantage. What is it that they can most meaningfully contribute to resolve society's challenges? We look forward to identifying more answer to this question.

[4] US Bureau of Labor Statistics (BLS), Job Opening and Labor Turnover Summary
[5] The Conference Board, 2022 Salary Increase Budgets Are the Highest Since 2008 (conference-board.org)
[6] International Labour Organization (ILO), A gender-responsive employment recovery: Building back fairer (July 2020)
[7] United States Census Bureau, Tracking Job Losses for Mothers of School-Age Children During a Health Crisis (March 2021)
[8] See article published by our stewardship team, EOS at Federated Hermes: Salary or sick leave – the impossible choice | UK Institutional (hermes-investment.com) (17 August 2021)

In focus: SDG 2

What is it all about?

Promoting sustainable agriculture and better nutrition, while achieving food security and ending hunger. The world produces enough food to feed everyone on this planet, yet in 2020 approximately 30% of the global population were moderately or severely food insecure[9].

State of play

In recent years, the quest to end world hunger and malnutrition has been derailed:

- The Covid-19 crisis has exacerbated world hunger. The UN Food and Agriculture Organization (FAO) estimates that a tenth of the global population was malnourished in 2020[10].
- Between 720 and 811 million people in the world faced hunger in 2020, that corresponded to approximately 118 million more people facing hunger in 2020, compared to 2019[11].

Progress in relation to satisfying hunger and nourishment is poor. It is no better with respect to the sustainability of food production itself:

- Of the 35 million smallholder farming households that participate in global supply chains, as many as 25 million are living in poverty[12].

To feed the world, the food industry requires farmers who are thriving, efficient and productive. This means farmers need an income that supports a decent standard of living. In addition, it is increasingly acknowledged that our diets come with a climate cost:

- Today, 25-30% of all greenhouse gas emissions come from food production[13].
- Livestock is the world's largest user of land resources, and nearly half of the world's cereals are being used to feed animals not humans[14].
- Agriculture and land-use change is itself responsible for an estimated one third of climate change via, for example, deforestation[15].

Relevant business actions

SDG 2 is one of the goals that is hardest to influence through public market investing and shareholder engagement. That said, there are relevant targets investors can pursue.

Companies with the most influence are large food and drink companies (and, further downstream, the retailers of said products). From a supply chain perspective, these companies have typically focused on efficiency and cost, which reduces opportunities for smallholders. Through engagement, investors can look to identify whether companies have mapped their supply chains to the primary producers of agricultural products. Have they identified current sourcing from smallholder producers? More pertinently, do their supply chain policies and procedures support smallholders and can more be done?

Beyond sourcing, improving the availability of healthy food through product development, relative pricing and better nutritional information is incumbent upon a large group of companies. While food retailers should enable customers to make more informed choices, they also have a responsibility to influence purchasing decisions in support of healthier, more nutritious, and indeed more climate-friendly diets.

Finally, a closely linked issue is that captured in SDG 12.3 around food waste. It is estimated that 14% of the world's food is lost between production and retail16. Working to reduce food wasted either through business operations or consumer consumption is important, particularly when so many millions are going hungry.

[9,10,11,12] Food and Agriculture Organization of the United Nations, The state of food security and nutrition in the world 2021
[13] Our World in Data, How much of global greenhouse gas emissions come from food? (March 2021)
[14] Grid Arendal, The Environmental Food Crisis: The Environment's Role in Averting Future Food Crises (World Food Demand and Need)
[15] Climate Institute (webpage) http://www.climate.org/topics/agriculture.html
[16] Food and Agriculture Organization of the United Nations, 12.3.1 Global food losses, Sustainable Development Goals

Relevant holdings

SSP Group: A global travel food and drink concessions company, SSP's new sustainability strategy (launched in Q4 2021 and expanded in their 2021 annual report – published in Q1 2022) is a big step forward. SSP are committed to meet the needs of their customers by offering a range of high-quality products that are appealing, nutritious, and sustainably/ethically sourced. New targets include:

- By 2022, 100% sustainably sourced palm oil for own brands.
- By 2025, at least 30% of the meals offered by own brands will be plant based and/or vegetarian.
- By 2025, 100% sustainably sourced tea, coffee, hot chocolate and fish for own brands.
- Achieve net zero carbon emissions across scopes 1, 2 and 3 at the group level by 2040 (setting science-based targets in line with a 1.5-degree scenario over the next year).

At present, food waste represents just **4%** of the group's total waste generation (conversely, packaging represents about **70%**

MARR: Marr is an Italian food service company, supplying restaurants nationwide across Italy. Being a distribution company, mainly of food products, MARR has a central role in the fight against food waste.

- At present, food waste represents just 4% of the group's total waste generation[17] (conversely, packaging represents about 70%[18]).
- The proportion of the group's suppliers that satisfy social and/or environmental considerations has been rising year on year. In 2020, this represented 33% of suppliers, up from 16% in 2018[19].

Varun Beverages: As a large Indian producer and distributor of bottled beverages, principally Pepsi, the company has an opportunity to promote healthy beverage options, and support sustainable agricultural practices through their supplier relationships.

- The company have partnered with Pepsico India to address the distribution of healthy and fortified products.
- To that end, several fortified juice products that are adapted to the nutritional needs of India have been introduced.

Glanbia: As a global sports and nutrition company, Glanbia stands to generate a positive impact through its product offering and dairy farm emissions management. As part of their new sustainability agenda, the company will develop a group-wide approach to responsible nutrition, something we continue to engage with them around.

- 86% of Glanbia's total carbon footprint is situated within their dairy supply chain[20]. In June 2021, the company's carbon reduction targets were approved by the Science Based Targets initiative.
- Glanbia recognise that their Scope 3, on-farm carbon targets require significant behavioural change across the supply chain, and necessitate cross-sector, cross-industry and government partnerships.
- The company focus on consumer health and wellness through their innovation pipeline and education programmes, reflecting World Health Organisation (WHO) and government targets. Their 2016 FitIndia campaign was a good example of collaboration with governmental agencies to raise awareness and education of good nutrition.

[17] Figures obtained from the company
[18,19] Marr, Sustainability Report, 2021
[20] Glanbia, Sustainability Report, 2020

SECTION 3

2021 engagement highlights

Will Pomroy, Lead Engager

Sustainability and executive pay

The philosophy of the SDG Equity Engagement Fund is that we can all do well by doing good. Progress towards, and the attainment of, the UN SDGs is not a zero-sum game; rather, it represents an opportunity to create shareholder value.

Undoubtedly, the Covid-19 pandemic has shone a light on the good and the bad in today's society. While governments and the private sector collaborated to protect jobs, develop lifesaving vaccines and roll these out to millions, pre-existing inequalities – social and economic – have been exacerbated. 2020 saw poverty increase for the first time in decades, and women have consistently been hit hardest by the pandemic fallout, putting back years of progress towards greater gender equality. Rightly, the expectations we have of leadership, including corporate leaders, has grown in response. It is also evident that sustainability considerations are impacting companies' business opportunities, revenues, costs, risks, employee engagement and, ultimately, their market valuations.

It is with this in mind, that we wrote to the chair of each of our holdings in Q3 2021. We wanted to make the case that sustainability targets should be explicitly considered in compensation plans. We have long recognised that monetary incentives can drive behaviours, however, an excessive focus on prescribed, cliff-edge performance periods and specific targets can distort or narrow the purview of management decision making. With certain sustainability topics now of increasing materiality for companies (and indeed for society), we have concluded that incorporating meaningful targets within pay schemes can powerfully communicate priorities, both internally and externally. If such targets are afforded a meaningful weighting, then a strong message is sent from the board – and, indeed, the CEO – that this is an agenda of importance. Finally, if targets set are sufficiently transparent and robust then the temptation to defer to tomorrow the decisions that need taking today is reduced 'the next CEO's problem' and, in turn, progress is accelerated.

> **Finally, if targets set are sufficiently transparent and robust then the temptation to defer to tomorrow the decisions that need taking today is reduced ("the next CEO's problem") and, in turn, progress is accelerated.**

In our communication with companies, we have been clear that not all issues and topics need to be included in pay schemes; indeed, most do not. For example, we note that certain issues – such as the provision of a safe working environment and the protection of human rights – are pre-requisites for a responsible business. Instead, we favour fewer, focused, and ambitious targets – preferably goals that are strategic, measurable and auditable.

> **In our communication with companies, we have been clear that not all issues and topics need to be included in pay schemes; indeed, most do not.**

At the outset, approximately a quarter of portfolio companies were incorporating ESG metrics in executive incentive schemes. However, in many cases these metrics were immaterially weighted or simply too vague, hindering shareholders' ability to sense check the scale of ambition or delivery.

We have been pleased with the response received since our original letter in Q3 2021.

Of the 47 companies we contacted, we have had replies from and/or dialogues with 23 on the topic. Many have indicated that changes are being planned for 2022. Imminently, we expect the proportion of companies incorporating sustainability metrics within executive incentives schemes to be over 40%.

Of the **47** companies we contacted, we have had replies from and/or dialogues with **23** on the topic.

[21] Figures obtained from the company in Q2 2021
[22] United States Environmental Protection Agency (EPA), WaterSense
[23] Fortune Brands (www.fbhs.com/corporate-responsibility/responsible-products/)
[24] 2030 Impact Goals and Commitments – NI
[25] Sustainability – SSP Group plc (foodtravelexperts.com)

Regional highlights

Below are just a select few highlights from the year from across the regions:

North America

Fortune Brands: A leading kitchen cabinet and faucet manufacturer. Our engagement objectives for the company have centred upon sourcing more sustainable timber and supporting more water efficient practices within the home. The company's heightened commitment to sustainability is evidenced through their Global Plumbing Group. As of 2021, 100% of Moen and House of Rohl (HoR) lavatory faucets were WaterSense labelled (vs. 96.4% and 88.8% in 2018), while 79.8% of Moen and 100% of HoR showers were WaterSense labelled (vs. 63.1% and 99.4%)[21]. WaterSense products are 20% more water efficient than average products[22].

Moen is committed to 1 trillion gallons of water savings by 2030 – this is the equivalent to the amount of water New York City uses in three years[23].

National Instruments: This leading industrial testing company released an inaugural impact strategy in 2021 focused on the science, technology, engineering, and mathematics (STEM) talent pipeline. It is targeting 50% female representation by 2030 (up from 32% in 2019) and has committed to investing $3.4m over the next four years in STEM education initiatives serving underrepresented, or economically disadvantaged, students[24].

Cooper Companies: This global contact lens and surgical equipment manufacturer published an inaugural ESG report in H1 2021. Other positive developments include the company offering the first net plastic-neutral contact lens. Plastic currently plays a critical role in the hygienic delivery and sterile protection of contact lenses. Partnering with Plastic Bank, the new 'net plastic-neutral' model offsets this, while the company continue to look into alternative packaging.

Europe

SSP: Despite another difficult year for this travel food and beverage retailer – including ongoing travel restrictions and the resignation of their CEO – progress has been made regarding the company's sustainability agenda, which we helped shape. Before year-end, new targets were published[25] demonstrating a thoughtful, suitably ambitious approach. Targets included achieving net zero by 2040 (across Scopes 1, 2 and 3), with science based targets (SBTs) to be adopted during 2022, 30% of own brand meals to be plant-based and/or vegetarian by 2025, and women to comprise at least one third of the executive committee and their direct reports by 2025.

Merlin Properties: This Spanish real estate investment trust (REIT) is committed to reinvesting proceeds for the longer-term growth of the portfolio. Project Sun launched in 2020, with the intention to install 264k m² of solar panels across 24 assets, with a total installed capacity of 37.1 MWp. In April, the company announced a further long-term strategic partnership with Edged Energy to build a network of ultra-efficient, waterless data centres in the cities of Madrid, Bilbao, Barcelona and Lisbon[26]. Each of the four centres will use 67% less energy for cooling and overhead systems than the European average.

LATAM and Asia (including Japan)

Credicorp: We have been encouraged by the progress of Peruvian financial institution, Credicorp, in developing a group-wide sustainability strategy (based on the pillars of financial inclusion, low-carbon transition finance and responsible investment) and publishing an inaugural sustainability report.

Considering only 40% of women have access to a bank account in Peru[27], offering female-orientated products (and services) has the potential for significant impact generation. To that end, Credicorp's insurer has been offering a micro-credit line for female entrepreneurs.

And although many Peruvians lack access to financial services, the vast majority have a mobile phone. Yape (the company's mobile payment app) has thus proven an important tool for distributing emergency funds during the pandemic, leading to the financial inclusion of 650, 000 Peruvians in 2020[28].

While we are pleased with the bank's commitment to becoming carbon neutral by 2032 (Scope 1 and 2 emissions), we pressed for the measurement and disclosure of Scope 3 emissions. This, along with the further tailoring of products and services for the unbanked female population, will continue to be a priority in 2022.

Ansell: A protective industrial and medical glove manufacturer, Ansell represents a new holding for the fund. Our engagement priority has been the due diligence process applied to single-use rubber glove suppliers operating in Malaysia – seven Malaysian glove manufacturers have been subject to US import bans over the past two years, due to concerns over modern slavery. Encouragingly, the company has recognised the problems, acknowledged that there is more for the industry to do, and adopted a new risk-based Supplier Management Framework for roll-out in 2022.

Nifco: An automotive plastics company, at the start of our engagement Nifco provided few sustainability disclosures, particularly around social issues. We suggested setting up a labour rights and human capital management policy and sent some examples from other manufacturing companies. Pleasingly, Nifco has now published its first human rights policy – which covers the International Labour Organization's standards – and updated its corporate charter to include wording around diversity and inclusion, and human capital management. We hope to see further meaningful improvements in future iterations of its sustainability strategy and associated reports.

[26] MERLIN Properties and Edged Energy partner to Build Four Ultra-Efficient Data Centers across the Iberian Peninsula – MERLIN Properties
[27,28] Credicorp 2020 sustainability report

2021 in numbers

Engagement

In 2021, our engagement efforts with investee companies continued, with many dialogues now more mature. We had a higher number of completed objectives, for example:

- **Huhtamaki**
  The food packaging company set Science Based Targets for emissions reductions.
- **Eagle Materials**
  The building materials company published enhanced ESG disclosures and set out its performance over a multi-year period, across a suite of metrics, aiming for a net zero business model by 2050.
- **Kirby Corp**
  We encouraged the tank barge operator to produce its first sustainability report and, in 2021, it published its second. The company plans to reduce the emissions of its barges and has set a relative greenhouse gas reduction target for its fleet, with KPIs in place.
- **Open House**
  The Japanese home builder appointed its first two female directors to its board.
- **Retail Opportunities Investment Corp**
  The real estate investment trust (REIT) published its inaugural ESG report, which included data and forward-looking, measurable and time-bound reduction targets for energy, water, waste, and greenhouse gas emissions.

Figure 4. Engagement progress (2018-2021)

	2021	2020	2019	2018
Total companies	51	52	53	52
% companies engaged (based on period-end holdings)	100%	100%	94%	94%
Total engagement actions	194	193	186	195
% of companies with progress on objectives	84%	71%	81%	88%
Total objectives	196	152	140	102
% objectives with progress	65%	50%	58%	87%
Completed objectives	27	14	14	2
Total unique SDG linked actions	137	153	138	145

Figure 5. Voting progress (2018-2021)

	2021	2020	2019	2018
Total meetings voted (represents 100% of meetings)	63	55	57	57
Number of meetings where we voted against management at least once	23	26	20	23
% of meetings where we voted against management at least once	36.5%	47.3%	35.1%	40.4%
Total resolutions	698	644	547	543
% of resolutions opposed	5.3%	6.1%	6.6%	5.5%
Shareholder proposals supported	1	0	1	4
Shareholder proposal opposed	2	1	2	2

Source: Federated Hermes, as at 31 December for each year respectively

Engagement progress 2021

Number of companies in the portfolio: **51**

% companies engaged: **100%**

Engagement actions **194**

% of companies with progress on objectives **84%**

Total objectives: **196**

% objectives with progress **65%**

27 Completed objectives:

137 Total unique SDG linked actions

Source: Federated Hermes, as at 31 December 2020.

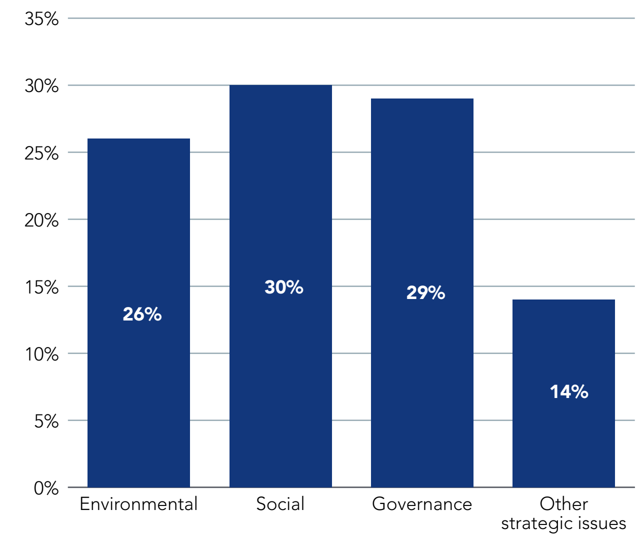
While we tailor our engagement on a company-by-company basis, we found social issues – particularly related to decent working conditions – were an ongoing area of focus in 2021. We expect this trend to continue in 2022.

Dialogues linked to the governance theme also featured more consistently this year, as a result of our cross-portfolio engagement around the meaningful incorporation of sustainability metrics within executive pay schemes (discussed further on page 10).

As can be seen in the corresponding intensity heat map, certain SDGs consistently feature in our dialogues with investee companies. Unsurprisingly, the most intensively engaged SDGs are those relating to people (SDGs 1, 5, 8 and 10, in particular), climate change (SDGs 7 and 13) and resource efficiency (SDGs 8 and 12). It is likely this pattern will be broadly replicated in 2022.

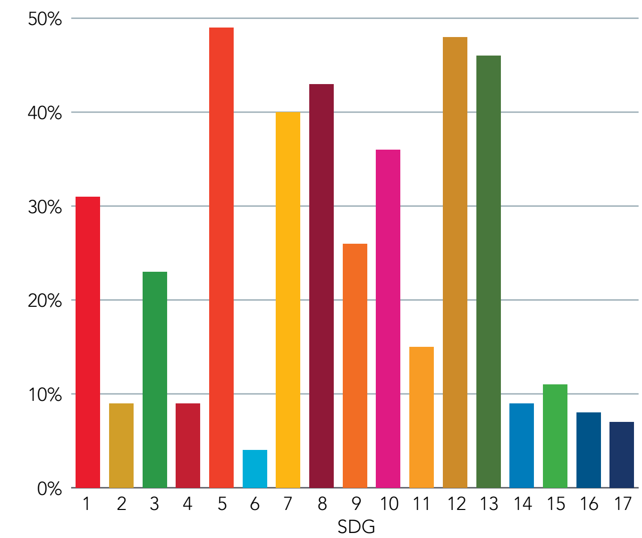
The unequal impact of the Covid-19 pandemic on women continues to drive our focus on SDG 5. In Japan, we continue to challenge corporates on their role in redressing gender inequality.

Figure 6. Proportion of engaged issues and objectives in 2021



Source: Federated Hermes, as at 31 December 2021

Figure 7. Engagement actions by SDG (%) in 2021



Source: Federated Hermes, as at 31 December 2021

Voting progress 2021

Of a total of **63** meetings, we voted against management at least once at **23** meetings

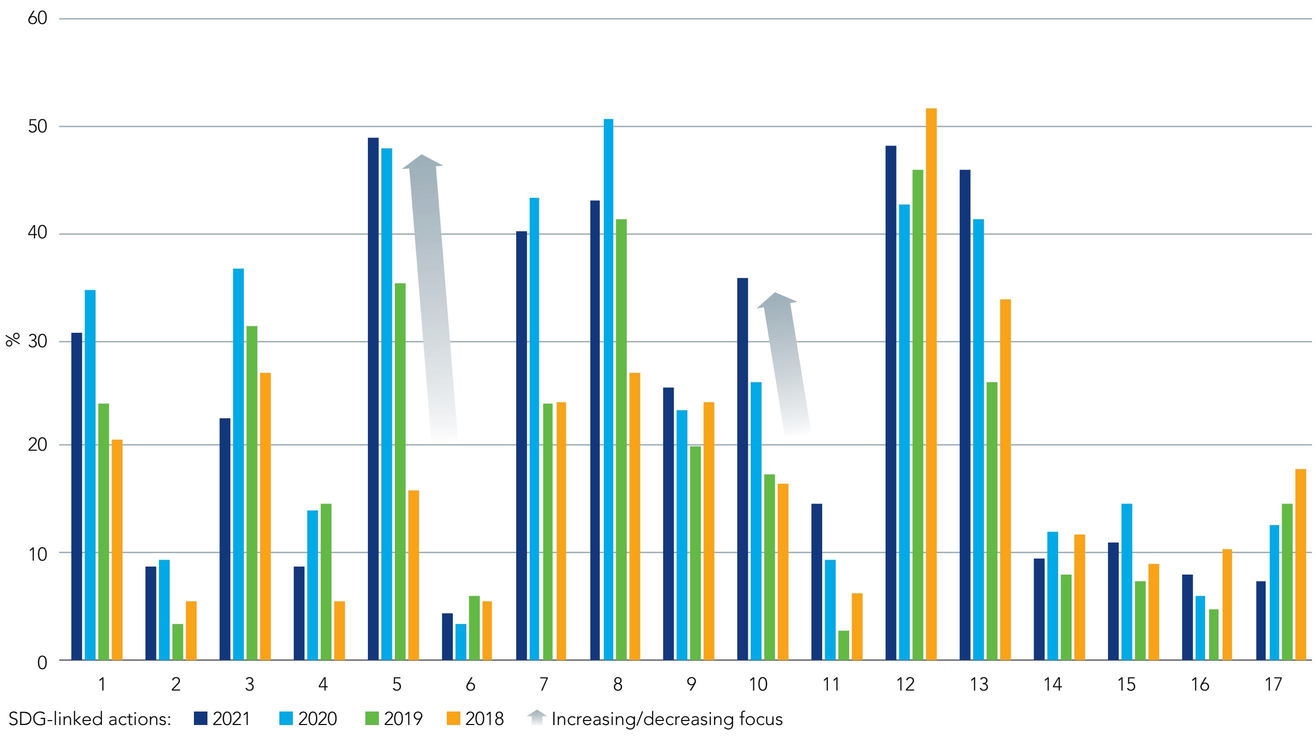
Of **698** resolutions, we opposed **5.3%** of them.

Shareholder proposals supported **1**

Shareholder proposals opposed **2**

Source: Federated Hermes, as at 31 December 2020.

Figure 8. SDG intensity over time (2018-2021)

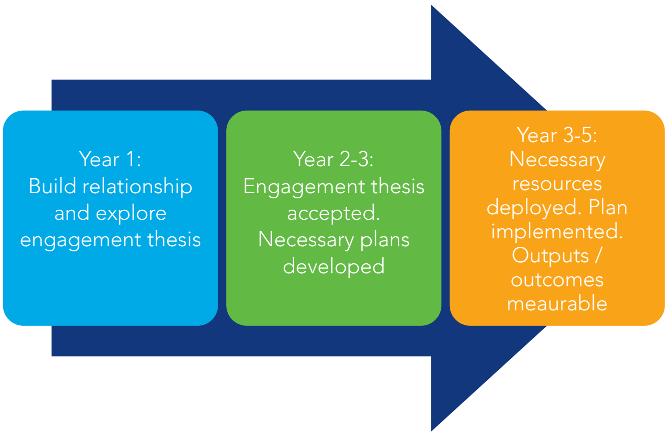


Source: Federated Hermes, as at 31 December 2021

Standing the test of time

While the above describes our activity, the more important question is how effective our engagement has been. We have long contended that effective engagement takes time. In simple terms, a period of three years is the minimum required to see outcomes from engagement bear fruit. To that end, we were pleased to report meaningful improvements in the 2020 annual report, relative to the fund's benchmark and across a number of proxy measures for sustainability performance (ESG ratings, carbon intensity, Glassdoor ratings).

Figure 9. Our expected engagement timeline

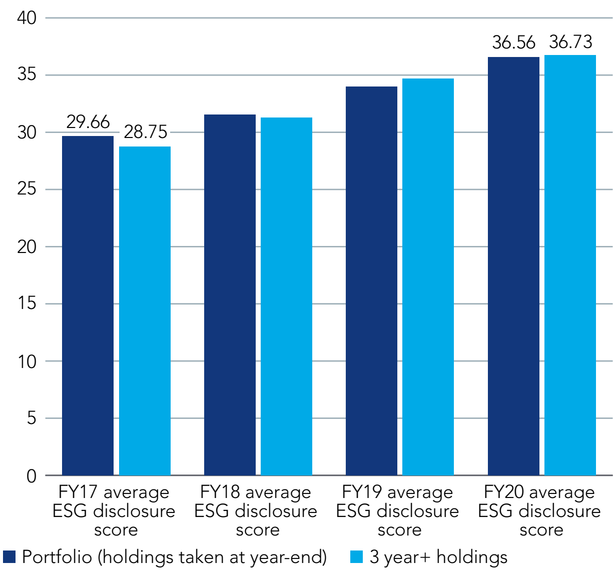


Here's how 2021 stacks up against those same measures:

1. ESG disclosures

The crudest way to track a company's commitment to sustainability is to look at the disclosures being providing to the market. There has been a large improvement in the quantity and quality of ESG disclosures provided by companies we have held for a number of years.

Figure 10. Companies held within the portfolio for three years or more had improved ESG disclosures



Source: Bloomberg ESG disclosure scores

2. ESG ratings

Next, there are ESG ratings. We do not use ESG ratings in the investment process, as we believe they are too simplistic a judgement and are prone to geographic, industry and market cap biases. That said, a trend in ratings can be instructive.

One would hope that in improving their sustainability practices, companies will receive higher ESG ratings. The below table displays the average ratings from two major ratings providers, alongside our own internal proprietary ESG rating, the QESG Score:

Figure 11. Average ratings for the Fund vs. the benchmark

Federated Hermes SDG Engagement Equity Fund	MSCI	Sustainalytics	QESG
Held for duration of 2021	3.04%	1.34%	-1.41%
Held for 3-year duration	3.03%	10.93%	6.50%
Held since inception (4 years)	6.27%	12.32%	15.29%
MSCI All Country World SMID index			
In benchmark for duration of 2021	1.27%	2.86%	2.32%
In benchmark for 3-year duration	2.19%	7.34%	4.57%
In benchmark since inception (4 years)	4.63%	8.26%	4.06%
Fund vs. benchmark difference for 2021	**1.77%**	**-1.52%**	**-3.73%**
Fund vs. benchmark difference for 3-year holdings	**0.84%**	**3.59%**	**1.93%**
Fund vs. benchmark difference since inception	**1.64%**	**4.06%**	**11.23%**

Source: Federated Hermes, as at 31 December 2021. Our QESG score is a quantitative measure combining third-party data with proprietary insights from our stewardship team, EOS.

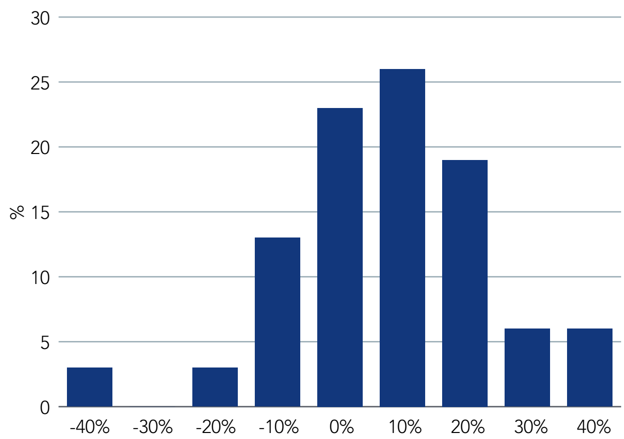
What is pleasing is that across the three ratings, companies that have been held and engaged over a longer period of time have improved. More pertinently, the average ESG rating of investee companies has improved relative to the benchmark, with the difference more pronounced the longer the holding period.

3. Glassdoor ratings

Given the paucity of ESG data, particularly social metrics, we have chosen to again use Glassdoor reviews as a proxy for overall employee satisfaction. Although we recognise that this measure is open to manipulation or distortion – for example, from excessively disgruntled employees – we believe Glassdoor reviews offer a useful and, on the whole, transparent window into a company's culture. Both the absolute rating and the trend in the rating should be taken into account.

In the table below, we outline the distribution of Glassdoor ratings for companies we have held for three years. More than 80% of companies have increased their score.

Figure 12. Glassdoor ratings: three-year change in distribution of scores for portfolio companies

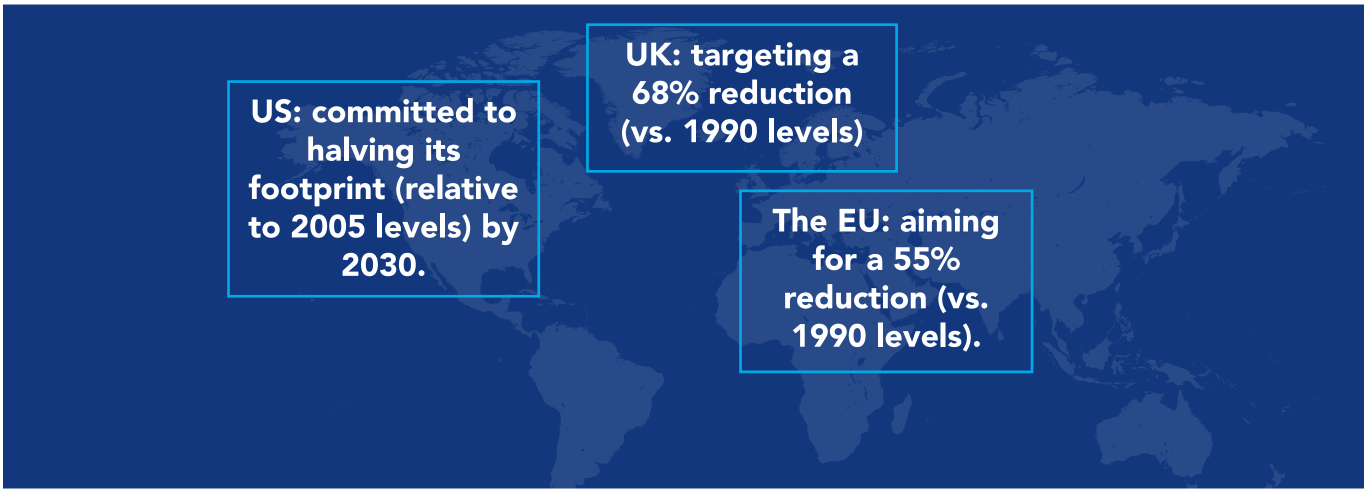


Glassdoor overall rating	3Y CHANGE
AVERAGE	+4.54%
MEDIAN	+5.71%

Source: Federated Hermes, as at 31 December.

4. Carbon footprint

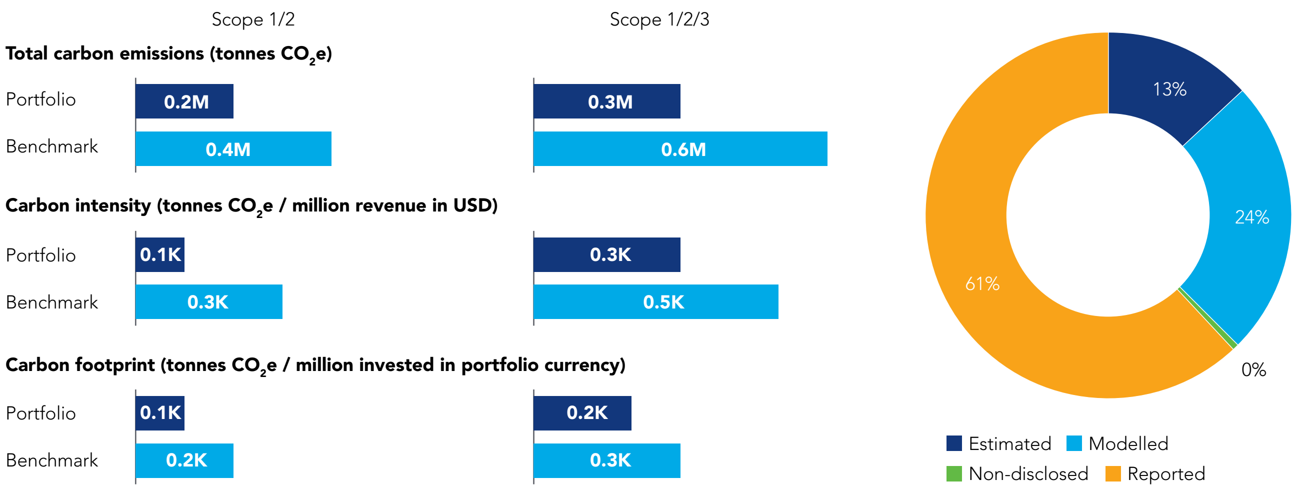
Decades after 'climate change' entered the vernacular, countries and industries have been making bolder commitments to cut their carbon footprint. Last year:



In many cases, companies are ahead of governments. The rate at which companies are joining the Science Based Targets initiative has doubled since 2015. While there is a long way to go, and the need has never been more urgent, we find plenty of reason to be optimistic.

The fund's carbon footprint at the end of 2021 is outlined below. The portfolio compares favourably to the benchmark, both in terms of absolute emissions, emissions intensity and owned emissions:

Figure 13. Carbon footprint of the fund as of 2021 year-end



Source: Federated Hermes, as at 31 December 2021. Data used by the Federated Hermes Carbon Tool is sourced from Trucost

A note on data quality...

Firstly, the above 2021 footprint is based on 61% of companies disclosing data; for a further 13%, data is estimated and for 26%, it is modelled (using Trucost).

In the following analyses (below), we utilise the reported data alone. The reported data speaks to Scope 1 and 2 emissions only. As readers will no doubt understand, scope 3 emissions are not well understood by companies, let alone disclosed.

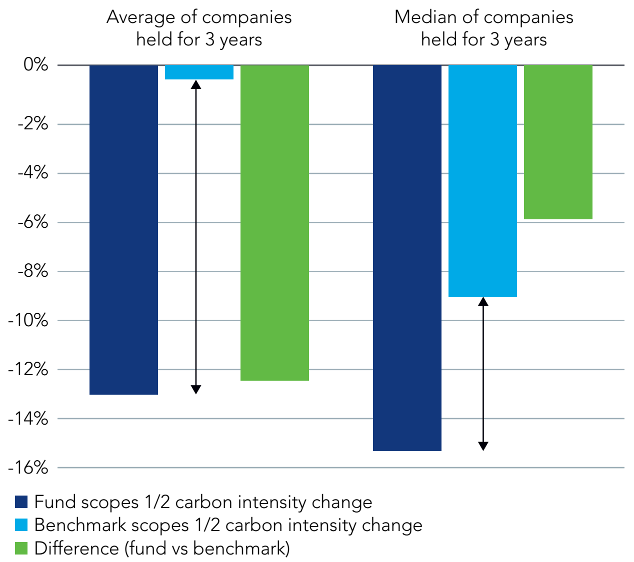
Secondly, data accuracy can present difficulties. We have removed outliers from our comparisons (i.e. those companies where the year-on-year changes in carbon intensity are above 100%), and restricted multi-year comparisons to companies with reported data or, at least, estimated emissions (i.e. companies that disclose some emissions data, but not for the full scope of business operations). We have not included changes that are due to a shift from modelled to estimated or reported data. We have also restricted our comparisons to Scope 1 and 2 emissions, given the much greater reliance upon modelling for scope 3 emissions and the greater degree of accountability that companies have for managing their direct operational emissions.

Change

As an engagement fund, the carbon footprint of our portfolio today is not as important as the effect of our engagement on the carbon emissions of investee companies over time. Pleasingly, where we have engaged with a company over three years, we have realised meaningful improvements.

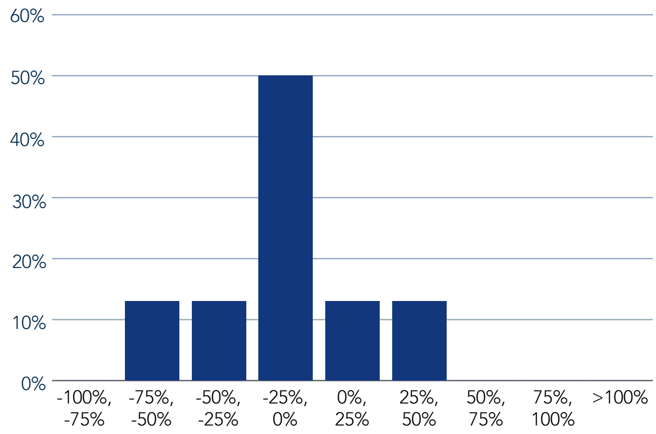
More importantly still, the median change in the carbon intensity of our holdings (tonnes of Scope 1 and 2 GHG emissions per $m revenue) has reduced by 15%, vs. a 9% reduction in comparable names in the benchmark (i.e. names featuring in the benchmark over the same period). Due to a lag in reporting – both in terms of the companies themselves and our data provider – there are a number of cases where the most recent data point is 2019. These cases have been excluded from our analysis.

Figure 14. Change in carbon intensity for the fund vs. benchmark since over the last three years



Source: Federated Hermes, as at 31 December 2021. Note: we have only compared the change in carbon intensity for those companies for which there was a data point available for FY'2019.

Figure 15. Proportion of companies with corresponding changes in carbon intensity (for companies held for three years



Source: Federated Hermes, as at 31 December 2021.

Focusing in and looking ahead

Looking ahead – and considering existing emissions reduction targets set out publicly by our holdings – our analysis suggests a 21% absolute reduction in Scope 1 and 2 emissions from now until 2030[29]. With many more companies intending to set targets this coming year, we expect actual reductions to be much greater.

Our analysis suggests a 21% absolute reduction in Scope 1 and 2 emissions from now until 2030[29].

By our estimates, Scope 3 emissions represent around 78% of the fund's total carbon footprint. While a reduction in the operational emissions of holdings is therefore important, this is not enough. Instead, value chains need to work collaboratively to realise something closer to a net zero scenario – Glanbia being the case in point here (see Section 7).

Furthermore, the fund's emissions (Scopes 1 and 2, and Scopes 1, 2 and 3) are highly concentrated, with just a few holdings representing the vast majority of total emissions. Considering Scope 1, 2 and 3 emissions, two names represent over a third of the fund's emissions – they are a fuel distribution business (DCC) and an electric utility (Alliant).

Figure 16. The fund's top emitters

Holding	Total emissions (th t Scopes 1 and 2)	Total emissions (th t Scopes 1, 2 and 3)	Emissions intensity (t/$m sales - Scopes 1 and 2)	Emissions intensity (t/$m sales - Scopes 1, 2 and 3)
DCC plc	91	41,356	5.2	2,356.90
Alliant Energy	12, 629	20,135	3,696.9	5,894.26
Glanbia plc	447	11,318	102.3	2,591.81
Eagle Materials	5,376	6,460	3,312.1	3,981.14

Source: Federated Hermes, as at 31 December 2021.

We have seen progress among these holdings:

[29] Team analysis using data from company filings and CDP submissions, supplemented by MSCI and Trucost

DCC plc

- DCC converted 396 commercial, industrial and residential premises from oil to liquefied petroleum gas (LPG) in 2021 – up 100% on 2020[30] – enabling those customers to realise an immediate reduction in their carbon footprint of 12-20% per annum.
- Increased the amount of renewable fuel sold in 2021 to 11%.[31]
- Targeted a 20% reduction in Scope 1 & 2 emissions by 2025 (vs. 2019), and net zero by 2050. DCC are reviewing the possibility of setting science-based targets.

Glanbia Plc:

- Glania had their emissions reductions targets approved by the Science Based Targets initiative. The company are now targeting a 31% absolute reduction in operational emissions by 2030 (vs. 2018) and a 25% reduction in emissions intensity in their dairy supply chain by 2025 (the latter comprises c.88% of their total carbon footprint)[34].

Alliant Energy:

- Alliant are targeting a 50% reduction in CO_2 emissions by 2030 vs. 2005, while being ex-coal by 2040 and net zero by 2050[32].
- At the beginning of 2021, Alliant announced the planned retirement of their Wisconsin Columbia Energy Center by 2024[33], further accelerating their transition to cleaner energy. This is the last coal generating facility in their Wisconsin fleet, so it was an important announcement.

Eagle Materials:

- Eagle published their first sustainability disclosures in a decade during 2021, which included a commitment to net zero by 2050 and outlined a strategy across multiple pillars[35].
- The carbon intensity of Eagle's cement production has declined 12% since 2018[36].
- The company confirmed a partnership with Chart Industries in Oct 2021 to test their Cryogenic Carbon Capture ('CCC') technology at their Central Plains facility in Sugar Creek.

Science Based Targets

This year a number of portfolio companies have submitted emissions reduction targets to the Science Based Targets initiative (SBTi) for approval. Portfolio companies with SBTi targets (approved or committed) are detailed below:

Company	Target summary	Target[37]
AptarGroup	Well below 2°C by 2030	By 2030, AptarGroup has committed to reduce absolute Scope 1 and 2 GHG emissions by 28% and scope 3 GHG emissions by 14% (vs. 2019). The company will also increase annual renewable electricity usage from 57% in 2019 to 100% – they were in fact close to achieving this as of end of 2021.
Glanbia	Well below 2°C by 2030	By 2030, Glanbia has committed to reduce absolute Scope 1 and 2 GHG emissions by 31% and Scope 3 GHG emissions (from purchased goods and services) by 25% per tonne of dairy produce (vs. 2018).
Huhtamaki	Well below 2°C by 2030, 2026	By 2030, Huhtamäki has committed to reduce absolute Scope 1 and 2 GHG emissions by 27.5% and absolute Scope 3 GHG emissions from end-of-life treatment of sold products by 13.5% (vs. 2019). The company have also promised that 70% of its suppliers will have science-based targets by 2026.
Soitec	1.5°C by 2026	By 2026, Soitec has committed to reduce absolute Scope 1 and 2 GHG emissions by 25.2% and Scope 3 GHG emissions by 35.3% per million Euros of value added (vs. 2020).
Trelleborg AB	Committed to 1.5°C	Trelleborg has committed to a 50% reduction in GHG intensity by 2025 and operational neutrality by 2035
Vistry Group	Committed to 1.5°C	Vistry is setting 2021 as its baseline, with targets aligned with the 1.5°C scenario. A net zero roadmap for homebuilding was published in September 2021.

We are aware that several holdings are planning on submitting targets for approval to the SBTi, and so we expect this list to grow over 2022.

[30] Company filings and presentations
[31] DCC have a 25% market share in Sweden for biofuel distribution
[32,35,36] For all figures, see our case study.
[33] Alliant Energy's share is 593 MW
[34,37] SBTi, Companies taking action – Science Based Targets

SECTION 4

Annual portfolio impact

In collaboration with Net Purpose, we present below impact data on an aggregated, cross-company basis. These figures are our estimates of some of the impact that the companies in which we are invested delivered in 2020. Our database, and its impact calculations, draw on data from company, sector and industry reports, combined with analysis of academic research and other credible sources.

Aggregate calculated company level impact of stocks held in FY'20

47.5m MTs
of CO_2 emissions avoided with **12m MT** released (Scopes 1, 2 and 3)

31.2%
reduction in absolute (operational) emissions for names held for 3 years over (FY '18-20)

5.13m MWH
of clean energy generated

183% increase for names held for 3 years (FY '18-20)

359k MT of waste generated with **268.3k MT waste recycled**

and a further **149k MT of waste reduced**

33.8%
reduction in waste generation for names held for 3 years (FY '18-20)

724m m³
of water used with **10.7m M³ water saved**

12.2%
reduction in water use for names held for 3 years (FY '18-20)

11.1m
patients treated and **9,810.34 lives extended**

6.9% and **6.5%**
increase respectively for names held for 3 years (FY '18-20)

38.8k MT
of food loss

17.6%
reduction for names held for 3 years (2018-20)

29% female representation in workforces

19% female representation in management and **25%** at board level

20.6% increase in female board representation and **16.1% increase in female manager representation** for names held for 3 years (FY '18-20)

822k
underserved people or small businesses given financial access

Source: Federated Hermes Impact calculations, Net Purpose, 2021 drawing on FY'20 data. Our calculation methodology is described in detail in our Impact Q1 2021 Report.

SECTION 5

Hamish Galpin, Lead Manager

Investment commentary

Performance in 2021 reinforced the nature of the fund's factor exposure. Correlation is highest, not surprisingly, to Industrials. The fund did best when low volatility stocks outperformed, and this is what gave good relative returns at the end of the year when central banks started talking up rate rises.

The Fund returned

18.8% in 2021, exceeding the benchmark's return of

16.2% and generating outperformance of

222bps

The Fund returned 18.8% in 2021, exceeding the benchmark's return of 16.2% and generating outperformance of 222bps[38]. This means the Fund has now outperformed in three of the last four years (+260bps in 2018, +159bps in 2019). And while 2020 was an exceptional year for markets, since inception returns are still in line with the benchmark.

While we were held back by the 'core' positioning of the Fund in 2020 (by 'core', we mean the Fund does not have a material tilt towards growth or value), we believe that such positioning is appropriate for a through-the-cycle strategy, particularly given some of our engagement objectives will take a number of years to bear fruit. It also makes sense given current markets – the fund has moderately positive exposure to inflation (through a structural overweight to Industrials), but also some growth exposure, should that part of the market revive now that it has seen a correction.

Sector outperformance in 2021 was concentrated to Healthcare and Industrials, which produced excess returns of 370bps and 252bps, respectively. Interestingly, these have also been the best returning sectors for another of our strategies, Global Small Cap, since it launched 11 years ago. Clearly, both have proven prosperous for investors looking at small and mid-cap (SMID) stocks, with idiosyncratic and defendable business models. Negative contributions were concentrated in Materials and Information Technology – which returned -131bps and -107bps, respectively – driven by three stocks in particular (discussed in detail shortly).

Looking forward, the Fund will most likely maintain an overweight in Industrials, and corresponding underweight in Information Technology.

Regionally, the top performer was North America (+230bps); returns from developed Europe, Middle East, and Africa (EMEA) were also positive (+112bps). Modest outperformance came from Asia ex-Japan, which offset the slight underperformance of Japan. Emerging Asia lagged the benchmark by 73bps.

We should stress that despite this, the Fund does not seek to generate outperformance from sector and country positions – the focus is firmly on stock picking. At the stock level, then, the strongest contributions in 2021 came from AMN Healthcare, IMCD and Silicon Labs. While AMN, a US healthcare staffing agency, is seeing strong demand for its services, the company's share price remains volatile, given market uncertainty as to whether AMN is a Covid-19 beneficiary. IMCD, a Dutch chemicals distributor, is growing strongly in the US and, with an ability to pass on prices, is an inflation beneficiary. Finally, Silicon Labs goes from strength-to-strength, with its broad range of Internet of Things (IoT) technologies.

Payments business, Wex, leads the detractors, with Covid-19 restricting economic growth and impacting its fleet card and travel divisions. The company was also impacted, alongside others, by market concerns over the potential threat of new entrants (although this seems to have eased recently). Nifco, the Japanese auto components supplier, consolidated after a very strong finish to 2020, and like other auto industry stocks was affected by supply chain issues in the second half of 2021. Two packaging businesses, Huhtamaki and Aptar – both of which are classified under Materials – were the next largest detractors. Concerns over input costs, and the ability to pass on these costs, contributed to share price weakness for both stocks.

Looking forward, the Fund will most likely maintain an overweight in Industrials, and corresponding underweight in Information Technology. This is because the parts of the market with most physical and human capital have, in our view, the greatest impact potential.

[38] Returns are provided gross, using the fund's base currency (USD). Management fees are not included and will have the effect of reducing returns. Past performance is not a reliable indicator of future performance.

SECTION 6

Collective engagement beyond the fund

Beyond the SDG Engagement Equity Fund, our investment stewardship team, EOS at Federated Hermes, represents over $1.75tn in assets under advice (as at 31 December 2021). This large resource allows us, as a firm, to take a leadership role with companies and policymakers alike. EOS have the skills, experience, languages, connections and cultural understanding to credibly engage at board level with some of the world's largest companies. This is enormously helpful in allowing us to shape and in turn share best practices with those smaller and mid-sized companies in which we invest.

The Climate Action 100+ (CA100+) initiative supports investors from around the world to engage the largest greenhouse gas emitters and demand action on climate change. EOS leads engagement for CA100+ at over 25 of the 169 companies and further supports engagement at over 30 more, while also contributing to the initiative's sector-specific roadmaps for decarbonisation.

Recognising the importance of the financial sector in enabling economy-wide decarbonisation, EOS was a founding supporter of the Institutional Investors Group on Climate Change (IIGCC), which faciliated shareholder engagement with banks from last year. EOS further co-authored a paper setting out investor expectations for banks on climate change and now EOS leads engagement at a quarter of the initiative's 27 largest banks.

EOS are also members of the IIGCC's Escalation Support Group, where we contribute to securing progress from all focus companies. In 2022, EOS will continue using collaborative engagement, alongside its private engagement meetings, to drive climate action. The publication of the next CA100+ net zero benchmark assessment in March will provide an excellent platform to evaluate progress to date, and direct future engagement on climate.

EOS leads engagement for CA100+ at over

25 of the **169**

companies and further supports engagement at over

30 more, while also contributing to the initiative's sector-specific roadmaps for decarbonisation.

> **Beyond climate, our ongoing engagements with packaging companies – such as AptarGroup and Huhtamaki illustrate the depth and breadth of resource EOS brings to bear.**

Beyond climate, our ongoing engagements with packaging companies – such as AptarGroup and Huhtamaki illustrate the depth and breadth of resource EOS brings to bear. EOS are supplementing our ongoing dialogues with these packaging manufacturers with parallel, but aligned, engagements with a large proportion of their top customers. For example, in the case of Huhtamaki, our EOS colleagues are engaging with 80% of the company's top 10 customers. This is important, as cross-industry collaboration is essential if we are to make, and accelerate, more sustainable packaging usage.

SECTION 7

Company commentaries

In 2020, we published a number of commentaries to communicate how our corporate engagement has generated or is generating real changes within companies, and in so doing is addressing a social challenge or need. Here is a selection of our commentaries:

Glanbia

An international dairy, nutrition and ingredients company. While more than 80% of the company's revenues comes from America, the company operates primarily in Ireland, the UK and the US.

Since our conversation with Glanbia in 2016, we have recorded more than 20 engagement interactions with the company, including meetings with various board members and management. We have also visited Glanbia's production and innovation facilities in Chicago, as well as its Ireland offices.

We will continue to engage in a constructive manner with company management and the board. Our focus will remain on encouraging it to adopt an ambitious strategy which underpins and supports the firm's long-term commercial success, while also minimising the negative and scaling-up positive societal impacts.

SDGs

The full commentary is available here.

Figure 17. Glanbia's direct emissions

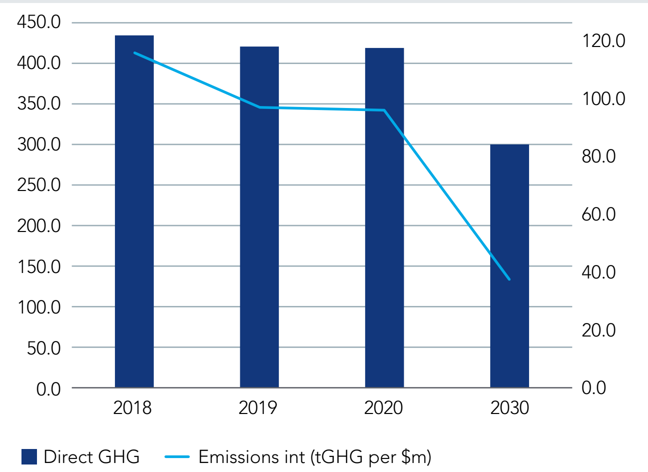
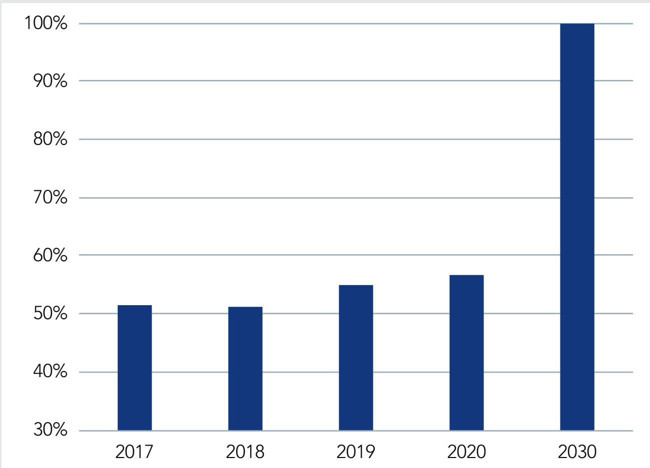
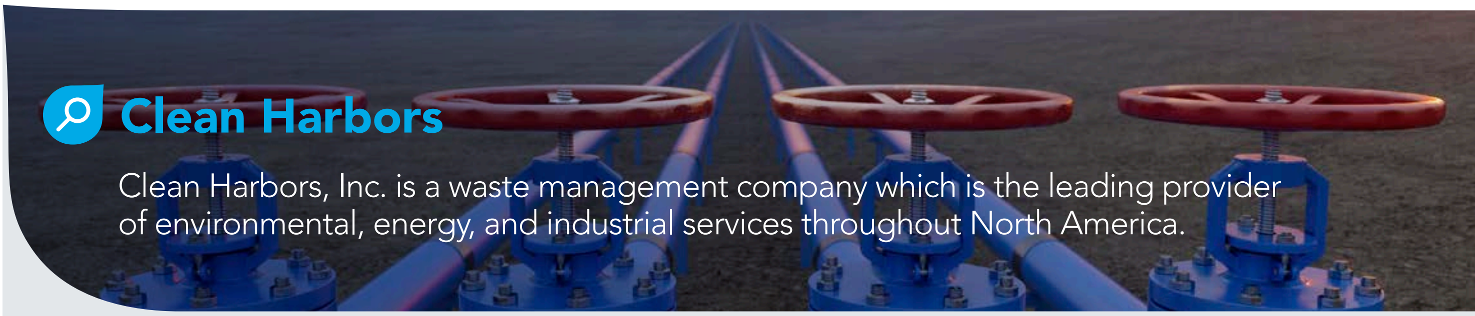


Figure 18. Glanbia's use of renewable electricity



Source: Federated Hermes, as at 31 December 2021.



Clean Harbors

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

Clean Harbors has invested in its workforce and is making good progress on reducing turnover although further strides to improve diversity are still needed. We believe the company can deliver a greater net-positive climate impact through investment in and development of its recycling and incineration services while making greater use of renewable energy and reducing emissions from its sizeable fleet of vehicles.

The company has made clear progress, but we believe there is still scope for greater workforce diversity, in particular in their driver population, which we believe can be a source of productivity gains. We similarly hope to see further growth of its recycling and re-refining businesses while at the same time reducing its own operational environmental footprint and as a result enhancing further the company's net positive climate impact. We will continue to engage with the company to pursue these agendas.

SDGs

The full commentary is available here.

Figure 19. Employee Turnover at Clean Harbors over the last three year

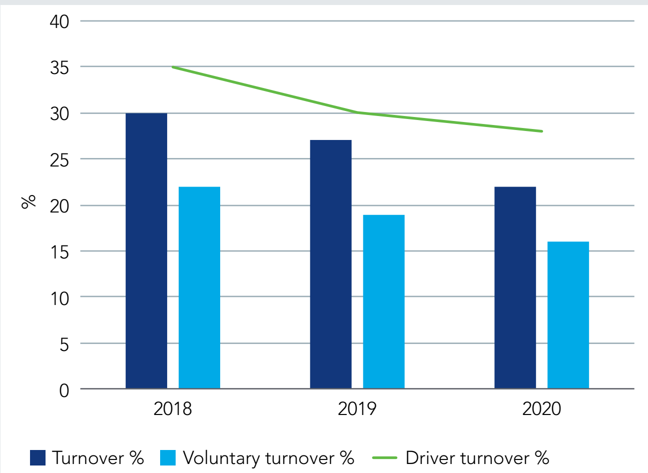
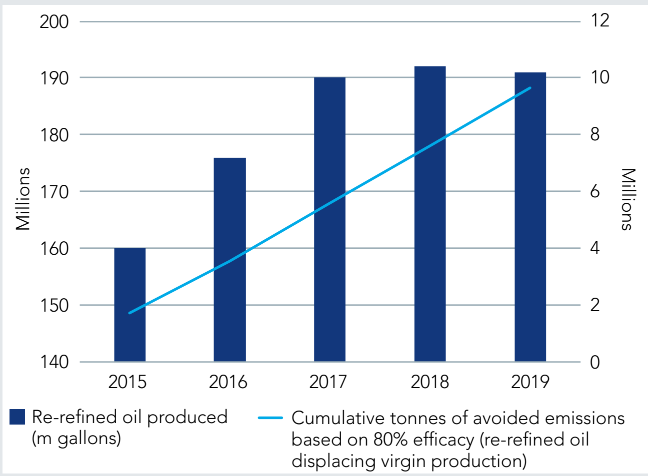


Figure 20. Clean Harbors' use of refined oil and avoided emissions



Source: Federated Hermes, as at 31 December 2021.

Fortune Brands

Fortune Brands Home & Security offers industry-leading, innovative brands for kitchens, bathrooms, entryways, and outdoor living spaces.

Since we first started engaging with Fortune in 2018, the company's primary bathroom brand, Moen, has committed to saving 1 trillion gallons of water by 2030 – equivalent to 40m swimming pools or 24bn baths. Over the period 2018-2020, we calculated that the company has saved 5.6bn gallons of water (21m M3) via its bathroom faucet and showerhead sales, an increase of 27% per annum over that period.

We will continue to engage with Fortune Brands on the issues outlined. We hope to see further progress made on its sustainable sourcing practices and climate mitigation strategy. Most fundamentally, we are hopeful the company will continue to take a leadership position within the industry with respect to water-efficient home plumbing products, further scaling its impact and gaining market share too.

SDGs

The full commentary is available here.

Figure 21. Percentage of Fortune's products lavatory products that are WaterSense labelled

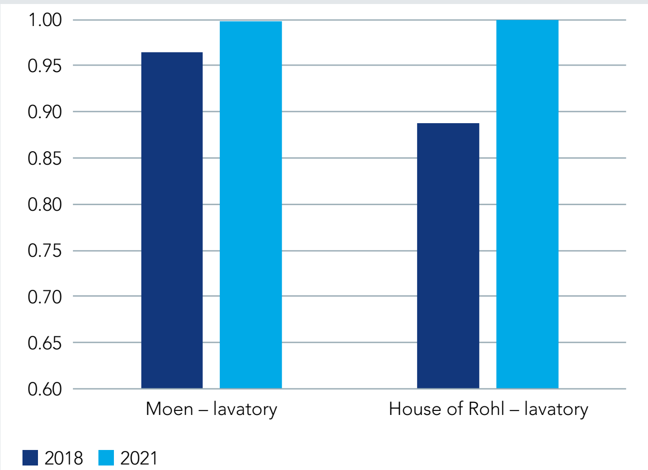
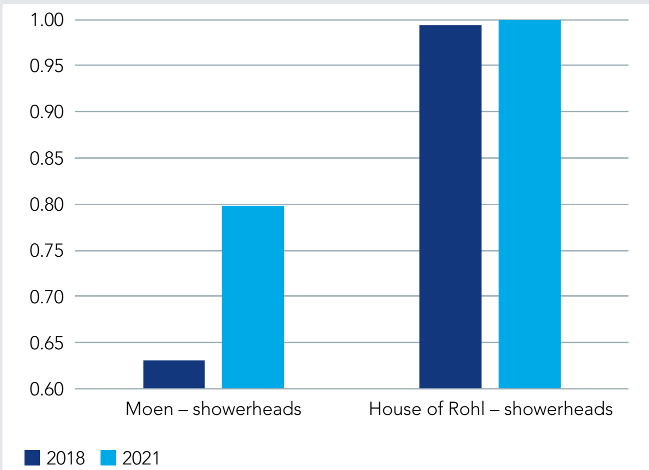


Figure 22. Percentage of Fortune's showerhead products that are WaterSense labelled



Source: Federated Hermes, as at 31 December 2021.

SECTION 8

Transformation chain

Inputs and activities	Change strategy Opportunities – through engagement – to create more impactful businesses	Number of engagement interactions 2018-2020	Three pillars of SDG-aligned engagement: Supply chain	Direct operations	Products and services	An emerging-market engagement focus	Summary of changes so far Changes at the corporate level that have delivered specific benefits to society	Long-term impact Long-term corporate outputs that are aligned with delivery of the SDGs
Alliant Energy An integrated utility company supplying electricity and natural gas to retail (residential, commercial and industrial) and wholesale customers in the US. Serves customers in the States of Illinois, Iowa, Minnesota, and Wisconsin. **Market cap:** $15.3bn **Employees:** 3,375	Committing investment to renewables generating capacity should result in reduced carbon and particulates emissions (and a significant reduction in operating expenses), a greener economy in Wisconsin and Iowa and, in time, more affordable energy for local residents.	14		✓	✓		• More than 5 fold increase in installed renewable generation between '17-24 (taking renewable owned capacity to 42% of total owned generating capacity and coal to sub-10%). Targeting to be ex-coal by 2040 and have carbon neutral generation by 2050; • In early 2021, the company announced its final coal plant closure in Wisconsin, with 40% of coal plants to be retired in Iowa by 2024; • Proactive support for impacted employees at decommissioning coal plants with multi-year notice given, funding for external tuition and training, and redeployment opportunities; • Arrears management initiative to support customers in arrears - approval to write-off 25% of debt for participating customers and a further 25% if bills were paid on time for 12 months (aggregate approval for $5m debt write-off). Furthermore, made a $4m donation to its Hometown Care Energy Fund in Sep '21 to help customers pay their energy bills.	1 No poverty 7 Affordable and clean energy 8 Decent work and economic growth 10 Reduced inequalities 13 Climate action
AMN Healthcare Leading US healthcare staffing company. Places nurses and allied health professionals on temporary assignments at hospitals and healthcare facilities throughout the US. **Market cap:** $5.6bn **Employees:** 3,236	Occupying healthcare's frontline, physicians and nurses play a pivotal role in delivering culturally competent care. However, of active physicians, just 11% are Black, Hispanic, and Native American. Similarly, while the gender mix has improved, the proportion of active female physicians stands at just 36%. There further exists a c.40% gender pay gap among physicians in US healthcare, which is simply unjust and contributes to the understandable feeling of discrimination and resultant high turnover of female physicians, AMN is well positioned to help address these issues, by reducing the shortfall of physicians and nurses. In so doing, it can improve equality and US healthcare outcomes.	17			✓	✓	• Commitment made by both CEO and Chair to take an industry leadership role regarding diversity and the gender pay gap, with the company publicly acknowledging our role in this in its 2019 Sustainability Report; • Introduction made to Nursing Now, as a potential partner to promote the status of nursing and development of young nurses. The company subsequently joined and took a leading role within the initiative.	3 Good health and well-being 5 Gender equality 8 Decent work and economic growth 17 Partnerships for the goals
Ansell Leading global provider of personal protective equipment, in particular rubber gloves. 90% of manufacturing footprint is in Asia-pacific (APAC) and within the region, the majority of manufacturing – direct and sourced – is within Malaysia and Sri Lanka **Market cap:** $3.1bn **Employees:** 14,159	The vast majority of the company's production footprint is in Asia, and within the region, the majority of direct production and sourced production falls within Malaysia and Sri Lanka. It is in this region that the company has the greatest impact potential, with respect to both its own employment practices and the employment practices of its supply partners. This is important, not least in Malaysia, where a number of rubber glove companies have faced allegations of modern slavery practices in the past couple of years.	4	✓	✓	✓	✓	• Developed a new Supplier Management Framework in FY'21. The Framework sets out Ansell's updated approach to identify, assess and address labour rights risks across their supply chain. The framework is to be rolled out starting in FY22; • In FY'22, the company will increase the board and executive leadership team's oversight of suppliers who are underperforming on labour rights, through increased reporting up to the Labour Rights Committee on the performance of individual suppliers.	1 No poverty 3 Good health and well-being 5 Gender equality 8 Decent work and economic growth 10 Reduced inequalities 12 Responsible consumption and production 13 Climate action 15 Life on land 16 Peace, justice and strong institutions
Breedon Group Manufactures construction materials. Offers asphalt, ready-mixed concrete, surfacing and contracting, cement, and concrete products. Operates in the UK are Ireland. **Market cap:** $2.2bn **Employees:** 3,204	Cement manufacturing is inherently carbon intensive, however, there are opportunities to improve the environmental efficiency of production by investing in equipment to improve thermal efficiency, bolster alternative fuel and raw material usage, and improve collaboration around carbon capture and storage (CCS).	3		✓	✓		• Alongside the industry (at UK and regional level), Breedon has made a commitment to 2050 carbon neutrality; • At the Q4 2021 investor day, the company announced that it is targeting a 30% reduction in gross carbon intensity per ton of cement by 2030. Additionally, the company is targeting 50% of concrete and asphalt sales from products with enhanced sustainability attributes by 2030.	4 Quality education 7 Affordable and clean energy 8 Decent work and economic growth 11 Sustainable cities and communities 12 Responsible consumption and production 13 Climate action

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Brunswick Corporation Leading manufacturer of marine engines, boats, and parts and accessories. Principal operations are in the US. **Market cap:** $7.8bn **Employees:** 14,382	Being a global leader in the marine industry provides an opportunity to continue to raise standards. In particular, and given the fiberglass challenges faced by fiberglass vessels, there is an opportunity to take a leadership role in identifying a viable and scalable solution (ideally more circular in nature than usage, as alternative fuel in cement kilks). In so doing, the company stands to reduce instances of discarded vessels and improve material resource efficiency.	18		✓	✓		• Inaugural, enterprise-wide sustainability report published in 2020 includes commitment to 50% renewable electricity usage by 2030, and ongoing efficiency improvements from new engines. Energy intensity down 17% from FY18-20, and employee accident rate was also down 26%; • During 2021, the company committed to launching five electric marine engines across 2022-23, with a view to being both the leader in internal combustion engines and electric marine propulsion. Additionally, 15k diesel generators are to be installed across established base by 2023, saving 9m tonnes of CO_2 emissions annually; • Financial and in-kind commitments are being made to the Rhode Island Recycling Project to develop a more circular end-of-life solution for fiberglass vessels.	
Clean Harbors Provides a variety of environmental remediation and industrial waste management services. Services include treatment and disposal of hazardous and non-hazardous solid and liquid waste, surface remediation, groundwater restoration, and waste packaging, as well as analytical testing and consulting. Serves customers in the US. **Market cap:** $4.7bn **Employees:** 13,500	Improving the pay, benefits and training offered to trucking employees has the potential to improve physical, economic and mental wellbeing, while reducing unnecessary and costly turnover. As the 24th largest fleet operator in North America, there is also a significant opportunity to reduce direct emissions. The company is also the largest collector, recycler and re-refiner of used motor oil in North America – scaling this business therefore offers a significant environmental impact opportunity.	14		✓	✓		• Between FY18-20, the company invested an additional $75m in the workforce across new/additional benefits, which reduced voluntary turnover from 22% to 16%, and driver turnover from 35%-28% (vol. driver turnover from 25% to 20%), over the same period. Since then, turnover has drifted back up, as a result of the 'Great Resignation', but the impact has been moderated by previous investment; • More than 235m gallons of used oil collected in FY20, and more than 190m gallons of reused oil sold in 2021; • Acquisition of Vectrex, which will expand re-refining capacity by approximately 40%.	
Cooper Companies Leader provider of speciality healthcare products, including contact lenses, diagnostic products, surgical instruments and accessories for gynaecologists and obstetricians. **Market cap:** $20bn **Employees:** 12,000	The company's products offer rich potential for positive impact generation. Of particular interest is the company's Paragard product, the only non-hormonal intrauterine contraceptive device available in the United States. Improving the uptake of long-acting, reversible contraceptive devices, which are under-utilised in the US in comparison to other markets, has the potential to reduce unplanned pregnancies and, in turn, support gender equality efforts.	21		✓	✓		• Marketing spend behind Paragard was increased in 2020, as learnings continue within the business around the route-to-market and the corresponding business opportunity of the product. Which was only acquired in late 2017; • Similarly, the business continues to increase its focus on sustainability, with the appointment in 2019 of a sustainability director and the provision of ESG disclosures including SDG alignment; • Finally, this past year saw the business partner with Plastic Bank to launch the first net plastic neutral contact lens.	
Credicorp Provides a full range of financial services including commercial banking, corporate finance, brokerage services, asset management, trust and insurance. Operates in Peru, through its subsidiaries, and nearby countries such as Colombia and Ecuador. **Market cap:** $14.6bn **Employees:** 34,000	A large proportion of the Peruvian population still have no access to a savings account, with the figure higher in rural areas and among the female population. Similarly, Peru's Micro-, Small and Medium-sized enterprises (MSMEs) are among the most credit constrained in the region. As the largest bank in Peru, with the biggest microfinance business in the region, Credicorp is uniquely placed to increase access to finance and financial inclusion, in turn supporting economic development and reducing inequalities.	24			✓	✓	• Mibanco adds more than 10,000 unbanked entrepreneurs every month; • New products have been launched, including a health insurance product for micro-entrepreneurs, alongside greater investment in their technological platform, which should broaden their reach; • An enterprise-wide sustainability strategy, to which we have inputted, was published during 2021.	
Eagle Materials Manufactures and distributes cement, gypsum wallboard, recycled paperboard, and concrete and aggregates. Products are used in the construction of homes, commercial and industrial buildings, and governmental buildings across the US. **Market cap:** $5.2bn **Employees:** 2,400	Cement manufacturing is inherently carbon intensive, however, there are opportunities to improve the environmental efficiency of production by investing in equipment to improve thermal efficiency, bolster alternative fuel and raw material usage, and improve collaboration around carbon capture and storage (CCS).	14		✓	✓		• Company published its first ESG disclosures for a decade in 2021, which covers a high-level strategy to achieve net zero by 2050; • Since FY18, carbon intensity of production has decreased by 12%; • The company with governmental and corporate partners is piloting Carbon Capture technology; • New lower clinker content cement launched in 2020.	

			Three pillars of SDG-aligned engagement:					
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Glanbia An international dairy, consumer foods, and nutritional products company. Conducts operations primarily in Ireland, the UK and US. **Market cap:** $3.9bn **Employees:** 7,385	The majority of the company's business model emissions are associated with its dairy farm suppliers. The objective is to work collaboratively with the US dairy industry, as well as suppliers, to bring about lower emissions and more environmentally resilient farming practices, alongside a more diversified product offering. This will reduce aggregate GHG emissions across the company's business model. Other impact opportunities are associated with the company's employment practices and in-market promotion of health and wellness.	26	✓	✓	✓	✓	• New sustainability strategy launched in 2021, with Science-Based Targets established committing the company to net zero by 2050, a 31% reduction in operational emissions by 2030, and a 25% reduction in supply chain emissions intensity.	1 No poverty; 2 Zero hunger; 3 Good health and well-being; 5 Gender equality; 7 Affordable and clean energy; 8 Decent work and economic growth; 13 Climate action; 15 Life on land; 17 Partnerships for the goals
Huhtamaki Oyj Manufactures consumer packaging products. Produces disposable food service and tableware products, as well as containers for fresh meats, fruits. Manufactures in many countries and sells worldwide. **Market cap:** $4.9bn **Employees:** 18,227	As a manufacturer of flexible and fibre packaging for food and beverage items, the company is well-positioned to develop solutions that are more recyclable, with reduced material intensity (i.e. greater usage of recycled, renewable and sustainable content). In so doing, the company can reduce the environmental impact of single-use plastics. Similarly, as a relatively large global employer, the company's employment practices directly contribute to economic, physical and mental wellbeing.	22	✓	✓	✓	✓	• The company committed to achieving carbon-neutral production and had its emission reduction targets approved by the Science Based Targets initiative in '21 – it will now reduce absolute scope 1 & 2 emissions by 27.5% by 2030, and reduce the absolute, scope 3 GHG emissions from the end-of-life treatment of products sold by 13.5%; • Committed to designing all products to be recyclable, compostable or reusable by 2030; • Paper and fibre cup lids introduced in North America and EU respectively in 2021, addressing one of the ongoing challenges around takeaway cup recycling.	1 No poverty; 7 Affordable and clean energy; 8 Decent work and economic growth; 12 Responsible consumption and production; 13 Climate action; 15 Life on land; 17 Partnerships for the goals
RPM International Manufactures, markets, and sells various specialty chemical product lines. Product lines include speciality paints, protective coatings, roofing systems, and sealants/adhesives. The company focuses on the maintenance needs of both the industrial and consumer markets. **Market cap:** $10.8bn **Employees:** 14,621	Given the breadth of product portfolio, the company has the potential to allocate greater capital to the development and promotion of more sustainable products and, in so doing, reduce its aggregate environmental impact.	17		✓	✓		• The company published its inaugural Sustainability Report; • It has implemented the 'Rooney Rule' for recruitment (which requires a certain number of interviews with ethnic-minority candidates), when filling any vacancies on the Board of Directors; • The company's RISE program – which associates can use to earn a construction management degree on a part- or full-time basis, with 100% of their tuition paid – is changing the perception of careers in roofing and addressing labour shortages. Their Roof Training Apprenticeship Program trains offenders and upon release guarantees employment opportunities within a pay range of $16-23 ph; • Signalled to us a desire to scale initiative further, as the pandemic headwind abates.	3 Good health and well-being; 4 Quality education; 5 Gender equality; 8 Decent work and economic growth; 12 Responsible consumption and production; 13 Climate action
Samsonite International Designs, manufactures, and distributes luggage. Products include suitcases, garment bags, casual bags, business cases, clothing, shoes, and accessories. **Market cap:** $2.5bn **Employees:** 14,500	With 90% of the group's manufacturing outsourced, predominantly to China and Southeast Asia, the company has the ability to work with supply chain partners to improve livelihoods. In parallel, as the producer of durable products, it can develop an offering that is more circular in nature with respect to both material usage and end-of-life recycling.	23	✓		✓	✓	• The company committed to being carbon neutral across operations by 2025 and gender balanced across senior leadership; • It has made substantive commitments to more circular material development and incorporation across its product range - as of summer 2021, approximately 15% of global sales across Samsonite, Tumi, American Tourister, and Gregory were from products with a sustainable attribute, compared to approximately 7% for FY'19.	1 No poverty; 5 Gender equality; 8 Decent work and economic growth; 12 Responsible consumption and production; 16 Peace, justice and strong institutions
SSP Group A holding company that, through its subsidiaries, offers catering and concession services at airports and railways stations within the UK, Europe, Asia and North America **Market cap:** $2.5bn **Employees:** 39,000	The group has a multitude of opportunities to create a positive impact (or avoid exacerbating negative impacts) through the provision of decent work, including paying a living wage and requiring operators to share responsibility for this. In doing so, the company will support the economic and mental wellbeing of thousands of people. At the same time, sustainable sourcing practices can support both livelihoods and responsible agricultural practices, while menu options can encourage healthier eating habits.	21	✓	✓	✓	✓	• We informed the board's revised pay policy, which was presented to shareholders in 2021; • We have inputted extensively into the company's developing sustainability strategy, which is pleasingly putting particular emphasis on its responsibility towards people. Targets were published in late 2021, with more detail to come during 2022; • New targets cover carbon neutrality by 2040, 30% of own brand meals to be plant-based or vegetarian and, by 2025, women to comprise at least one third of their Executive Committee and direct reports.	1 No poverty; 2 Zero hunger; 3 Good health and well-being; 5 Gender equality; 8 Decent work and economic growth; 10 Reduced inequalities; 12 Responsible consumption and production; 15 Life on land

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John Wiley & Sons Publishes print and electronic products. Specialises in scientific, technical, and medical books and journals – as well as professional and consumer books and subscription services – and provides textbooks and educational materials. **Market cap:** $2.9bn **Employees:** 6,900	Wiley has long been embedded within most colleges and universities through its journals and legacy text and e-books. Among corporate partners, Wiley is less established, but growing in scale. In between these two parties sit individuals who often lack the training to meet the demands of evolving work. Wiley has the potential to leverage its brands, relationships and delivery capabilities to bridge the skills gap, while also broadening access to affordable and quality higher education. In parallel, it is notable that women are under-represented at all stages of academic research. As the number one research platform and top three research publisher, Wiley has the ability to show leadership in this area.	15			✓	✓	• After falling off the agenda over the past decade in the context of business transformation, sustainability and the company's ability to have meaningful social impact is now back on the board agenda; • We are pleased to have meaningfully input into the way the company is thinking about sustainability and are confident that we will see progress during 2022.	
YAOKO Operates local supermarkets and drugstores in Saitama Prefecture. Handles fresh food products, daily-use sundry products and other various goods in local area. **Market cap:** $2.4bn **Employees:** 15,241	There are a breadth of issues for Yaoko to grapple with and take leadership position on, spanning agricultural supply through to packaging usage.	14	✓	✓			• To create opportunities for career progression amongst female employees, the company is consciously selecting women for deputy store manager positions, with subsequent training in order for later promote them to store managers. This, in turn, has increased the number of women in managerial positions; • Encouragingly, the number of employees taking paid leave has increased in FY'20 to 36.4%, vs. 20% in FY'18; • The company has seen an 80% reduction in plastic bag usage since the introduction of a fee.	

Please note the above list includes our engagement tier-one portfolio holdings only.

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.

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