Stewardship Report 2021

April 2022

Federated Hermes Limited

www.hermes-investment.com
For professional investors only

On behalf and in the interests of the investors it serves, the investment industry can be a powerful force in building a better world – and at Federated Hermes Limited, we believe active stewardship is the best way to achieve this objective [1].

[1] Federated Hermes Limited was formerly known as Hermes Fund Managers Limited. For purposes of this report, references to "Federated Hermes Limited", "FHL", "our", "we", "our firm" and, unless the context indicates otherwise, "firm" include Federated Hermes Limited and its consolidated subsidiaries, other than Hermes Equity Ownership Services Limited and Hermes GPE LLP ("HGPE"). Hermes Equity Ownership Services Limited ("EOS at Federated Hermes" or "EOS") will report separately. The statements, references to officers, practices and policies, and discussions in this report pertain to Federated Hermes Limited, and not to other business engaged in by Federated Hermes, Inc. and its other consolidated subsidiaries. Federated Hermes, Inc. and Federated Hermes Limited are collectively referred to as "Federated Hermes". Certain statements in this report constitute forward-looking statements, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results, activities or levels of activity, performance or achievements of FHL to be materially different from any forecast results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

The Covid-19 pandemic continued to impact the lives of people around the world in 2021. Despite many national lockdowns and continuing limits on international travel, economic activity bounced back. Our stewardship work has continued to focus on engaging with companies and assets on how they support their staff, customers and wider stakeholders, particularly as many face labour shortages and supply chain challenges.

The landmark COP26 conference took place in Glasgow after postponement from 2020, driving a flurry of activity on the climate agenda. Delegates made pledges on decarbonisation, eliminating deforestation, increasing the number of electric vehicles, moving away from coal-fired power and financing natural capital solutions by governments, financial institutions and companies. Federated Hermes Limited hosted a two-day fringe conference bringing together scientists, policymakers, companies and investors. Our CEO Saker Nusseibeh CBE addressed the World Leaders Summit on behalf of a group of investors committing to strengthen their efforts to tackle deforestation in their portfolios, as well as those joining the Natural Capital Investment Alliance to accelerate the development of natural capital as a mainstream investment theme. As we look forward to 2022, our focus is on turning these ambitious pledges into action.

Effective and outcomes-driven stewardship and greater collaboration will be crucial if the investment industry is to achieve its pledges on climate and biodiversity issues, and its ambition to tackle the social issues brought to the fore by the Covid-19 pandemic. As a business dedicated since our 1983 inception to delivering sustainable wealth creation that enriches investors and, where possible, society and the environment over the long term, we will continue to invest, engage and act to support the change needed by the planet, its people and the generations to come consistent with client objectives and applicable requirements.[2]

David Stewart
Chair,
Federated Hermes Limited

Saker Nusseibeh, CBE
CEO,
Federated Hermes Limited

Eoin Murray
Head of Investment,
Federated Hermes Limited

Leon Kamhi
Head of Responsibility,
Federated Hermes Limited

[2] We strive to achieve these goals consistent with client objectives and applicable requirements.

Executive summary

Stewardship: 'The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'. [UK Stewardship Code 2020]

Following on from our inaugural 2020 Stewardship Report, this report describes our continued stewardship work across asset classes during 2021 and the outcomes of these activities. We have followed the structure of the Code, reporting principle by principle to communicate our policies, processes, activities and outcomes to clients and wider stakeholders.

Building on last year's reporting, we have provided more detailed information about our diversity, equity and inclusion strategy; the systemic and market-wide risks we monitor and seek to mitigate; the range of our involvement in industry initiatives; and the outcomes of our collaborative engagements.

We begin once again by setting out our purpose, our beliefs and our values that drive our strategy and business model. Our stewardship activities flow from this overarching structure, demonstrating how we contribute to building a global financial system that delivers improved long-term returns for investors, as well as, where possible, better, more sustainable outcomes for society.

All of the work we do as responsible stewards of capital is underpinned by our purpose, values and investment beliefs which we describe under Principle 1. From our 1983 inception through to the present day, our purpose has been to deliver sustainable wealth creation over the long-term. We believe there are two mutually reinforcing strands of responsible investment management: responsible investment and responsible ownership. Together, these aim to generate sustainable wealth creation for the end beneficiary investors, encompassing investment returns and their social and environmental impact. This drives our governance structures – designed to put our clients and beneficiaries at the heart of everything we do – and our investment and engagement activities, through which we seek to deliver strong risk-adjusted returns and where possible, to contribute to positive outcomes in the wider world, consistent with client objectives and applicable requirements.

We continuously strive to reflect on our efficiency and the outcomes we are delivering in order to identify further ways in which we can enhance our approach. Throughout the report we reflect on enhancements made to our approach during 2021, as well as areas identified for further improvement in 2022.

In collating this report, we have taken steps to ensure it is fair, balanced and understandable. We have provided information across asset classes, with the representation reflecting the makeup of our assets under management (AUM). In doing so, we have communicated our successes, reflected on our learnings and highlighted the changes we will make in the next 12 months. We also provided examples and case studies throughout the report to demonstrate how our investment approach works in practice.

This report also fulfils some of the reporting requirements for Federated Hermes Limited – which includes its subsidiaries Hermes Investment Management Limited, Hermes Fund Managers Ireland Limited and Hermes Alternative Investment Management Limited – under Annex C of the EU Shareholder Rights Directive and as required by the FCA Conduct of Business Sourcebook 2.2B.

EOS at Federated Hermes will report separately under the Stewardship Code as a service provider.

HGPE LLP is outside the scope of this report. It is intended to incorporate the activities of HGPE in the report going forward.

Contents

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns and, consistent with client objectives and applicable requirements, to strive to contribute to positive outcomes in the wider world.

Who we are

From when our first CEO openly challenged a major UK company to improve its governance to when our current CEO Saker Nusseibeh was awarded a CBE for services to responsible business, Federated Hermes Limited has always been at the forefront of responsible investing. We are guided by the conviction that responsible investing is the best way to create long-term wealth for investors.

We are an active asset manager with a difference. We were set up to manage the pension funds of British Telecommunications ("BT") and the Post Office in September 1983 and have engaged with companies from day one. In 1983, our first CEO, the late Ralph Quartano, admonished the Marks & Spencer Board for the special loans they made available to directors. He made it clear we were committed to serving the needs of our clients – the 400,000 beneficiaries whose money we part-managed – and that we understood that the investment decisions we made on their behalf helped to determine the shape of the future society they would live in.

In 1996, we set up a dedicated corporate governance team to engage with companies and advise on all aspects of corporate engagement and environmental, social and governance ("ESG") policy development, research and analysis, voting recommendations and engagement. In 2004, this team evolved into our stewardship business, now EOS at Federated Hermes. EOS was set up in response to demand from pension funds that wanted to be more active owners of the companies in which they were invested.

Our client base has since expanded rapidly, with growth in third-party AUM and stewardship assets under advice ("AUA"). Yet these origins have driven our purpose, investment beliefs and strategy throughout our history, from when we established our Focus Funds business in 1998, to our work challenging boards and pushing for corporate-governance reform, to when we founded EOS in 2004.

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

Figure 1. Federated Hermes Limited's investment capabilities

	1 LISTED EQUITIES	2 SPECIALIST FIXED INCOME	3 PRIVATE MARKETS	4 THEMATIC
Strategies	Global Equities (including Global Equity ESG) Global Emerging Markets Asia ex Japan European Equities SMID Impact Opportunities SDG Engagement Equity	Global High Yield Multi Strategy Credit Absolute Return Credit Direct Lending Real Estate Debt Unconstrained credit SDG Engagement High Yield	Real Estate Infrastructure Private Equity	Socially Responsible Investment ESG Driven Investing Impact Investing (e.g., Impact Opportunities) Impact through Engagement (e.g., SDG Engagement High Yield, SDG Engagement Equity)
AUM*	**US$33.1bn** £24.4bn / €29.1bn	**US$9.1bn** £6.7bn / €8.0bn	**US$18.1bn** £13.4bn / €15.9bn	**US$14.9bn** £11.0bn / €13.1bn Thematic AUM is also included under equities, credit and private markets
Approach to ESG Factors	Investment process integrates ESG leveraging quantitative ESG analysis and EOS engagement		Responsible and sustainable investment approach across all private markets capabilities	Tailored, specialist strategies designed to meet specific SRI, ESG and Impact-related objectives

5 Stewardship			
	Stewardship insights integrated into investment processes and decisions		
	Stewardship and stakeholder engagement	Public policy advocacy	Hybrid investment and stewardship mandates
	US$1,640.3bn £1,211.0bn / €1,442.4bn		

Key: Investment strategy: Strategies that contribute to Thematic investing

AUM does not include assets under sub advice. Figure 1 includes AUM of HGPE within private markets. HGPE is outside the scope of this report.
Source: Federated Hermes Limited, as at 31 December 2021.

Federated Hermes, Inc. acquires remaining stake in Federated Hermes Limited

In August 2021, Federated Hermes, Inc. purchased the remaining 29.5% interest of Federated Hermes Limited held by the BT Pension Scheme ("BTPS"). Following the transaction, Federated Hermes, Inc. owned approximately 90% of Federated Hermes Limited's shares, with the remainder held by senior members of Federated Hermes Limited staff through the Federated Hermes Limited Long Term Incentive Plan (LTIP) scheme. On 14 March 2022, Federated Hermes, Inc. completed the acquisition of the remaining 10% stake in Federated Hermes Limited, effected by way of a tender offer, with the Federated Hermes Limited LTIP plan generally being replaced with the equivalent award of restricted stock in Federated Hermes, Inc.

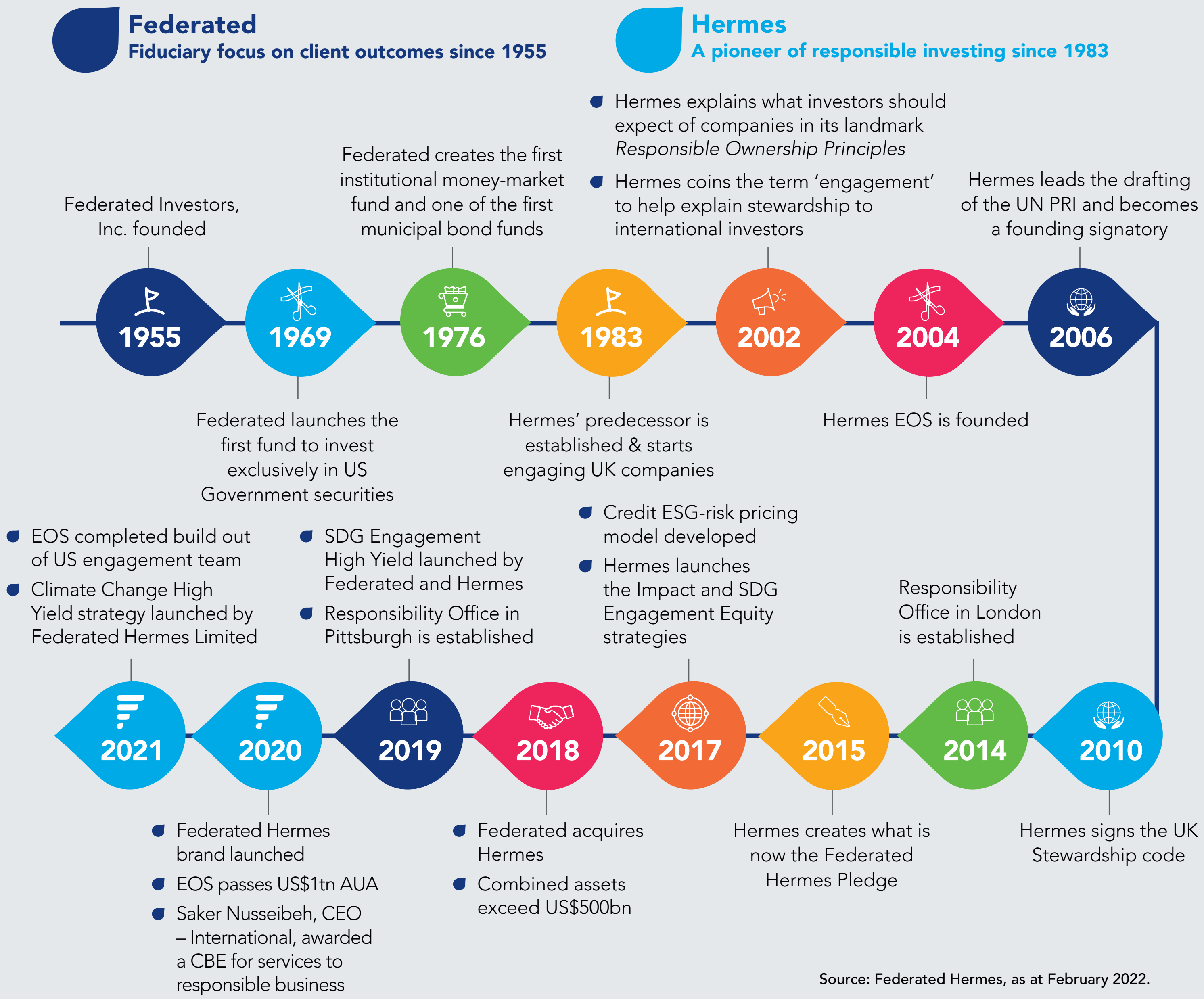
Since the initial acquisition in 2018, Federated Hermes, Inc., which has a history of backing and investing in the talent and the businesses it acquires, has made substantial investments in Federated Hermes Limited including: in acquisitions by Federated Hermes Limited of MEPC Limited ("MEPC") (a fully owned development and asset management subsidiary) and the team from Argent Birmingham (the team working on the Paradise, Birmingham real estate scheme); the build out of the business in the Asia Pacific region ; and the investment and build out of the EOS team in the US.

Its commitment could not be better demonstrated than by its decision to change its own name to "Federated Hermes, Inc." This was an important step and a powerful illustration of the high regard it has for Federated Hermes Limited's talent, expertise and client proposition.

Although BTPS no longer has an ownership interest in Federated Hermes Limited, it will remain a client, with $11.0bn in AUM invested in several investment products managed by Federated Hermes Limited and its subsidiaries, as of 31 December 2021.

Federated Hermes, Inc. and Federated Hermes Limited are united by a shared commitment to client-centric responsible investment and long-term business growth.

Figure 2. Our history as a leading responsible investor has been decades in the making Source: Federated Hermes Limited, as at 30 April 2022.



Source: Federated Hermes, as at February 2022.

Our values

We believe that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors and companies, as well as, where possible, society and the environment.

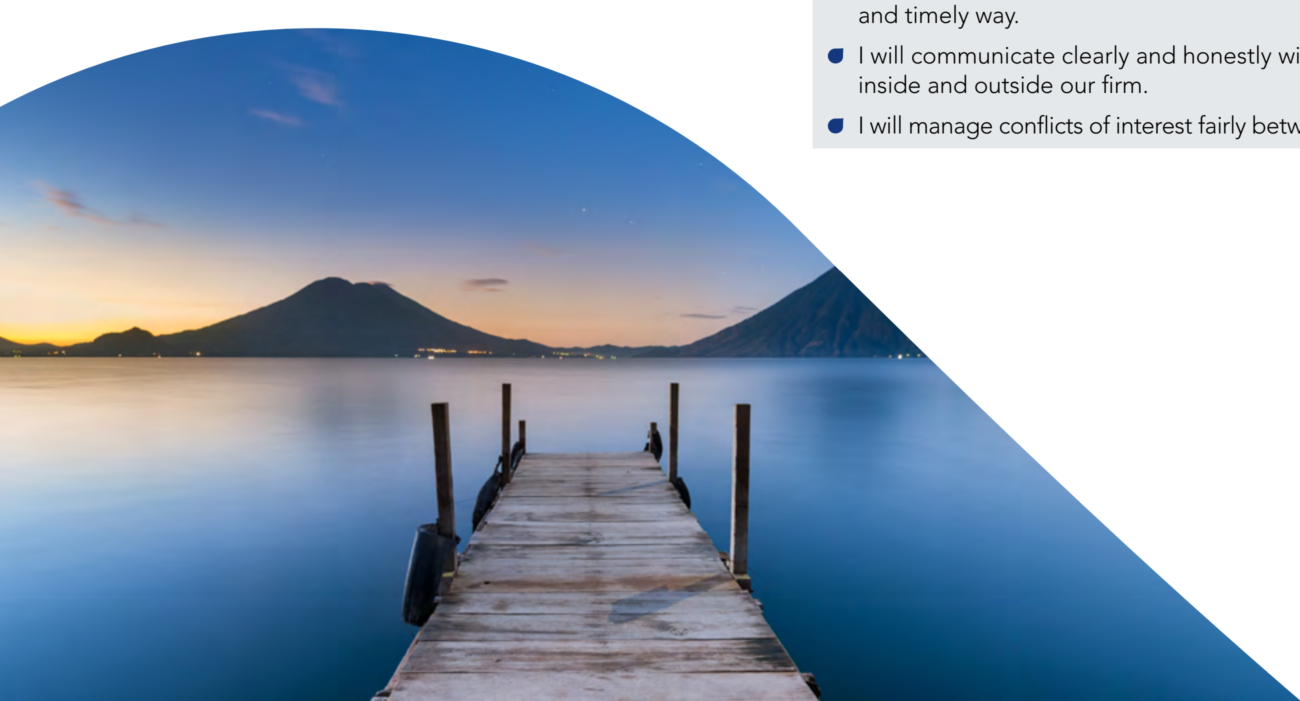
Since our business began in 1983, we have advocated and sought to embody a way of investing that enriches investors and companies, as well as, where possible, society and the environment. Sustainable Wealth Creation is our way of ensuring the capital we invest generates financial outperformance and, where possible, environmental and social outcomes – not only for our clients and their investors but for the generations that will follow.

Since our business began in 1983, we have advocated and sought to embody a way of investing that enriches investors and companies, as well as, where possible, society and the environment.

In an industry where many competitors are awakening to the appeal of sustainable investment, we are energised by the opportunity to advance the leadership position we have long held by driving further change.

Despite the challenges of the pandemic, we have continued to grow revenues, AUM and stewardship, and to invest in our future growth. Our clients, the companies we engage and the policymakers we seek to influence know us first and foremost for one thing: when we speak of sustainability, we mean it.

Despite the challenges of the pandemic, we have continued to grow revenues, AUM and stewardship, and to invest in our future growth.



We aim to act with integrity in everything we do. The Federated Hermes Pledge, first established by Federated Hermes Limited in 2015 and adopted by Federated Hermes, Inc. in 2018, compels us to put clients' interests first and to act responsibly. It is a clear expression of our values and has been signed by 98% of employees at Federated Hermes Limited. The pledge is as follows:

I pledge to fulfil, to the best of my ability and judgement and in accordance with my role, this covenant:

- I will act ethically, responsibly and with integrity.
- I will put the interests of our clients first, consistent with our fiduciary responsibilities.
- I will encourage responsible behaviour in the firms in which we invest and on which we engage.
- I will act with consideration for our community and the environment both now and in the future. I will encourage others to do the same.
- I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society.
- I will treat my clients, my colleagues and all other stakeholders with dignity and respect and as I would wish to be treated.
- I will deal with our regulators in an open, co-operative and timely way.
- I will communicate clearly and honestly with all parties inside and outside our firm.
- I will manage conflicts of interest fairly between all parties.

Our investment beliefs

We believe the purpose of investment is to create wealth sustainably over the long term.

That's why focusing on wealth creation at the expense of the planet and society – the very future for which investors are saving – is counterproductive. Our world faces multiple challenges, including climate change, inequality and navigating the ever-pervasive growth of artificial intelligence.

> **Successful sustainable wealth creation should provide investors with income to spend as they get older, an ability to buy goods and services and help to build a world in which investors are happy to live.**

Investment management has a key role in addressing those challenges and the industry must behave in a way consistent with solving the world's problems rather than compounding them. This will have notable positive financial implications for investors and society, guarding against significant risks to the long-term health of the economy. Successful sustainable wealth creation should provide investors with income to spend as they get older, an ability to buy goods and services and help to build a world in which investors are happy to live.

We view responsibility through three lenses. Acting as a:

- **Responsible Investor** – how we integrate engagement insights and ESG considerations including the delivery of sustainable outcomes into our investment decisions.
- **Responsible Owner** – our stewardship activities: engagement, voting, public policy and screening.
- **Responsible Firm** – ensuring we lead by example, be that our commitment to net zero, our approach to diversity, equity and inclusion amongst colleagues and other stakeholders and our charity initiatives and programmes supporting the local community.

> **We firmly believe that our ability to mitigate ESG risks and capture the investment opportunities arising from these considerations is essential to achieving consistent investment outperformance for our clients.**

As responsible investors, we embrace high-active-share investing. We take a holistic approach that integrates material ESG considerations and engagement insights into all of our investment products, something that offers our fund managers an additional vantage point with which to assess an asset's potential to deliver long-term sustainable wealth.

We firmly believe that our ability to mitigate ESG risks and capture the investment opportunities arising from these considerations is essential to achieving consistent investment outperformance for our clients.

As responsible owners of the assets we manage on behalf of our clients, we actively engage through dialogue with companies on ESG issues. We believe this is essential to build a global financial system delivering improved long-term returns for investors, as well as better, where possible, more sustainable outcomes for society.

We have demonstrated through the almost 40-year history of our firm that responsible investment and stewardship often leads to better financial outcomes.[3] Moreover, robust research increasingly indicates the positive impact of stewardship on investment performance, with high-quality academic evidence showing that engagement can pay off financially and non-financially.

We have demonstrated through the almost **40-** year history of our firm that responsible investment and stewardship often leads to better financial outcomes[3].

[3] https://www.hermes-investment.com/uki/insight/equities/esg-investing-a-social-uprising/; https://www.hermes-investment.com/uki/press-centre/fixed-income/new-research-shows-relationship-esg-factors-credit-spreads/; https://www.hermes-investment.com/uki/insight/fixed-income/pricing-esg-risk-sovereign-credit/

Successful engagement can translate into outperformance: studies have shown how engagement can generate higher annualised returns,[4] while also leading to lower downside risk.[5] There is no conflict between doing good and good investment management – they are one and the same thing.

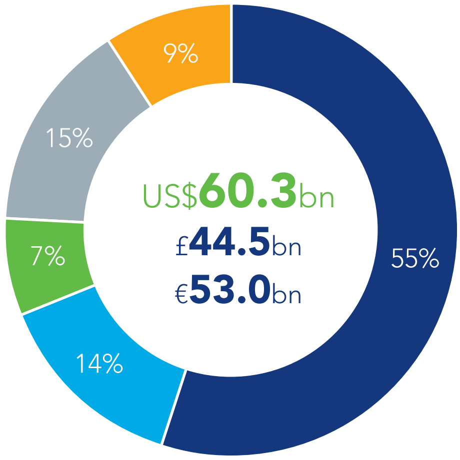
Our business model and strategy

Federated Hermes Limited is committed to delivering superior risk-adjusted investment returns for our clients. In addition to our financial targets, we understand that the way we achieve our investment objectives will have wider societal impacts. As such, we seek to provide both a better financial future for our ultimate stakeholders and, where possible, a more sustainable society. The pursuit of sustainable wealth creation drives the execution of all of our strategies consistent with client objectives and applicable requirements.

Our heritage has enabled us to put this into practice since 1983. We did this first by managing the assets of BTPS and subsequently by offering our skills to a broad and fast-growing range of global customers that includes institutions and advised private investors. Our specialist, high-conviction investment teams now manage £44.5bn / €53.0bn / $60.3bn (as at 31 December 2021) of assets across equities, credit, private debt, real estate, infrastructure and private equity.[6]

Successful engagement can translate into outperformance: studies have shown how engagement can generate higher annualised returns[4], while also leading to lower downside risk[5].

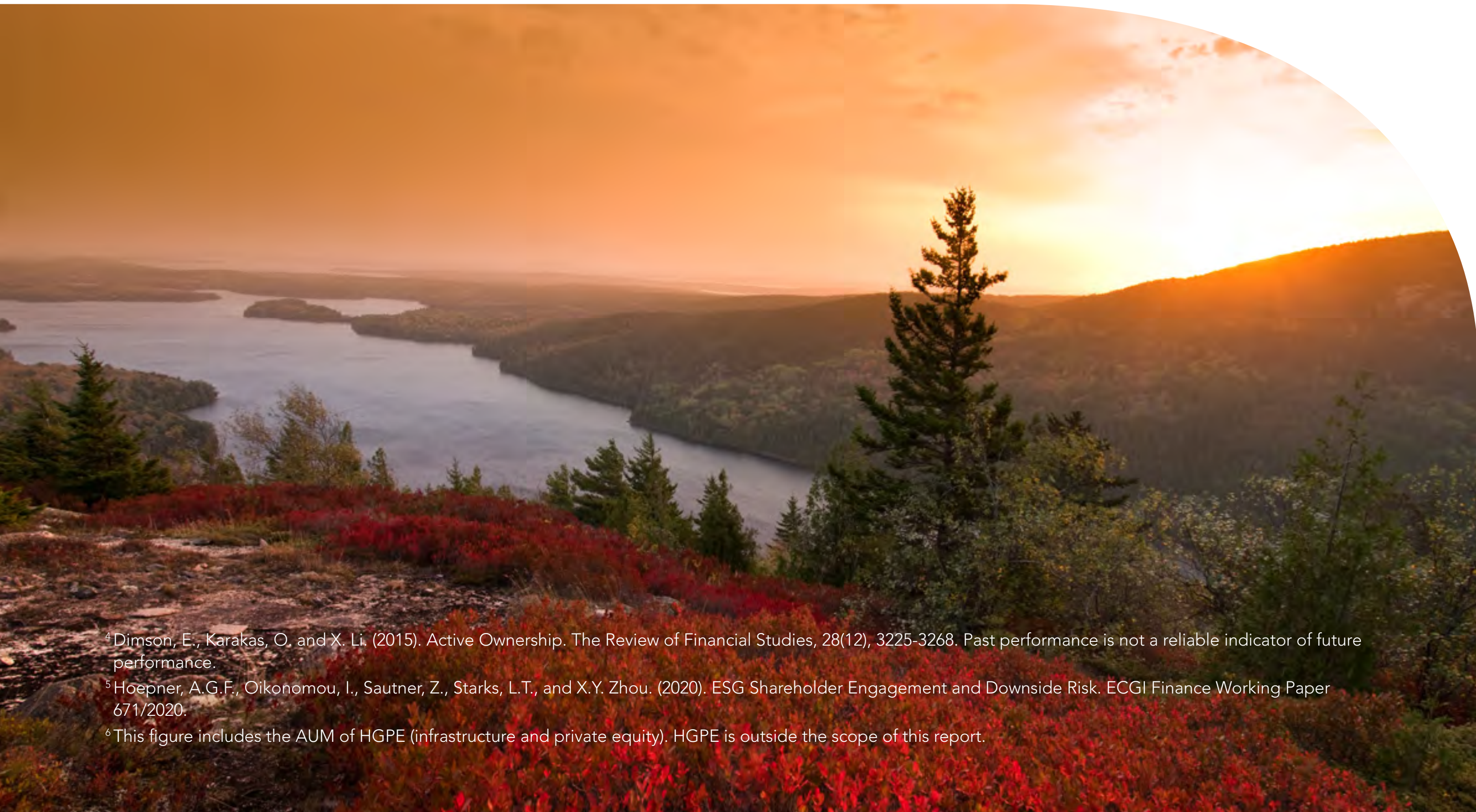
Figure 3. A diversified platform



Total AUM (Millions)	USD	GBP	EUR
Equity	**33,108**	24,444	29,114
Real Estate	**8,732**	6,447	7,678
Infrastructure	**4,037**	2,981	3,550
Fixed Income	**9,089**	6,711	7,993
Private Equity	**5,326**	3,932	4,683

Figure 3 includes AUM of HGPE (infrastructure and private equity). HGPE is outside the scope of this report. Source: Federated Hermes Limited, as at 31 December 2021.

Through EOS – one of the largest stewardship resources of any fund manager in the world – we engage companies on strategic and material ESG concerns to promote investors' long-term performance and fiduciary interests. EOS offers a shared service model, engaging on behalf of both Federated Hermes Limited and third-party clients.



[4] Dimson, E., Karakas, O. and X. Li. (2015). Active Ownership. The Review of Financial Studies, 28(12), 3225-3268. Past performance is not a reliable indicator of future performance.
[5] Hoepner, A.G.F., Oikonomou, I., Sautner, Z., Starks, L.T., and X.Y. Zhou. (2020). ESG Shareholder Engagement and Downside Risk. ECGI Finance Working Paper 671/2020.
[6] This figure includes the AUM of HGPE (infrastructure and private equity). HGPE is outside the scope of this report.

EOS provides a platform for like-minded investors, creating a powerful force for positive change. The team works on behalf of long-term global investors who entrust us with the stewardship of approximately £1.2tn / €1.4tn / $1.6tn of AUA (as at 31 December 2021) invested in over 10,000 companies worldwide, working collectively in support of shared goals. This pooling of assets increases the influence we can have with companies, which means we can have a more meaningful impact on the issues of most collective importance to our clients.

Creation of three platforms

In order to continue to lead and oversee the public markets teams based in Europe, to further expand the private markets offering and to drive the responsible investing agenda for our firm, the Board of Federated Hermes Limited has resolved to establish three distinct platforms:

- The **Public Markets** platform – incorporating our Equities and Fixed Income & Multi Asset products and solutions.
- The **Private Markets** platform – incorporating Private Equity, Private Debt, Real Estate and Infrastructure.[7]
- The **Responsibility** platform – which includes EOS at Federated Hermes, our advocacy team, research, ESG integration and some client advisory activities.

These form the basis of how we will view our commercial offering and will be supported by all the existing functions necessary to deliver a great client experience – Audit, our Client Group, Compliance, Corporate Communications, Facilities, Finance, HR, Legal, Marketing, Product, Risk, Sales, Sales Support, Tax and Technology.

EOS provides a platform for like-minded investors, creating a powerful force for positive change.

In 2022, we intend to put in place a plan for the sustainable development and growth of this three-platform franchise, placing clients firmly at the heart of what we do.

Strategy

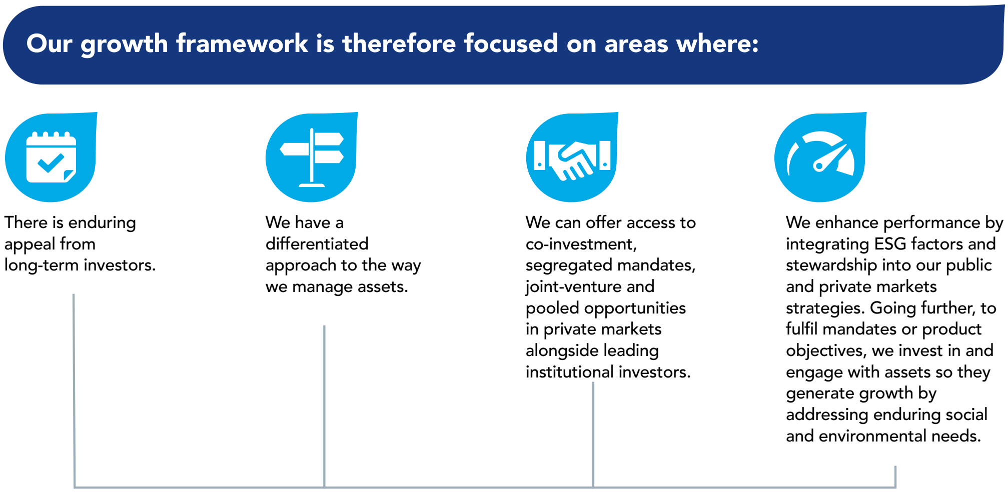
Our strategy is driven by a focus on delivering Sustainable Wealth Creation for our clients and their investors. That means we aim to provide strong risk-adjusted investment performance for clients and in doing so achieve positive outcomes for society and the environment.

We seek enduring business growth and profitability, and to make a positive impact as a leader in investment and sustainability. These objectives are firmly aligned with the interests of our clients, the companies in which we invest and engage, and the societies in which they operate.

We seek enduring business growth and profitability, and to make a positive impact as a leader in investment and sustainability.

[7] Infrastructure and private equity teams are part of HGPE, which is outside the scope of this report.

Figure 4. Federated Hermes Limited's growth framework



Source: Federated Hermes Limited, as at 30 April 2022.

The priority for 2022 will be to achieve sustainable and profitable growth by demonstrating cost resilience and continuing to invest in our competitive strengths in responsible investing and stewardship. Through our strong heritage, clear ownership structure and greater integration with our parent, there will be opportunity to achieve this.

How we have ensured a culture of effective stewardship

In our publication 'Stewardship: the 2020 vision', we explained how active stewardship must sit at the heart of investment firms' activity, operations and purpose. This must apply across all asset classes, from equities and corporate credit to real estate, infrastructure, private equity and even sovereign debt and hedge funds.

Our investment beliefs, strategy and culture ensure that stewardship is naturally at the heart of Federated Hermes Limited. We believe that creating long-term wealth sustainably through active investment and ownership delivers the best outcomes for our clients. Throughout this report, we highlight some of the actions we have taken to ensure our investment beliefs, strategy and culture enable effective stewardship, including:

Governance: We have embedded the need for effective stewardship in governance structures across the business, as described under Principle 2. This sends a clear signal of its importance to our business.

Integrated in our investment processes: Driving change through engagement is one side of the coin – effective integration of stewardship insights is the other. As we set out under Principle 7, we systematically integrate stewardship insights into our investment process so that our investment and engagement activities go hand in hand. This creates a holistic understanding of ESG issues and how they intertwine.

The priority for 2022 will be to achieve sustainable and profitable growth by demonstrating cost resilience and continuing to invest in our competitive strengths in responsible investing and stewardship.

We act as responsible stewards of all the capital in which we invest, through allocation, management and engagement with assets.

Embedded throughout the product lifecycle: Stewardship is incorporated into our product-development process right from the start. A product's relationship to responsible investment and active ownership is a key consideration at the concept development stage and we endeavour throughout the development process to ensure it delivers sustainable wealth creation for clients. A recent example is our Climate Change High Yield Credit strategy, launched in mid-2021. It seeks to achieve a meaningful environmental impact as well as a compelling return by investing in high-yield bonds and engaging with bond issuers to seek positive action on climate change. We will not invest in companies where engagement on climate change transition has failed.

Stewardship is also key to our client-service provision. We act as responsible stewards of all the capital in which we invest, through allocation, management and engagement with assets. Through EOS, we also provide broader stewardship services for our clients' equity and credit investments in third-party products.

An increasing number of clients are enlisting these wider services as there is a growing recognition of the need for high-quality stewardship. As we set out under Principle 2, once a product is live there is a strong governance process in place to continuously review the ESG and engagement integration of the product and to ensure it continues to deliver the necessary outcomes for our clients. This is done through the Customer Outcomes Group ("COG") and Portfolio Review Committee ("PRC").

All of our investment teams integrate ESG and engagement insights into their investment decision making, as we explain in more detail under Principle 7.

Our Responsibility Office offers support to all our investment teams in their integration of ESG and engagement information.

Transparency: Transparency around our activities is key to enabling scrutiny and continuous improvement. Our integrated annual report sets out how we delivered on this during 2021 and how we strive to ensure that we meet the expectations of others, working with teams across the business to do so. It also provides an overview of how our investment teams fully integrate ESG and engagement insights into their decision-making across all asset classes and incorporates our reporting as a signatory of the UN Global Compact. We have also continued to publish our EOS engagement plan and quarterly updates, as well as case studies from public and private markets, along with our Real Estate ESG report. More information is available under Principle 6.

Expert support: Our Responsibility Office offers support to all our investment teams in their integration of ESG and engagement information, including through the development of proprietary tools enabling analysts to see ESG data and engagement information for individual companies and their portfolio as a whole. This reflects our core investment belief that responsible investment and stewardship lead to better financial results. More information on our progress during 2021 is available under Principle 7.

Long-term focus: A significant number of our engagements are longer-term efforts, and we carry out a continuous dialogue with companies. For example, three quarters of our relationships with the companies in our core public-market engagement programme have been ongoing for at least eight years. Our engagement team conducts thorough research and an assessment of each company to ensure the nature of our engagement is accurate. This allows us to build quality, trusting relationships with these firms. More information is available under Principle 9.

Collaboration: Our collaborative approach – described further under Principles 4 and 10 – acknowledges the significant quantity and quality of resource needed for effective stewardship and the importance of cooperation to deliver maximum impact across asset classes, sectors and geographies. We set out how we have worked with other stakeholders in the system under Principle 4.

What this means for our approach to investment and stewardship

From the recognition that it is more sustainable to create wealth over the long term cascades a series of decisions and actions that turns an investor into a responsible owner or steward of capital. We believe responsible, active ownership helps create businesses that are much more resilient to exogenous shocks. These firms are more likely to survive over the long term, and by doing so create better outcomes for our investors and society. Indeed, we believe this is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment.

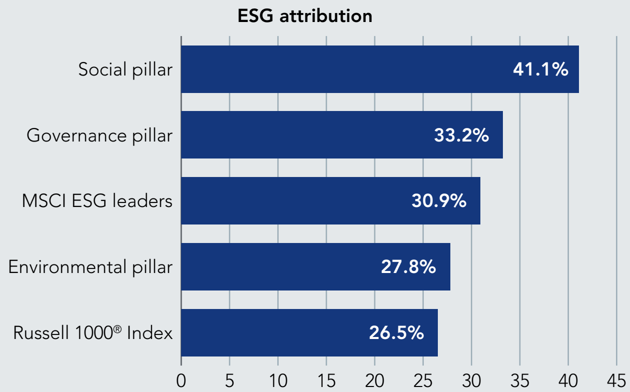
This is brought to life and complemented by bottom-up fundamental research on material ESG factors, which, of course, influences the decisions we make in our stewardship and investment processes. We place both stewardship and high-active-share investing at the heart of what we do. This ensures that we invest and engage with conviction: we build investment portfolios that we believe are meaningfully different from the market – and, as such, we expect to outperform in the long term.[8]

> **We believe responsible, active ownership helps create businesses that are much more resilient to exogenous shocks.**

Rather than betting on whether the market goes up or down, this combination of high conviction, high-active-share investing and stewardship means we focus on sustainable wealth creation. In our investment decisions, we take into consideration both ESG data and fundamental research about a company's ESG performance. As responsible owners, we seek positive change in our engagement, not just information. While our engagements with investees cover a broad range of ESG and strategic issues, they share a focus on outcomes that create wealth sustainably. Principles 7 and 9 set out how we have continued to maintain high standards of stewardship and responsible investment during 2021, guided by our purpose.

According to MSCI data, ESG factor performance was positive relative to the broad market (proxied here by the Russell 1000® Index) over the course of 2021. ESG leaders were consistent performers through 2021, besting the broad equity market with a full-year return of 30.9% (as at 31 December 2021).[9] All ESG pillars (as outlined in the following table) outpaced the broad equity market, but Russell 1000® constituents with strong social ratings were the top performers with a full-year return of 41.1% (as at 31 December 2021)[10]

Figure 5. ESG Attribution for Russell 1000® Index



Source: FactSet, Russell, MSCI, Federated Hermes, Inc. Responsible Investing Office. ESG attribution is for the Russell 1000® Index and uses MSCI ESG Ratings, as at 31 December 2021.[11]

[8] Outperformance cannot be guaranteed.

[9] FactSet, Russell, MSCI, Federated Hermes, Inc. Responsible Investing Office. ESG attribution is for the Russell 1000® Index and uses MSCI ESG Ratings, as at 31 December 2021. Past performance is not a reliable indicator of future performance.

[10] FactSet, Russell, MSCI, Federated Hermes, Inc. Responsible Investing Office. ESG attribution is for the Russell 1000® Index and uses MSCI ESG Ratings, as at 31 December 2021. Past performance is not a reliable indicator of future performance.

[11] Past performance is not a reliable indicator of future performance.

Our purpose in practice

REAL ESTATE CASE STUDY: Meaningful placemaking at NOMA, Manchester – 2021 Update

Figure 6. NOMA, Manchester

Source: Federated Hermes Limited.

In our 2020 Stewardship Report, we included a case study on some of the benefits of the placemaking approach in NOMA, a joint venture with the Manchester City Council to create a 20-acre neighbourhood in Manchester. This transformative urban regeneration placemaking scheme is planned to deliver 4 million square feet of new homes, offices, hotels, retail and leisure developed around vibrant urban space and public realm. It is rapidly emerging as a leading innovation district attracting businesses operating in the spheres of technology, creativity and innovation and really demonstrates our approach of engaging with the community and partnering with the public sector to deliver a 'meaningful city'.

In our 2020 Stewardship Report, we included a case study on some of the benefits of the placemaking approach in NOMA, a joint venture with the Manchester City Council to create a

20- acre neighbourhood in Manchester.

Since inception, NOMA has community at its heart and is home to many charities and community groups. Public realm improvements such as Sadler's Yard, Plant NOMA and the Pilcrow Project, a project to build and run a pub using the opportunity to train and upskill in the local community, have transformed the area from an employment location to a vibrant neighbourhood.

Figure 7. United Nations Sustainable Development Goals (UN SDGs) in focus in our placemaking approach

Source: UN SDGs.

We continued to focus on community engagement during 2021. Some recent engagement activities include the 'Sadler's Yard Summer Jam' and the Plant NOMA gardening workshops.

The Summer Jam, a free event for all ages, was hosted for the fifth successful year with the aim of building relationships between businesses, individuals and communities supporting a number of local enterprises.

The Summer Jam, a free event for all ages, was hosted for the fifth successful year with the aim of building relationships between businesses, individuals and communities supporting a number of local enterprises. This well-attended event hosted a variety of activities including crafting, building bug hotels, classes on local produce, live music and cooking. 2021 also marked the inaugural tenant-specific event where a 'private' invitation to occupiers was held. The event celebrated all things in the 'do-it-yourself' culture which is at the heart of innovative businesses.

Further, Plant NOMA gardening workshops engaged the local community to help build a garden in the public realm. Since inception in August 2021, the project has provided 100 volunteering hours; run monthly gardening sessions for 60 people with two great local charities, Manchester Cares and ReThink Mental Illness; and worked with local schools, universities and charities to provide education, work experience and training through this project.

2021 also marked the inaugural tenant-specific event where a 'private' invitation to occupiers was held. The event celebrated all things in the 'do-it-yourself' culture which is at the heart of innovative businesses.

How effectively have we served clients and beneficiaries?

Throughout this report we seek to demonstrate the outcomes of our responsible investment and responsible ownership, which we believe are in our clients' best interests. This includes financial performance, stewardship outcomes and advocacy successes. We believe our investment approach helps us deliver sustainable long-term wealth creation by building a better world for our clients and future generations.

External evaluation: There are several external bodies that have validated our achievements and bolstered the credibility of our claim that we are serving the best interests of our clients.

We were awarded an A+ grade for Climate Change Engagements by InfluenceMap in 2021. The report assesses asset managers on how their engagements and behaviour relating to shareholder resolutions address climate change issues. Although the report focuses on the world's 30 largest asset managers by AUM, our engagement activities were included in the analysis on account of the high number of resolutions we were involved with at Annual General Meetings ("AGMs") relative to our total AUM. We were one of only five companies who received an 'A+' rating, the highest score available. The report found our voting support for shareholder resolutions on climate change was 86% last year.

We are founding members of the UN Principles of Responsible Investment (PRI) and in 2020 received an A+ in Strategy and Governance, Listed Equity Integration, Listed Equity Active Ownership, Fixed Income SSA, Fixed Income Securitised and Property modules and an A in Fixed Income Corporate Financial and Fixed Income Corporate Non-Financial modules.[12] As of April 2022, the results of the 2021 reporting cycle have not yet been released due to a delay in calculating the results of a new reporting tool pilot.

We were ranked first among over 500 global asset managers by the Responsible Investment Brand Index (RIBI™) and achieved Avant-Gardist status for the fourth consecutive year. This ranking was based on a combination of two ratings: the Commitment rating which focuses on hard factors such as level and quality of voting and engagement, and staff and senior commitment, and the Brand rating which focuses on soft factors such as the existence of a Purpose and the quality of its expression. This ranking recognises our genuine commitment and leadership in the industry.

We were ranked first among over 500 global asset managers by the Responsible Investment Brand Index (RIBI™) and achieved Avant-Gardist status for the fourth consecutive year.

We won a range of asset-class and product-specific awards during 2021 in recognition of our leadership in responsible investment, including:

- Winner of the Emerging Markets Manager of the Year at the Pension Age Awards 2021 and at the Asset Management Awards.
- Towards Sustainability label awarded to Federated Hermes Impact Opportunities Equity Fund by Febelfin.
- SDG Engagement High Yield Credit fund winner of Best Fund Provider (ESG/Sustainable Bond) award at APB Asset Management Awards 2022, and winner of the Best sustainability reporting by an asset or fund manager (fixed income, medium and small) for the fund's annual report awarded by Environmental Finance.
- Winner of Best Fixed Income Paper 2021 at the Savvy Investor Awards.
- Real Estate fund FHPUT achieved the highest 10-Year Risk Adjusted Relative Return to December 2020 in the UKMSCI UK Property Investment Awards.
- Winner of Trading Desk of the Year at The Trade awards.

[12] Two modules (fixed-income corporate financial and fixed-income corporate non-financial) missed out on an A+ as the PRI's assessment framework did not recognise SDG-related engagement with issuers in the SDG Engagement High Yield Credit Fund as a thematic approach. Without this indicator, the assessment would have provided fixed income with an overall A+.

We also conduct post-implementation annual reviews on an ongoing basis to confirm that all products continue to meet a customer need, perform in line with their stated objectivesand have continued commercial viability.

Client input: We seek client views through a number of fora to ensure we understand how we can best meet their needs. This is set out in further detail under Principle 6.

Continuous review of client outcomes: We have a number of governance structures in place (described under Principle 2) to ensure fairness to clients and beneficiaries, including through our COG.

We also conduct post-implementation annual reviews on an ongoing basis to confirm that all products continue to meet a customer need, perform in line with their stated objectives and have continued commercial viability. Each product is viewed holistically, with data collated across the business using a standard template. Information collated for the annual reviews includes performance figures, client demand and peer-group comparison analysis. Customer feedback may be obtained by a third-party market research agency or directly through the sales and client teams, and this feedback will be considered as part of the review. Any products that have not met marketed performance targets, do not continue to meet a customer need or have failed to attract assets will be flagged with the COG for consideration. One-off or ad-hoc reviews may also be conducted in response to market events to ensure the product range remains appropriate within the context of our broader investment and corporate strategy.

We also have pricing committees and complete an internal mapping exercise every year. This considers factors such as each client's AUM in order to identify and address material anomalies between clients. During 2021, there were a number of cases where an investor increased their holding in a fund and subsequently reached the required AUM for a lower-fee institutional share class. At this point, we offered them the opportunity to move into this share class so that they could benefit from lower fees. In 2021, we identified a small number of funds (our range of High Yield Credit funds and our SDG Engagement Equity fund) where we were able to make reductions to the management fees to ensure that the funds were offering good value to investors. These fee reductions were implemented consistently across comparable funds within our range to ensure fairness in the pricing of funds across our range.

Plans for the future: We always strive to improve the outcomes we deliver for clients. We recognise this process is never complete, and that continuous improvement and innovation is required if we are to remain market leaders.

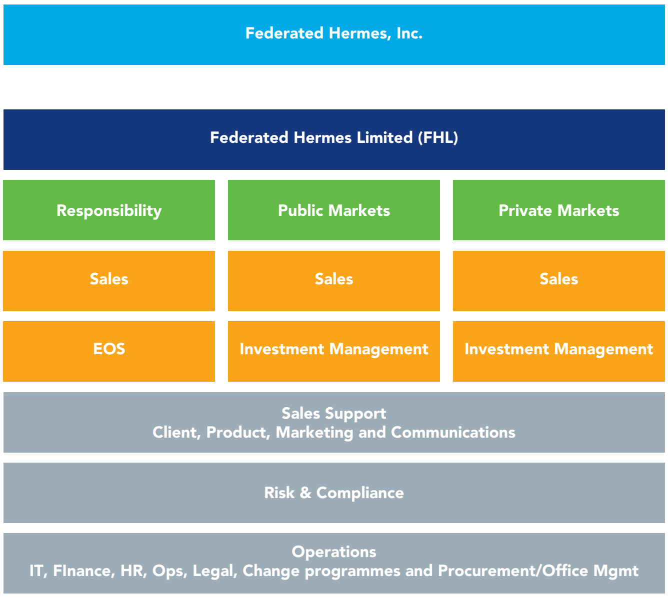
Over the coming year, we intend to continue to develop our client reporting for fixed income funds, to continue to advance our diversity, equity and inclusion efforts across the firm, and to reflect on further improvements that can be made following our external assurance in 2021.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Our governance structures

Figure 8. Federated Hermes Limited's (FHL's) three-platform structure



Source: Federated Hermes Limited, as at 30 April 2022.

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

Responsibility Office. Established in 2014, our dedicated Responsibility Office reports through the Head of Responsibility to our CEO and acts as a hub of expertise and support to assist every employee in our business to work towards our core purpose of delivering sustainable wealth creation over the long term. The Responsibility Office coordinates and supports the integration of our responsibility approach and activities across our funds and stewardship services. This includes quarterly meetings with each of the investment teams to review their ESG and engagement integration activities, as well as asset and issuer-specific discussions related to ESG and engagement. The Responsibility Office is also responsible for leading our advocacy work, as well as holding each department accountable for ensuring that we act as a responsible company. By doing so, it keeps the interests of clients and their beneficiaries at the centre of what we do. To ensure responsibility is embedded in all of our firm's business decisions, Responsibility Office colleagues are members of our firm's key committees (the key committees which oversee our stewardship approach are described in further detail later in this section).

> **The Responsibility Office is also responsible for leading our advocacy work, as well as holding each department accountable for ensuring that we act as a responsible company.**

Investment Office. Our Investment Office, covering both our public and private markets platforms, is the guardian of the investment outcomes we deliver to clients. It acts independently to ensure our strategies are performing in the best interests of clients and embodies our commitment to acting as a responsible and transparent asset manager. The Head of the Investment Office is a member of Federated Hermes Limited's Senior Management Team (SMT).

> **Our Investment Office, covering both our public and private markets platforms, is the guardian of the investment outcomes we deliver to clients.**

Each investment team is responsible for undertaking its own fundamental ESG research and the team members are accountable through the performance appraisal system for their part in delivering on our mission.

Portfolio managers and investment analysts: Each of our investment teams has formulated their own responsibility plans that explain how, in the context of their particular strategy and investment universe, they incorporate ESG factors and engagement into their investment process. Each team is responsible for undertaking its own fundamental ESG research and the team members are accountable through the performance appraisal system for their part in delivering on our mission.

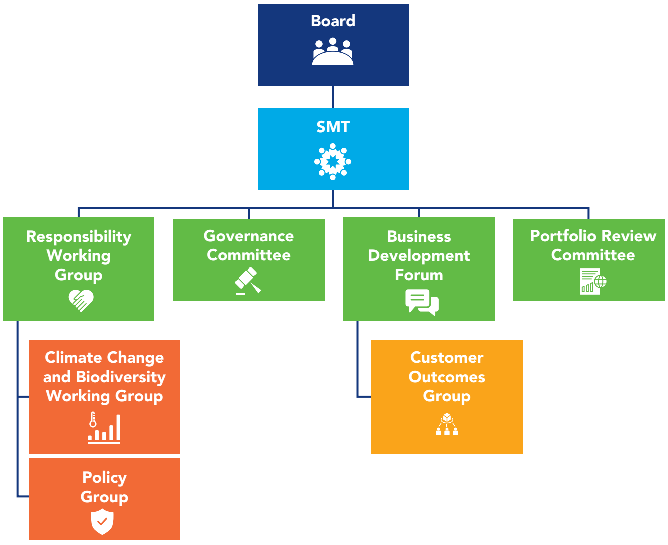
EOS. EOS is a limited company wholly owned by Federated Hermes Limited. Its activities and direction are overseen by a board of directors, comprising members of Federated Hermes Limited's SMT and a member of Federated Hermes, Inc.'s Executive Committee (aka. Executive Staff). Day-to-day operations are directed by the Head of Responsibility as Chair of EOS, and managed by the Head of Stewardship, and directors of the client and business development team and operational management. We have an established Engagement Management Committee, which considers engagement quality, continuity and coverage in the interests of clients. EOS also has a Client Advisory Board (CAB) which contains client representatives who provide insight, advice and guidance on EOS' business strategy and service offering to ensure that the EOS service is and remains a client-focused offering. The EOS team boasts one of the largest stewardship resources of any fund manager in the world. The team is composed of individuals with a diverse mix of backgrounds, skills and perspectives and has been at the forefront of the development and evolution of responsible investment practices globally. The EOS team leads our public-markets engagement activity.

Risk. In the second half of 2021, a dedicated Reputational and Sustainability Risk team was established to enhance the role of the second line of defence in providing independent oversight and challenge to our approach to corporate sustainability and responsible business management, including stewardship. Reputational and sustainability risk frameworks are in development which, as with any other risk, will enable the team to identify material ESG risks and monitor progress across all key ESG commitments, including the implementation of sustainable finance regulation and scanning for other emerging regulations or standards. The team also works alongside the Responsibility Office to oversee work to ensure that our business continues to, authentically and accurately, report on our ESG objectives and activities.

The Risk team also works alongside the Responsibility Office to oversee work to ensure that our business continues to, authentically and accurately, report on our ESG objectives and activities.

Internal audit function. The Internal Audit team's primary role is to help the Board, its committees and executive management to protect the assets, reputation and sustainability of the organisation. The function is responsible for providing independent, objective assurance to management through a systematic and disciplined risk-based audit approach and assessment of the internal control framework. More information is available under Principle 5.

Figure 9. The internal structure of key stewardship oversight functions of Federated Hermes Limited[13]

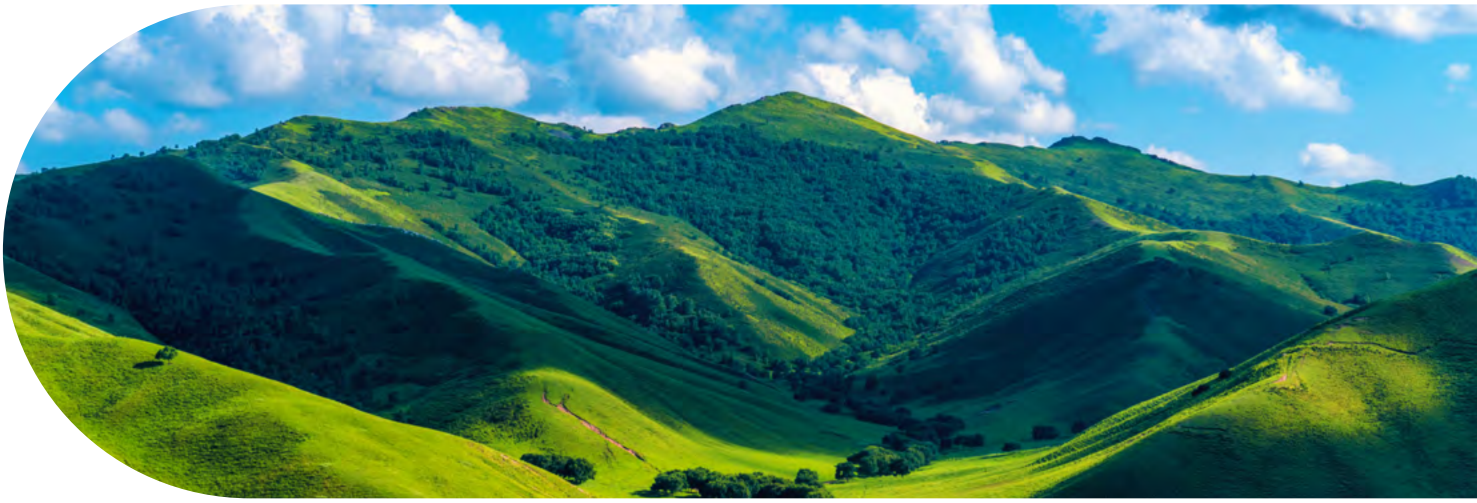


Source: Federated Hermes Limited, as at 30 April 2022.

We have extensive oversight of our responsible investment and stewardship processes, activities and outcomes across our firm – something that is indicative of their importance to our business and how they form a core part of our approach. Accountability for delivering effective stewardship across asset classes is integrated at every level of our governance, including:

Board. We have a well-established governance structure led by the Board of Federated Hermes Limited. The Board is responsible for the governance of the organisation and ensuring its effective operation. It also endeavours to consider all stakeholders when establishing objectives and policies. Among the Board's responsibilities is the formulation of our strategy, which is to help individuals invest and retire better, to help clients achieve better risk-adjusted returns and, consistent with client objectives and applicable requirements, to strive to contribute to positive outcomes in the wider world. The Board is also responsible for overseeing our approach to climate change.

Senior Management Team ("SMT"). The SMT is responsible for setting the strategic direction of the business and ensuring the objectives agreed with the Board are met. Our CEO has led the development and implementation of our mission and responsibility goals. We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and, ultimately, society at large – tasks that our CEO actively leads and contributes to. In particular, our CEO is the founder of the 300 Club, an independent forum that challenges the orthodoxy of the investment industry and puts forward approaches to align the industry more closely to the goals of beneficiaries. He is also a member of the Banking Standards Board, the FCA-PRA Climate Financial Risk Forum and the International Integrated Reporting Council (as part of the Value Reporting Foundation).



Responsibility Working Group ("RWG"). Meeting every quarter, the RWG is made up of senior representatives from across the business and is chaired by our Head of Responsibility. This group discusses a comprehensive range of topics that relate to the delivery of sustainable wealth creation for our clients and beneficiaries and shares best practice across the organisation.

Climate Change and Biodiversity Working Group ("CCBWG"). The CCBWG reports to the RWG and meets every quarter. With authorisation from the Board or SMT as appropriate, its aim is to develop and implement a formal business-wide climate-change strategy. This includes overseeing progress in meeting our commitments as a member of the Net Zero Asset Managers' Initiative. The CCBWG is also a formal Task Force on Climate-related Financial Disclosures ("TCFD") Working Group that is responsible for – but is not limited to – developing a new climate risk-management approach and enhanced product and engagement offerings.

Policy Group: The Policy Group brings together senior members of the Responsibility Office, EOS, Marketing and Communications teams to discuss our policy and advocacy work.

Governance Committee. The Governance Committee is a formal oversight committee responsible for overseeing the formulation and delivery of our engagement and voting policy for all our equity funds. The committee is accountable to and reports to our CEO. The members include the Head of Responsibility, Head of Investment, Head of Client Relationship Management, Legal Director and the Chief Risk and Compliance Officer.

Business Development Forum ("BFD"). The BDF is responsible for approving or rejecting new products. Its members consider how desirable and suitable a product is from a commercial, customer and portfolio-management perspective. This includes looking at how it is aligned with our responsible investment and ownership approach. The forum is also responsible for setting fees and pricing and reviewing ongoing product and range suitability, target markets and profitability.

Customer Outcomes Group ("COG"). The COG meets every month and supports product governance by providing a forum through which products (including funds and segregated mandates) are reviewed and assessed through a client-centric lens. Good product governance is aligned with our focus on responsible investment management and we aim to put the customer at the heart of product design and management. The COG makes use of a customer-centric view when reviewing investment products and considering our obligations to investors (both directly and indirectly via distributors). The group reviews every strategy at least annually, which includes looking at how well the fund integrates ESG and its engagement progress.

Portfolio Review Committee ("PRC"). The PRC supports the SMT by assessing and managing the investment teams, their corresponding processes and related activities. It reviews investment performance across all of our firm's portfolios and carries out monthly deep dives into specific investment strategies. As part of this review, the PRC considers the investment implications – at a portfolio and issuer level – of the ESG performance of holdings and the level and progress made in engagement with the portfolio's assets.

Responsible Property Management ("RPM") oversight. The Real Estate team have a Net Zero working group and an ESG working group with relevant representatives from the business to ensure the decision-making process is inclusive and transparent. External experts are also included in these fora as appropriate to ensure project decisions are made with the help of investment managers, delivery counterparts and the Real Estate ESG team.

Sustainability Investment Centre ("SIC"): The SIC supports the development of our firm's responsible investment capabilities. It facilitates monthly conversations between teams across the business to pool in the best ideas in the sustainable space and supports our focus on long-term sustainable wealth creation.

[13] This chart covers key functions overseeing stewardship and is not an exhaustive representation of the internal governance structure of Federated Hermes Limited.

Accountability for delivering effective responsible investment and ownership outcomes for all clients resides with Federated Hermes Limited. While our parent company Federated Hermes, Inc. is a client of EOS at Federated Hermes, we have clear policies in place to identify, manage and mitigate potential conflicts of interest as described under Principle 3.

Details of the specific governance we have around managing climate-related risks and opportunities are available in our Climate-Related Financial Disclosures report.

As well as formal governance structures, we have a structured approach to ensuring that we carry out effective engagement and integrate stewardship into our investment processes. This is evidenced in our reporting against Principles 7 to 12, particularly through our ESG and engagement integration approach, engagement selection process and milestone engagement tracking system.

Resourcing stewardship

All analysts and portfolio managers are responsible for ESG and engagement integration, and a meaningful amount of engagement takes place across all our funds. However, the Responsibility Office plays a key role in keeping them informed on material ESG issues for their investments as well as working with them to identify engagement opportunities. The Responsibility Office plays an oversight and support role in ensuring the investment teams have access to the right resources to efficiently integrate ESG and engagement (in conjunction with EOS for public markets).

While the above is the standard process across all of our strategies, we do have specific strategies which engage with all investee companies and where successful engagement is explicitly part of the ex-ante investment proposition. These include the SDG Engagement Equity and SDG Engagement High Yield Credit strategies. Given these strategies' additional focus on engagement and that some of their holdings overlap with other of our and EOS' third-party clients' portfolios, we have dedicated engagers who focus solely on these strategies and work closely with EOS to ensure a consistent approach. More information on these strategies is available under Principles 7 and 9.

All analysts and portfolio managers are responsible for ESG and engagement integration, and a meaningful amount of engagement takes place across all our funds.

We use a number of third-party data providers which support our efforts to integrate ESG and also inform our stewardship activities. These include Sustainalytics, Trucost, CDP, FactSet, MSCI and Bloomberg. We are also actively engaging with other data providers to ensure our teams have access to the latest and most relevant data for our investment approaches. More details on our use of service providers are available under Principle 8.

The Sustainability Investment Centre is an internal forum that meets on a monthly basis to discuss various topics related to sustainability.

Training

Our investment teams attend regular education presentations and roundtables provided by EOS engagers, portfolio managers and external experts on ESG risks and opportunities in the context of sectors, themes or country. They are also provided with training on our proprietary ESG integration tools such as the ESG Dashboard and Portfolio Snapshot.

Other formal training sessions provided over the years include:

- A series of workshops on climate change scenario testing. The aim of these workshops was to increase knowledge of climate change risks within portfolios (notably using our enhanced portfolio climate risk analysis tools) and to identify the most exposed companies for which more scenario analysis and engagement will be carried out.
- A number of deep-dive sessions to support the investment teams in their integration of ESG factors. These have included, for example, a SASB session on metals and mining, another on media and the entertainment industry, and an MSCI presentation on autos, aerospace, marine and airlines. There have also been internal sector meetings for all the investment teams, identifying the most material ESG factors for each investment sector in public markets.

The Sustainability Investment Centre is an internal forum that meets on a monthly basis to discuss various topics related to sustainability. Recent examples include the presentation of a new approach to analysing a particular theme and a framework that a team have developed to enhance their ESG integration. These are discussed with participants across the investment teams, business development and EOS.

The most effective training in responsible investment and ownership in our view is 'on the job'. Portfolio managers and engagers regularly get together to discuss particular investments and often meet companies together. This benefits the engagement service as it can make the engagement more relevant and material. At the same time, the portfolio manager benefits by getting a deeper understanding of relevant engagement (including, but not only, ESG) issues to consider in a company's risk assessment and value opportunities. More information is available under Principles 7 and 8.

Finally, the PRI Fundamentals course is now offered to all new joiners to increase the level of understanding and awareness of ESG integration topics, and our firm's approach to responsibility has been a formal part of all new joiners' inductions since the second half of 2017.

Diversity, equity and inclusion

As outlined above, all of our staff are in some way responsible for implementing our stewardship approach. Our firm-wide diversity, equity and inclusion ("DEI") approach is therefore of relevance to the diversity of those involved in our stewardship activities. We have a long-standing commitment to increasing diversity and inclusion in our business and acknowledge that we need to make further progress. We aim to foster and promote a culture of inclusion which celebrates all forms of diversity. We aim to appeal to, and retain, a diverse workforce. We encourage innovation and creativity, with a view to helping our employees maximise their potential.

In this area, 2021 was another busy year. When our Executive Committee endorsed a DEI policy in 2019, we were given three years to execute the strategy. Although 2021 signals the end of this implementation stage, it is only the beginning of our commitment to a diverse and inclusive working culture.

Our employee resource group UNITY, the Inclusion Committee, our Corporate Citizenship team and our Human Resources team are discovering new ways to support our workforce, especially during this transitional phase as we move to a more flexible working life in 2022. We plan to launch a new DEI strategy and action plan later this year. Activities undertaken in 2021 included the relaunch of our UNITY Employee Resource Group with seven Employee Networks, acting as a lead sponsor for the City Hive Cross-Company Mentoring Scheme in collaboration with the #TalkAboutBlack programme, enlisting a third-party consultancy to produce an Insight Report on ethnic diversity and inclusion, launching our Disability Awareness Campaign, and signing the Menopause Workplace Pledge. For more information please see our website.

Figure 10. Employed women across Federated Hermes Limited's business

Population	Target 2025	2021	2020	2019	2018	2017	2016
Firm-wide	50%	41%	44%	42%	40%	39%	34%
Board	50%	31%	31%	31%	31%	29%	37%
Senior Management	50%	29%	33%	31%	28%	23%	24%

Source: Federated Hermes Limited, as at 31 December 2021.

During the past 12 months we have seen an increase in the number of women leaving the organisation compared to the number of men, both at senior and junior levels. While we have filled these vacancies from internal and external hires, a small majority of roles previously held by women have been filled by men.

We recognise that we need to be even bolder and more courageous in our approach so we have set stretching targets, which will help the business to focus its efforts on reaching complete gender parity by the end of 2025.

Later in this section we include more information on how we seek to support greater gender diversity in the workplace and our 2025 commitments to achieving equal gender balance across our workforce.

Stewardship resources – public markets

We have one of the largest dedicated stewardship resources of any fund manager in the world, in the form of our public-markets engagement team, EOS. EOS also draws on the expertise of the Responsibility Office of Federated Hermes Limited and others within our firm, a number of whom have had direct engagement experience having previously worked within EOS. There are policies, processes and controls in place to ensure the management of conflicts of interest, as described under Principle 3.

EOS has intentionally built a diverse, international team of experienced voting and engagement professionals who have the expertise, language skills and cultural knowledge to deliver real beneficial change within companies.

The ability to engage in the native language is critical to successful engagement, and within the EOS team we have nationals from

16 countries and fluency in **14** languages.

Our diverse engagement team draws on a number of skillsets and our senior engagers come from a range of backgrounds. These include – but are not limited to – banking, law, sciences, academia, climate change, accountancy, corporate governance and corporate strategy. The team also has strong gender diversity (57% female / 43% male for permanent staff as at 31 December 2021).

We have one of the largest dedicated stewardship resources of any fund manager in the world, in the form of our public-markets engagement team, EOS.

The ability to engage in the native language is critical to successful engagement, and within the EOS team we have nationals from 16 countries and fluency in 14 languages. The combination of our ability to engage in the local language and our understanding of local culture and business practice are critical to the success of our engagement work. The EOS team is well placed to draw upon and, where appropriate, conduct additional research. It is also well placed to make judgments about the degree to which companies can reasonably comply with local best practice and where exceptions are appropriate. On a regular basis we update our Regional Corporate Governance Principles to reflect best practice across over 20 markets.

EOS has intentionally built a diverse, international team of experienced voting and engagement professionals who have the expertise, language skills and cultural knowledge to deliver real beneficial change within companies.

The team's skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards. The depth and breadth of this resource reflects our philosophy that stewardship activities require an integrated and skilled approach. Intervention at senior management and board director level should be carried out by individuals with the right skills, experience and credibility.

Our EOS engagement professionals are divided into designated teams covering ESG and strategy-related themes, sectors and regions. This ensures we have experts who can educate the wider team on developments and best practice in their respective areas. Each engager is responsible for engagement, voting recommendations and ESG analysis, focusing on the combination of regions, sectors and themes that they have been appointed to cover.

The team is based in the UK and the US. London (UK) staff cover engagement in Europe, Asia and emerging markets and staff in Pittsburgh (US) cover engagement in North America. Our professionals typically travel to undertake engagements in person where possible at company headquarters, as we believe this is most effective. EOS also has a number of senior advisers who provide additional resource and expertise specific to some local markets including Japan, the Netherlands and the UK.

Given that the EOS engagement resource operates across our funds, it is critical that engagers integrate effectively with fund managers. Our approach to ensure this is described further under Principle 7.

The team's skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards.

We have also invested in systems and processes to ensure effective stewardship. EOS has an online Engagement Management System which allows us to accurately record, track and report on our engagement work. It also ensures that the history of our engagement is available for any member of the team who may be new to leading a company engagement. Our investment teams are also able to access this database, which affords them a full and instantaneous view of the engagement history with the company.

Stewardship resources – private markets

Our real-estate business contains a three-person ESG team which works closely with both internal and external stakeholders, including investment managers, external delivery counterparts for technical expertise, property managers and onsite facility managers.

Our real-estate business contains a three-person ESG team which works closely with both internal and external stakeholders, including investment managers, external delivery counterparts for technical expertise, property managers and onsite facility managers. The team members ensure ongoing engagement with tenants and contractors to ensure successful delivery of sustainability initiatives on a timely basis. The team works closely with a number of industry working groups to ensure it remains aware of industry trends and best practice. We recognise the importance of collecting, sharing and linking sustainability and ESG information among the various organisational levels of our investment and asset-management process. As a result, we have developed and integrated a series of ESG tools and procedures that link our strategic investment targets for portfolio strategies and the management of a property's technical characteristics and operational performance.

Our private-debt team directly engages with the sponsor and management team to remedy any ESG issues that arise during the life of a loan. This engagement is conducted in collaboration with EOS to strive to ensure that the engagement is outcomes focused and impactful.

Performance management

Through pay awards, we look to ensure that the aspirations we articulate in the Federated Hermes Pledge are reinforced. As such, our philosophy is to reward individual contribution, as demonstrated by the delivery of sustainable results aligned with our business strategy, values and behaviours, and which serve the best interests of our clients, their investors and our shareholder while enabling the business to grow to its potential.[14] We are committed to our business purpose of sustainable wealth creation that enriches investors, and, where possible, society and the environment while being at the forefront of developing industry best practice. Part of this is ensuring that our Remuneration Policy incorporates consideration of stewardship and the integration of sustainability performance and risk in both our firm's investment activities and its wider operations.

In particular we aim:

- To incentivise senior management to drive our strategy and initiatives in line with our business purpose of sustainable wealth creation and ensure that through appropriate stewardship it informs all of our firm's key business and operational processes.
- To promote best practice integration of investor stewardship and ESG factors including the delivery of sustainable outcomes in the investment process and decision making.
- For employees to have performance objectives relating to responsibility as appropriate for their role. This would range from employees working in client relationship management and product design and development to those in human resources, IT, compliance and risk.
- For sustainability risks to be considered as part of our risk reporting, and for performance against risk appetite and sustainability risks to form part of the Chief Risk and Compliance Officer's annual risk adjustment report. Also to ensure that adjustments can be made to bonus pools and individual outcomes where the company is operating outside of its risk appetite.

We are committed to our business purpose of sustainable wealth creation that enriches investors, and, where possible, society and the environment while being at the forefront of developing industry best practice.

- For all employees to be assessed against responsibility-related objectives and behaviours in their annual performance assessment which informs annual bonus outcomes. This is supported by the co-investment of deferred bonuses in funds to align employees to longer term investment performance after the bonus has been awarded. Our behaviour framework explicitly sets out the behaviours that are the visible manifestations of our Federated Hermes Pledge. All individuals are rated equally on their behaviours and on their technical performance as part of the performance-management process, to encourage a focus on meeting the needs of our clients, their investors and our shareholder and supporting our commitments to society and to the environment. Individuals will be highly rated if they perform successfully while embodying our behaviours as conveyed in the Federated Hermes Pledge.

Reflecting on our governance structures

The efficiency of our governance structure is reflected in the outcomes we deliver for clients, which are evidenced throughout this report.

Assurance and oversight: Oversight of effective stewardship is integrated into all levels of our governance and the structures and processes detailed earlier help us reflect on improvements to support effective stewardship. Our external assurance providers were satisfied, subject to limited reasonable assurance, that Federated Hermes Limited exceeds regulatory requirements and current best practice for stewardship and ESG integration. The holistic application of our ESG data-driven approach and senior ESG expertise were both recognised as areas of excellence. We intend to reflect during 2022 on areas for improvement in order to enhance our existing approach.

[14] For more information, please see our Remuneration Policy: https://www.hermes-investment.com/ukw/remuneration-policy/

Our external assurance is complemented by our internal oversight structures. For example, our Governance Committee continued to provide oversight of the formulation and delivery of engagement and voting throughout 2021 by reviewing items such as:

- Several policies relevant to stewardship – as described further under Principle 5 – to ensure our stewardship processes were supported by effective governance. This included approving an update to the Engagement Policy to cover all asset classes of Federated Hermes Limited (excluding HGPE), and approving a new Sustainability Risks Policy and Statement on Principal Adverse Impacts to meet the requirements of the EU Sustainable Finance Disclosures Regime ("SFDR").
- The EOS Conflicts of Interest Register and Stewardship Conflicts Log.
- The EOS Engagement Plan.
- The Federated Hermes Limited 2020 Stewardship Report.

This is also closely connected with Principle 5, where we provide more detail on the internal and external reviews and assurances we have to support continuous improvement.

The creation of our three platforms – public markets, private markets and responsibility – will enable Federated Hermes Limited to continue to lead and oversee the public markets teams based in Europe, to further expand the private market offering and to drive the responsible investing agenda for the Group. All three offerings will have a continued focus on meeting clients' needs.

As our business continues to grow, the number of initiatives we are involved in increases. Following the 2021 internal audit of the Responsibility Office we introduced additional oversight to commitments we make as a business in relation to our investment and stewardship activity – including advocacy work – through external initiatives. As well as acting as a forum for escalation of significant commitments, the Governance Committee will now review progress every six months against commitments we have made, such as the Net Zero Asset Managers initiative and the Finance for Biodiversity Pledge. This ensures we have appropriate oversight of our progress against such commitments to ensure we remain on track.

Following the 2021 internal audit of the Responsibility Office we introduced additional oversight to commitments we make as a business in relation to our investment and stewardship activity – including advocacy work – through external initiatives.

As set out under Principles 3 and 4, we have managed all potential conflicts of interest arising during 2021 and our teams have worked hard to develop an effective approach to the systemic risks the industry is facing.

System improvements: We have invested in the underlying systems in which we capture, measure, manage and then express our stewardship activity and outcomes. Not only can our engagement professionals better capture their progress, momentum, challenges and next steps and general workflow, but our clients are able to absorb the information in ways and through lenses that suit them.

Continuous improvements: We review our engagement plan every year to ensure it is up to date and reflects client priorities. In 2021, we spent some time reflecting on our approach to engagement and updated the theme taxonomy to reflect latest best practice areas. The theme formally referred to as conduct, culture and ethics has been renamed wider societal impacts to reflect the societal impact of positive ethical behaviours (such as zero tolerance of bribery and corruption), as well as the benefits of achieving safer products and responsible tax practices.

Under Principle 6 we describe further how we gather and use client inputs into our work, as well as the improvements we have made to our client reporting on ESG factors and engagement. In response to client feedback, we have also given clients more clarity around our rationale for discontinuing objectives, by providing an explanation according to a range of scenarios, which is available under Principle 9.

Diversity, equity and inclusion (DEI): Our key focus areas relating to DEI are race, gender, disability and mental wellbeing with an intersectional thread running through. We want to be the employer of choice and leaders in our industry for inclusion.

As an example of some of the steps we are taking, an effort to achieve greater gender diversity in the workplace and support our 2025 commitments to achieve equal gender balance across our workforce, we have put a number of actions in place. These include:

- **Recruitment:** We have stipulated to recruitment firms on our supplier list that they must increase the number of female candidates being put forward for roles. HR and the Inclusion Committee will monitor and review progress every six months. We are facilitating additional learning and development for all managers, including mandatory recruitment and selection training for anyone involved in recruiting. Where possible we intend to add under-represented groups to sit on interview panels.
- **Retention and Development:** We are committed to ensuring managers have productive career development conversations with all team members. Through this process we can build a clearer picture of how our population is progressing and evolving across a range of metrics – including gender diversity – and react accordingly. These discussions also strengthen our succession plans which will be an area of focus throughout the year.

We have stipulated to recruitment firms on our supplier list that they must increase the number of female candidates being put forward for roles.

We are participating in the Target Gender Equality Programme, backed by the UN Global Compact, which gives us access to tools that identify strengths, gaps and opportunities to improve gender equality.

- **External initiatives:** We are participating in the Target Gender Equality Programme, backed by the UN Global Compact, which gives us access to tools that identify strengths, gaps and opportunities to improve gender equality. We are also members of a number of networks and fora – including the Diversity Project, the 30% Club, InterInvest, Business Disability Forum, City Hive, Change the Race Ratio and Business in the Community.
- **Engagement:** The appointment of our Head of Inclusion in 2021 was to ensure that DEI remained firmly on our agenda. In relation to gender diversity, her role, working with HR, is to generate ideas and provide support to enhance the attraction of female candidates as well as monitor the success of these initiatives reporting to the Inclusion Committee and the senior management team. Our Gender, Families and Returners Employee Networks, set up in 2021, will help drive forward actions supported by the Head of Inclusion and the Senior Management Team. Our Head of International Decision Support and Head of Inclusion have developed listening circles to understand the issues and concerns of female colleagues and provide anonymous quarterly reports back to the Senior Management Team and the Inclusion Committee.

Our Head of International Decision Support and Head of Inclusion have developed listening circles to understand the issues and concerns of female colleagues and provide anonymous quarterly reports back to the Senior Management Team and the Inclusion Committee.

With the support of our Employee Networks, we intend to embark on an Equality Data Collection Campaign in 2022 in order to increase the number of employees sharing equality and diversity data. By collecting and analysing equality and diversity data, we are able to see if practices are providing fair access and opportunities for all and reducing inequalities. This would include collecting and analysing data about employees. Taking a data-led approach would allow us to see to what extent different people and characteristics are under-represented at senior levels, are less engaged or face higher incidences of racism, discrimination, bullying and harassment. Data collection is paramount in highlighting these disparities – but it is also important that we act on the data we collect. We intend to continue to look at data through the intersectionality lens, so we can analyse and understand employees' individual experiences in a more nuanced way rather than looking at characteristics in isolation.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our public Conflicts of Interest Policy sets out our commitment to act professionally at all times. We commit to keeping the best interests of our clients and their beneficiaries in mind and to take appropriate steps to identify circumstances that may give rise to conflicts of interest with a risk of damage to our clients' interests. It includes examples of conflicts of interest – such as the receipt of confidential information, conflicts of interest between clients, personal conflicts and conflicts between our business and clients – and the appropriate procedures we have established to manage any conflicts of interest identified and to prevent damage to client interests.

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

Federated Hermes Limited employees are also subject to Federated Hermes, Inc.'s Code of Business Conduct and Ethics.

Across the firm we take all reasonable steps to identify conflicts of interest between:

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

We have summarised key aspects of our policy below and the full version is publicly available online. In addition, we have identified a set of conflicts of interest that are likely to arise in connection with engagement activities and have put in place controls to manage such instances.

Potential conflicts of interest

Ownership

- One potential conflict which has been identified for the group relates to our ownership structure. Federated Hermes, Inc. is the owner of Federated Hermes Limited, of which EOS is a subsidiary. When engaging with Federated Hermes, Inc., responsibility would reside with a senior member of the stewardship team, not the relationship director.
- EOS is fully owned by Federated Hermes Limited and the Head of Responsibility who leads EOS reports to the CEO of Federated Hermes Limited. Any conflict which may arise between clients of the EOS service and other clients of Federated Hermes Limited will be addressed in a similar way to conflicts between any of our clients.

Clients and prospects

Federated Hermes Limited provides services not only to Federated Hermes, Inc., but also to other institutional investors, including a number of pension funds sponsored by corporations, governments and other organisations, and fund-manager clients. These services include voting recommendations and engagement with companies in which Federated Hermes Limited's clients are equity shareholders and/or bond investors.

As a result, the following real or perceived conflicts may arise:

- We may engage with or vote the shares of, or EOS may recommend to a voting services client to vote the shares of a company which is the sponsor of one of our pension-fund clients or is a company within the same group as one of our clients or prospects.
- We may engage with a government or government body that is the sponsor or associate of the sponsor of one of our clients or prospects.
- We may engage with a company which is a tenant of our Real Estate division's property investments.
- We may engage with a company which has a strong commercial relationship, including as a service provider, with Federated Hermes Limited and/or with clients or prospects.

- We may vote, or EOS may recommend to a voting services client to vote, on a corporate transaction, the outcome of which would benefit one client or prospect more than another.
- We may engage with a company where certain clients or prospects are equity holders and others are bond holders.
- We may hold meetings with companies for the dual purpose of delivering both our fund management and engagement services.
- We may otherwise act on behalf of clients who have differing interests in the outcome of our activities.

We take all reasonable steps to identify actual or potential conflicts of interest. We also maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients.

Individuals

At the individual level, engagers may have a personal relationship with senior staff members in a company in the stewardship programme or personally own the securities of that company.

Stock lending

Federated Hermes Limited does not engage in stock lending.

Short Selling

Although Federated Hermes Limited's investment teams do not generally hold short positions, those teams which regularly have short positions are prohibited from being involved in any engagement activities for companies where they hold a short position.

In all our activities, we seek to promote the long-term value and success of the companies in which our clients invest.

Managing and monitoring potential conflicts: a singular focus

In all our activities, we seek to promote the long-term value and success of the companies in which our clients invest. As such, we engage with market regulators and other actors to influence public policy and regulation to enable this outcome.

Stewardship activities are exercised with the aim of influencing the company's behaviour. However, these activities are not carried out with the intention of obtaining non-public information, nor is information obtained intended to manipulate the market.

In the case that material non-public information is obtained through stewardship activities, our compliance department is informed, and an information barrier is created for 'insiders' until the information is publicly disseminated. During the application of the information barrier, stewardship professionals are not allowed to act upon or share the non-public material information.

While we welcome client input and suggestions for engagement, all of our engagements are selected and pursued on the basis of an objective assessment of the severity of the problems faced by the companies engaged or the opportunities available to them, the likely effect of public policy and regulation and the likelihood of success in achieving value-enhancing change or mitigating value-destroying change. We give due regard to the value of the company to our clients and the value at risk given the issues in question.

In our engagements with companies which are the sponsors of (or in the same group as) our clients, we are careful to protect and pursue the interests of all of our clients by seeking to enhance or protect the long-term value of the companies concerned. In the first instance, we make clear to all pension-fund clients with corporate sponsors that we will treat their sponsoring parent or associated companies in the same way as any other company.

In our engagements with companies which are the sponsors of (or in the same group as) our clients, we are careful to protect and pursue the interests of all of our clients by seeking to enhance or protect the long-term value of the companies concerned.

In addition, we ensure that in such situations the relevant client relationship director or manager within Federated Hermes Limited, including EOS, is not leading the engagement or making the voting recommendation to clients. This same approach would hold true with respect to any engagement with a company with whom we, our owners or our clients have a strong commercial relationship, including suppliers. If we become aware of potential conflicts, they are disclosed, if necessary, to the companies to enable them to be managed effectively.

As noted above, engagement activities and the generation of voting recommendations in relation to Federated Hermes, Inc. are delegated to a senior member of the EOS team and relevant investment team members, not the client relationship manager or director.

Members of our investment teams have separate processes and management but are encouraged to join engagement meetings with their stewardship colleagues and discuss the implementation of our voting policies. EOS' external clients are also invited to join upcoming engagement meetings on a sustainable and appropriate basis.

The engagement objectives are set out and the voting recommendations made and provided by our stewardship team in line with Federated Hermes Limited's Responsible Ownership Principles (or, where agreed, client-specific policies). While carrying out joint engagements may mean that investment teams have access to non-inside information before it is disseminated to our stewardship clients, we believe the benefits to clients of these joint meetings is substantial. In particular, it produces an enhanced engagement process that focuses on the relevant and material ESG risks and results in a better appreciation of ESG risk in investment decisions.

We have well-established, publicly disclosed voting principles. Based on these and the judgements reached through engagement with individual companies, we provide voting recommendations to our third-party stewardship clients who request to receive voting recommendations.

There may be occasions where one of our third-party clients seeks to influence the voting recommendations advice we give to other institutional clients. In such circumstances there would be director-level involvement and an objective judgement reached based upon what we believe to be in the best long-term interest of our clients. All third-party clients retain full discretion over their final voting decision.

Clients and internal investment teams may at times have different immediate interests in the outcome of certain corporate activities, most notably in the result of a takeover bid involving two public companies. In addressing such situations, we are open with clients about the conflict and disclose it where practically possible.

As in other cases, we consider through our company engagements and voting recommendations not so much the financial effect of a deal for any one client, and more the long-term value that could be created or is at risk of being destroyed for our clients.

We consider through our company engagements and voting recommendations not so much the financial effect of a deal for any one client, and more the long term value that could be created or is at risk of being destroyed for our clients.

For our internal investment teams, the voting recommendation provided by our stewardship team will inform their assessment. However, they will make their final judgement independently with a view to their fiduciary obligations to their clients. On the rare occasion that the investment team and EOS disagree on the appropriate voting action, the matter is logged and escalated for consensus to be reached at the director level.

It is expected that votes cast by our investment teams would be consistent with the voting recommendations we provide to our stewardship clients who request to receive voting recommendations other than in limited circumstances. In such cases, the rationale for divergence will be documented.

Review of conflicts of interest

In addition to the broader measures set out above, staff members must flag to their line managers any potential conflict of interest they recognise with a company they are engaging with. We also have policies that seek to avoid any potential conflicts for individual staff members of Federated Hermes Limited that arise from engagements with companies in which individuals have personal investments or some material personal relationship with a relevant individual. Where a staff member has a personal connection with a company, they are required to make this known and is not involved in any relevant engagement activities.

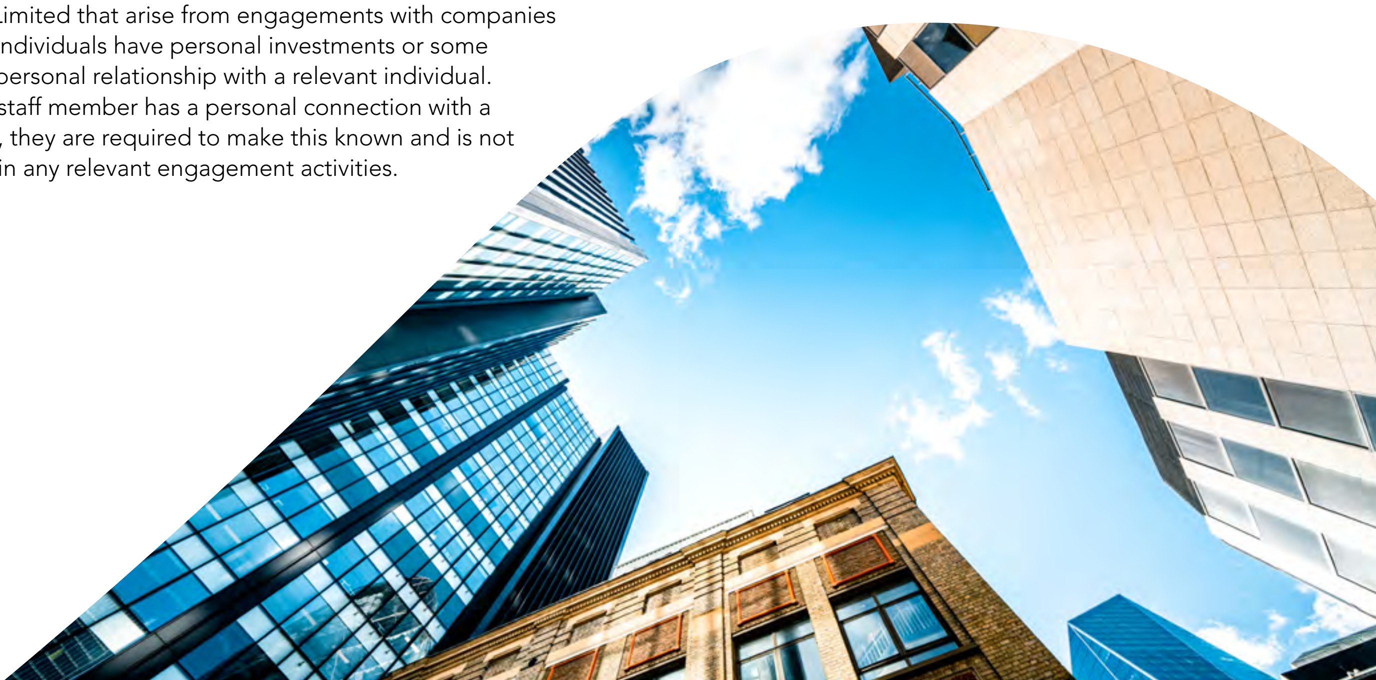
Recording and escalation

We maintain a register of instances of conflicts as they arise. In those limited circumstances where a conflict over our approach to providing voting recommendations (aside from that directed by EOS third-party client-specific policies) or engagement arises which is not able to be resolved in the manner set out above, the matter is referred to an escalation group whose composition is the same as our Governance Committee. The Governance Committee is comprised of the Heads of Investment, Responsibility, Client Relations Risk and Compliance and a Director from our Legal team. The group is guided by our mission to deliver sustainable wealth creation, our published Responsible Ownership Principles, voting policies and other appropriate industry-endorsed guidance. If there is no majority view in the group, the CEO will make a final decision. All such instances would be documented and reported to the Risk and Compliance Committee, which is an independent sub-committee of our Board.

On the rare occasion that the investment team and EOS disagree on the appropriate voting action, the matter is logged and escalated for consensus to be reached at the director level.

Real estate

Our real estate business has formal procedures to deal with conflicts of interest. There is a potential conflict in the allocation of real estate investments between client portfolios. However, it is important to note that each portfolio has its own geographical and structural bias and specific investment objectives in terms of risk, income profiles, hold periods and target lot size. This separation is also compounded by the different timings in liquidity between the various client portfolios. As not all are in the market for new products at any given time, in practice this is rarely an issue.



Investments are allocated on a first-past-the-post basis. This means that the investment team that first receives the introduction has the first opportunity to acquire the investment. If the property fits into more than one portfolio managed by that Fund Manager or Director, then they will allocate the property on a principle of rotation. The rotation order is determined by when the mandates were awarded and once the mandate at the top of the list has a property allocated then it will go to the end of the list. If a property meets all the requirements but the mandate declines that property, then that mandate will go to the end of the list.

If the opportunity is not a fit for the particular fund, it is made available for other clients managed by Federated Hermes Limited. In most cases, it will be clear when a particular investment should be placed between client funds, but where there is any doubt, the allocation decision will be approved by the CEO of our real estate business and the rationale for the allocation set out in the papers presented to the investment executive for formal approval.

Any other type of potential conflict of interest would be reported to and dealt with by our real estate Board, or the appointments committee for matters relating to our FHPUT fund.

Annual review

We review our Stewardship Conflicts of Interest Policy annually so it adequately reflects the types of conflicts that may arise. This is to ensure they are appropriately managed and as far as possible mitigated. The Policy is publicly available on our website.

Our conflicts-of-interest approach in practice

Our policy on conflicts may be best understood by considering its impact in practice.

Our EOS conflicts-of-interest register contains a description of stewardship conflicts, what mitigation procedure and controls were put in place, whether it was then reported to the escalation group if necessary and any follow-up actions and conclusions. It is reviewed by senior management on a regular basis. The following are examples of potential stewardship conflicts which we identified and managed in 2021:

- A potential conflict between the views of equity and credit holders arose with respect to a takeover offer for a company being engaged with. This was discussed with our Compliance team and an action plan agreed and noted. A decision was made to separate the engagement into some individuals representing the credit holders and others representing equity investors.
- A particular class of bond held by our credit team had its coupon cut because the company went into technical loss. While this was clearly against the interests of the holders of the particular credit security, it could have been perceived as in favour of the equity as it saved capital for the company, which is otherwise in good financial health. EOS engages with this company on behalf of both our equity and credit teams. Following a meeting of the relevant equity and credit teams, we agreed an engagement strategy which is in the joint interests of both. A joint letter was sent to the company signed by EOS and the relevant equity and credit investment teams.
- The remuneration for a company's CEO rose significantly during a period. Our third-party voting research provider recommended a vote in favour, but this level of increase is against EOS' custom voting policy. One of our equity investment teams held the stock and felt the proposal should be supported on the basis of the company's performance. This was escalated internally and a decision was made to vote in favour.
- Our initial intended vote recommendation for a company was to vote against management due to only 30% gender diversity on the board, which is below our expectation of 33%. This was discussed internally and a decision was made to recommend a vote in favour 'by exception' as the company recently lost a female director and has committed to urgently working on the issue.

Our EOS conflicts-of-interest register contains a description of stewardship conflicts, what mitigation procedure and controls were put in place, whether it was then reported to the escalation group if necessary and any follow-up actions and conclusions.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

We believe identifying and responding to market-wide and systemic risks will deliver benefits for the economy, environment and society and will ultimately improve outcomes for clients and beneficiaries. As the world becomes more globalized and interconnected, the ability to transmit risks across geographies can cause further global crises to materialise. To truly address systemic risk, collective and coordinated action will be required to provide systemic solutions. Asset managers, working in conjunction with other stakeholders, must join forces to prevent systemic risk and to ensure a well- functioning financial system.

Global Risks Framework

The key systemic risks we take into consideration across our investment risk, engagement and advocacy work are informed by the latest academic research from the World Economic Forum Global Risks Report and the Centre for Risk Studies at Cambridge University.[15]

Figure 11. Global risks framework

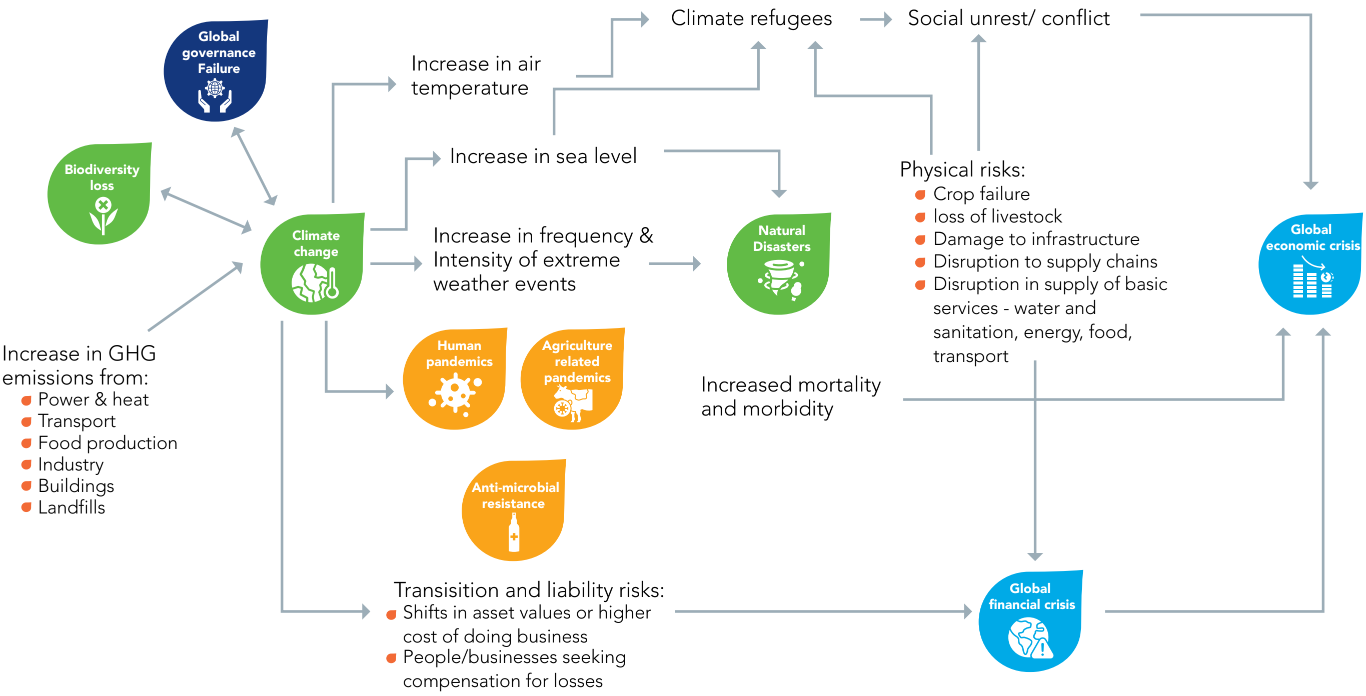
Category	Risks
Economic	Ability of macroeconomic policy to prevent a global financial crisis, structural imbalances, stability risks and related dislocations
Environmental	Ability of governments and businesses to address climate change, biodiversity loss and natural disasters
Societal	Human pandemics, agricultural-related pandemics, inequality and livelihood crises, human rights, antimicrobial resistance
Geopolitical	Implications of rising populism, protectionism, interstate conflict and threats to free trade resulting in global governance failure
Technological	Risks and opportunity associated with technological advances, inadequate infrastructure and networks, cyber security and artificial intelligence
Governance	Unethical business practices, bribery and corruption

Source: Federated Hermes Limited, using World Economic Forum Global Risks Report 2022 and Cambridge University Systemic Risk: Systemic solutions for an Increasingly Interconnected World – Managing multi-threat – Cambridge Judge Business School.

We seek to take an integrated systems-based approach and prioritise and respond to the risks that are most likely, impactful and interconnected in nature. The figure below illustrates how climate change, our top engagement and advocacy theme, is interconnected to a range of other issues.

We examine the interlinkages between risks, for example, how climate change can drive biodiversity loss, with the potential to impact global food chains, health and wellbeing, social inclusion/unrest and thereby generate financial and economic crises.

Figure 12. Cambridge University diagram of the cascading effects between systemic risks



Source: SYSTEMIC RISK: Systemic Solutions for an Increasingly Interconnected World (cam.ac.uk) as at April 2021

[15] https://www.jbs.cam.ac.uk/wp-content/uploads/2021/04/crs-citigps-systemic-risks-report.pdf

Identifying and responding to risks

The Investment Office is responsible for the daily oversight of market risk across Federated Hermes Limited, as well as the oversight of the underlying portfolio managers' adherence to their pre-defined/client-agreed investment processes.

The Investment Office's main remit is to act as an independent investment risk consultant on behalf of our clients. While the Investment Office can challenge our portfolio managers' decisions, positioning and risk exposures, it cannot force change.

What the Investment Office can do, if the issue is sufficiently serious enough, is to escalate the matter to the Portfolio Review Committee (PRC). The PRC would then meet with the portfolio manager, consider the issue and then, along with the Investment Office and the portfolio manager, agree a resolution.

If no resolution can be agreed, the matter can be escalated to the Senior Management Team, which has the authority to force change and agree client communications. The members of our Investment Office take the time to understand individual fund managers' styles so that they can aid and enhance their process.

The Investment Office and portfolio managers have several regular fora where they identify and discuss macro risks and their possible investment implications. Sessions are typically centred around a discussion of market-level investment strategy and shared risk insights from across the investment floor. Discussions are pinned on a set of investment scenarios, with the aim of ensuring that insights are broadly aired and that we have a risk-aware culture across the floor.

Based on the main risk scenarios we identify, we run a series of both hypothetical and historical stress tests across our portfolios that vary according to the asset class and strategy. This includes geopolitical events and shocks to markets, interest rates and currencies.

The Investment Office and portfolio managers have several regular fora where they identify and discuss macro risks and their possible investment implications.

Given the long-term nature of our investment approach, the purpose of these tests is not to push portfolio managers to make immediate portfolio changes but to enhance their analysis and strategy. The crisis induced by the Covid-19 pandemic has reinforced the importance of such tests.

Shortly before the Covid-19 pandemic, we set up a bear-market council for portfolio managers to identify low-probability but high-impact risks outside of the mainstream and to develop scenarios against which to stress-test our portfolios.

While we were unable to get the council into full swing before the Covid-19 pandemic emerged, the past two years have demonstrated why such exercises are valuable. This exercise is something we developed further in 2021, so as to create an even more robust framework for our stress testing.

Over 2021 we closely monitored the evolution of inflationary risk. We considered different macro scenarios (base line scenario of 'elongated transitory' vs fat-tail scenario of more protracted and pervasive inflation) and their investment implications across asset classes and funds. Our early conclusions were also reported in a cross-team publication at the end of the year.

Based on the main risk scenarios we identify, we run a series of both hypothetical and historical stress tests across our portfolios that vary according to the asset class and strategy. This includes geopolitical events and shocks to markets, interest rates and currencies.

The Risk team has also been highly effective in providing a second line of risk management as new issues emerge. For example, during November 2021 when the first reports of Russian military gathering near the Ukrainian border emerged, the Risk team considered as part of the standard stress tests the potential market shock of a war between Russia and Ukraine.

Stresses were performed at a portfolio level, as well as reviewing the potential overall impact on the firm. The types of stresses included broader market shocks that may be expected during geopolitical conflict such as oil price spikes, volatility increases and significant equity market drops.

As stated, the aim was not to push fund managers from positions but to better understand where we had exposures to a specific situation, with the aim of identifying any concentration issues and enabling us to act as quickly as possible in the event of conflict. The pre-emptive 'what-if' stress testing allowed the team to easily oversee the funds and help manage risk as the conflict began and evolved.

> **During November 2021 when the first reports of Russian military gathering near the Ukrainian border emerged, the Risk team considered as part of the standard stress tests the potential market shock of a war between Russia and Ukraine.**

In addition, given the specific impacts to food security, gas/oil security, and geopolitical security arrangements, we were able to drill down and isolate those specific positions within our portfolio to measure our exposure and related correlations, gauging overall risk profile trends and whether there were any potential impacts to our investor risk profile.

We have been engaged with the industry and are part of industry panel discussions providing overviews of how our Risk team has approached this crisis and the measures we put in place. The Board received regular communication on management actions taken which also supported its risk oversight role.

> **We engage constructively with regulators and policymakers globally to address environmental, social and other market failures that may prevent the financial system from operating in the best interests of its ultimate asset owners.**

Detailed analysis was provided to the Executive Committee and Risk and Compliance Executive committee providing various in-depth insights into our performance as an entity relative to the market, and risk exposures. This communication and risk reporting proved to be highly effective for risk oversight monitoring and risk taking.

Similar approaches to stress testing have been taken in other situations, for example with the potential for China to attempt to exert control over Taiwan and the effects this could have, not only on China and Taiwanese stock markets, but also on the broader technology and, specifically, semiconductor markets.

Advocacy and involvement in industry initiatives

We recognise that as investors we have an opportunity and a responsibility to help address market-wide and systemic risks. We engage constructively with regulators and policymakers globally to address environmental, social and other market failures that may prevent the financial system from operating in the best interests of its ultimate asset owners. This includes addressing barriers to responsible investment and stewardship. We seek to go beyond the minimum standards set by regulators and to demonstrate and share best practice.

We have two staff members working full-time on public policy in the Responsibility Office. This includes the Head of Policy and Advocacy, whose team works with experts across our firm to ensure advocacy work is well informed, relevant and impactful.

We often engage directly with regulators and policymakers and aim to be a progressive and constructive voice in the debate.

Our stewardship service, EOS, also has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard-setters to help shape capital markets. Our investment teams contribute their expertise through collaboration with the Responsibility Office and EOS, as well as direct involvement in external industry initiatives. The result is an advocacy policy that aims to lead rather than follow the policy debate. Given the global nature of our investments, this work spans asset classes and geographies.

We often engage directly with regulators and policymakers and aim to be a progressive and constructive voice in the debate. We engage on regulation relating to the investment industry and the assets in which we invest.

This may include: company law (which in many markets sets a basic foundation for shareholder rights), securities laws (which frame the operation of markets and ensure value creation is reflected for shareholders), and codes of best practice for governance and the management of key risks and disclosures.

This work may be on a country-specific basis or those regulations and codes with a global remit. We provide practical insights about how proposed policies might play out in practice and help to identify suggested alternatives that might better achieve their responsible-investment policy aims. We also respond to consultations from policymakers to provide constructive feedback, using a networked approach to gain relevant input from teams across the business.

Over the course of 2021, we responded to more than 30 consultations from regulators, policymakers and industry initiatives. In addition to the advocacy work of the Responsibility Office, EOS also had 105 interactions with regulators, standard-setters and other third parties in the pursuit of public policy and market best-practice objectives.

Building on this work, we identify areas for more in-depth advocacy and engagement where we feel significant change is needed and where we can add value. When this is the case, we will identify the relevant policymakers to engage with on the topic. In 2021, this included climate change, biodiversity, Covid-19 and social inclusion. More information is included later in this section.

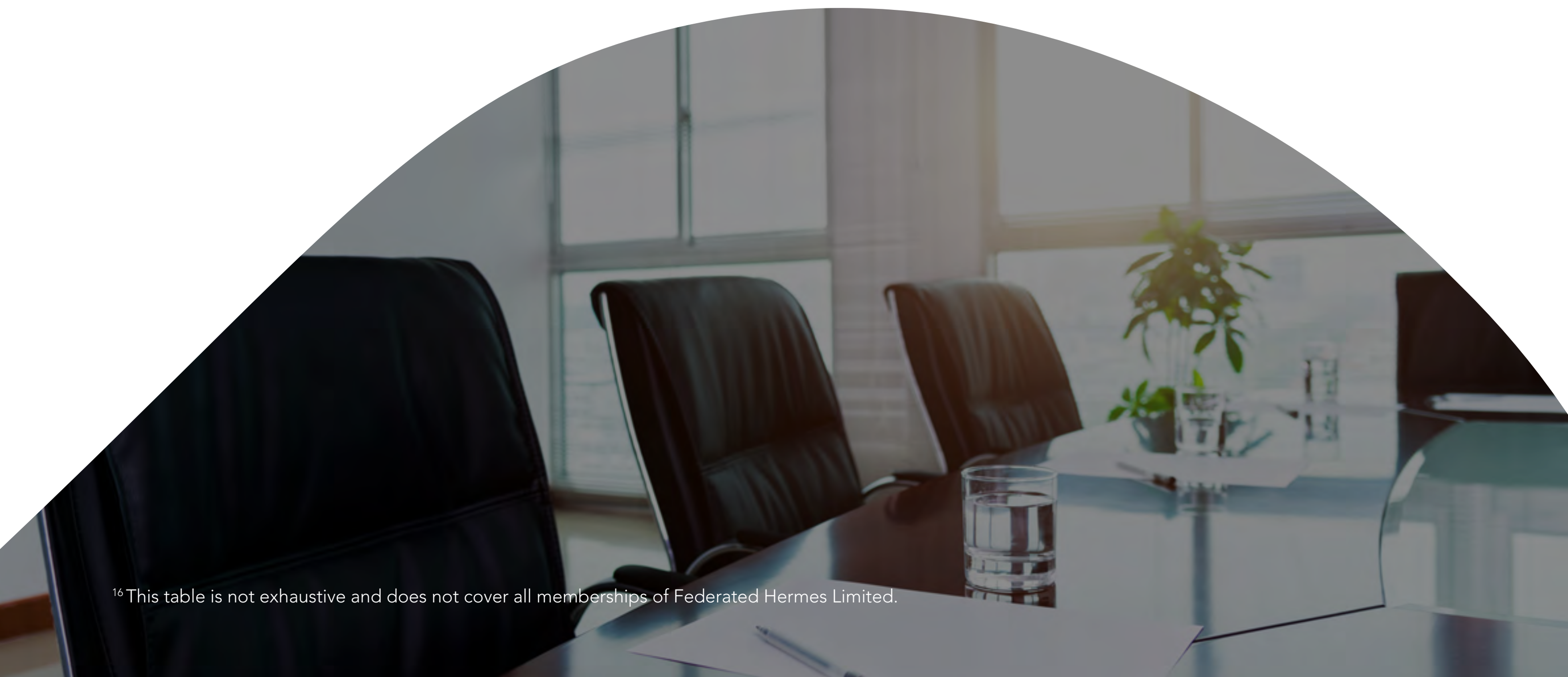
We contribute to policy discussions both directly and in collaborative fora and initiatives. We are a member of several industry bodies and initiatives around the world and are co-founders of many of them. Through these initiatives we engage with others both within and beyond the investment industry to promote responsible investment, including ways that the industry and our investees can respond to market-wide and systemic issues such as climate change. Colleagues from across the business – including the Responsibility Office, EOS, Risk and the investment teams – take on advisory roles in many of these organisations to share our practical expertise.

In the following table, we have categorised our memberships of investment and stewardship-related initiatives or those at which we hold advisory roles.[16]

Tier 1 represents the initiatives in which we play a leadership role, for example chairing a working group; holding a formal advisory role such as on an advisory committee or Board; taking a leading role in preparing or actively contributing content to position papers and joint statements; shaping the strategic direction or leading collaborative engagements.

Tier 2 represents those initiatives in which we actively participate through membership of working groups, contribution to collaborative engagements, reviewing content or position papers, or lending support to joint statements.

And, finally, Tier 3 represents the remainder of the initiatives in which we are involved where we have light-touch participation such as attending meetings to be informed of developments. There are other organisations that we may collaborate with on an ad-hoc basis. In 2021, this included the climate think tank E3G, ShareAction and the Interfaith Centre on Corporate Responsibility.



[16] This table is not exhaustive and does not cover all memberships of Federated Hermes Limited.

Figure 13. Investment and stewardship organisational memberships

Tier 1	Tier 2	Tier 3
Asia Investor Group on Climate Change	30% Club	Asian Corporate Governance Association
Associação de Investidores no Mercado de Capitais	Best Practice Principles Group for shareholder voting research (BPPG)	Association of Property Lenders
Association of Foreign Investors in Real Estate	Better Buildings Partnership	British Academy Future of The Corporation Project
Banking Standards Board	Biopharma Sustainability Roundtable	British Council for Offices
British Private Equity & Venture Capital Association	CDP	British Property Federation
CECP: The CEO Force for Good	Ceres	Canadian Coalition of Good Governance
CFA UK	Council of Institutional Investors	Dansif
Climate Action 100+	Energy Efficiency Financial Institutions Group (EEFIG)	Eumedion
CREFC	FAIRR	Eurosif
Enacting Purpose Initiative	Financing a Just Transition Alliance	Financing UK Nature Recovery Initiative
European Leveraged Finance Association	Focusing Capital on the Long-Term (FCLT)	French Social Investment Forum (FIR)
FCA-PRA Climate Financial Risk Forum	Glasgow Financial Alliance for Net Zero (GFANZ)	Global Alliance for Buildings and Construction
Finance for Biodiversity Foundation	Global Canopy Aligned Accountability Project	Global Impact Investing Network
Impact Investing Institute	Global Infrastructure Investor Association	Global Institutional Governance Network
Institute for Fiscal Studies	Global Real Estate Sustainability Benchmark (GRESB)	Global Investor Coalition on Climate Change
Institutional Investors Group on Climate Change (IIGCC)	HMT Asset Management Taskforce	Global Network Initiative
International Integrated Reporting Council (as part of the Value Reporting Foundation)	Human Capital Management Coalition	High Meadows Institute Leaders Forum
Invest Europe	Impact Management Project	INREV
Investors and Indigenous Peoples Working Group	Investment Association	International Corporate Governance Network
IoD Centre for Corporate Governance	Investor Action on Antimicrobial Resistance	Investing in Just Transition
Official Monetary and Financial Institutions Forum	Investor Alliance for Human Rights	Investors Policy Dialogue on Deforestation in Brazil
PCAF UK (Partnership for Carbon Accounting Financials)	Investor Forum	Japan Climate Initiative
Quoted Companies Alliance	Irish Funds	Japan Corporate Governance Network
Sustainability Accounting Standards Board (SASB)	Natural Capital Investment Alliance	JapanSIF
Sustainability for Housing Standards	Net Zero Asset Managers Initiative	Loan Market Association
The 300 Club	One Planet	Pensions and Lifetime Savings Association
UK Sustainable Investment and Finance Association (UKSIF)	Partnership for Biodiversity Accounting Financials	Revo
UN Global Compact	Supporter Network of SPOTT	Thinking Ahead Institute
UN Principles of Responsible Investment (PRI)	Transition Pathway Initiative (TPI)	Transparency Taskforce Initiative
	UK-China Green Finance Task Force	UNEP FI
	UK Green Building Council	
	Workforce Disclosure Initiative	

Source: Federated Hermes Limited, as at 30 April 2022.

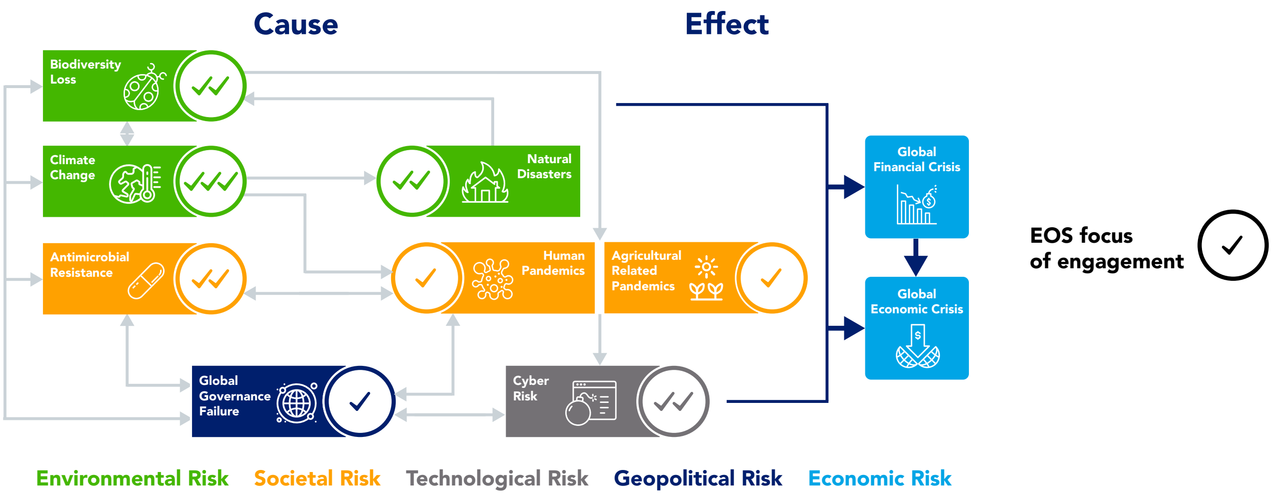
In 2021, we joined 12 new initiatives and remain an active member in over 100 different efforts. Examples of our involvement from each of these three tiers are included in our following 'In focus' sections. We also describe in further detail how we have been involved in collaborative engagement with individual issuers under Principle 10.

Engagement with investees

Part of EOS' horizon scanning exercise in 2021 included a review of how to identify and embed the most important systemic risks into our engagement plan and prioritise our engagement action. We looked at the most important systemic risks that were highlighted above, examined how they were interlinked, and often had cascading effects, and overlaid these with the focus areas in our engagement plan. For example, the three big causal systemic risks illustrated in the diagram below – biodiversity loss, climate change and anti-microbial risk – which have cascading causal effects, are important themes in our engagement plan.

In 2021, we joined **12** new initiatives and remain an active member in over **100** different efforts.

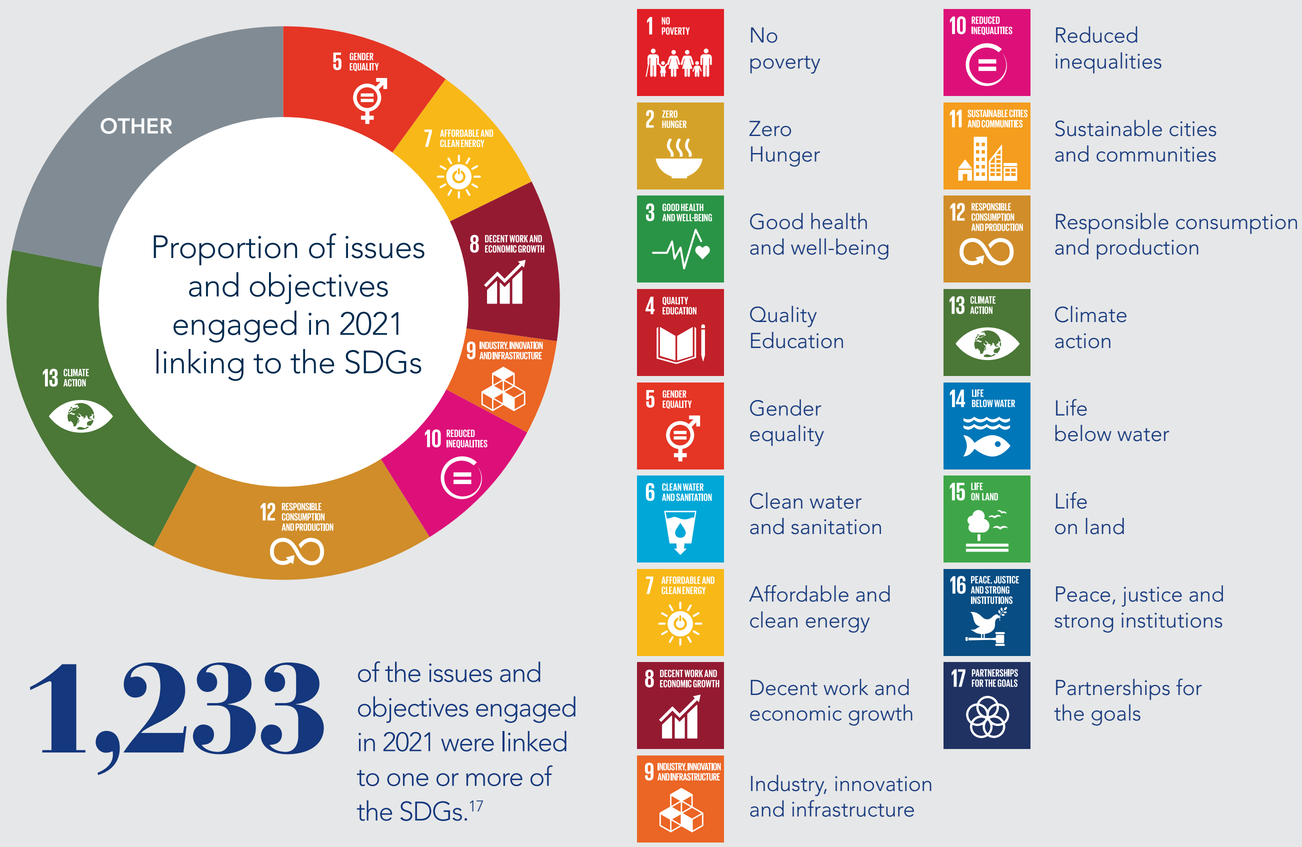
Figure 14. Risks: Cause and Effects and EOS Engagement Priorities



Source: Systemic Risk: Systemic solutions for an Increasingly Interconnected World – Managing multi-threat – Cambridge Judge Business School, EOS data

In addition, the United Nations (UN) identified systemic risks and developed these into 17 Sustainable Development Goals (SDGs), adopted in 2015 as a global call to end poverty, protect the planet and ensure that everyone enjoys peace and prosperity by 2030. Our view is that the long-term success of businesses and the success of the SDGs are inextricably linked. We believe that all of our engagement and advocacy work is aligned to the delivery of the SDGs either directly or indirectly, enhancing our response to systemic risks.

Figure 15. 1,233 of the issues and objectives engaged in 2021 in public markets were linked to one of or more of the SDGs[17]



1,233 of the issues and objectives engaged in 2021 were linked to one or more of the SDGs.[17]

Source: Federated Hermes, as at 31 December 2021

[17] This is the total of unique SDG-linked objectives and issues engaged. Some of the objectives and issues may be linked to more than one SDG.

Where we have identified market-wide and systemic risks, we intend to engage with our investees to ensure they have appropriately assessed, managed and mitigated the risks. This may be through collaborative engagement alongside other investors or industry initiatives, which we discuss in more detail under Principle 10.

EOS focuses its public-markets stewardship on the issues with the greatest potential for long-term positive outcomes for investors and their beneficiaries. Generally, EOS' work is embodied in a response to systemic risks but interlinked to this are market-wide risks it must consider. The full taxonomy under Principle 9 identifies 12 key themes and 37 related sub-themes for engagement, many of which could be considered systemic risks as mapped in Figures 11 and 12 above. Within this, our work maintains a focus on the most material themes.

EOS reviews its engagement plan every year to ensure it is up to date and reflects client priorities. In 2021, we spent some time reflecting on our approach to engagement and updated the theme taxonomy to reflect latest best practice areas. The theme formally referred to as conduct, culture and ethics has been renamed wider societal impacts to reflect the societal impact of positive ethical behaviours (such as zero tolerance of bribery and corruption), as well as the benefits of achieving safer products and responsible tax practices.

EOS' four priority themes for 2022 are as follows:

Climate change action: Climate change continues to be the biggest single issue of concern for long-term investors. The required pace of transition poses many risks to traditional business models through new forms of competition, regulation and physical risks, as well as offering opportunities. The emphasis of our engagement is on matching long-term commitments with a Paris-aligned strategy and targets. We also support action to ensure that published financial accounts and political lobbying are similarly aligned.

Human and labour rights: Respect for human and labour rights is a priority theme as this underpins a company's wider corporate culture, business ethics and enterprise risk management, all of which affect the creation and preservation of long-term value. All companies have a responsibility to respect human rights, which can include decent work such as no forced labour, no child labour, and the payment of a living wage.

Human capital: While economic activity has bounced back in the wake of the Covid-19 pandemic, many sectors continue to face labour shortages, which are forcing companies to re-evaluate their employee value proposition in order to retain staff. Important aspects of successful human capital management include diversity, inclusion and full representation of workers; fair wages, incentives and benefits; and health, safety and wellbeing.

Board effectiveness and ethical culture: There is considerable evidence that board performance is vital to the long-term success of a company. We believe boards should be composed of directors with technical skills aligned with the strategic needs and direction of the company and a diversity of perspectives, to improve decision making. Also, boards must take responsibility for the ethical culture of a company.

In addition to the above priority themes, we intend to pursue further engagement in three cutting edge topics as follows:

Biodiversity: In 2022, we intend to focus engagement on halting and reversing biodiversity loss at companies involved in the production and retailing of food.

Fast fashion: In 2022, we intend to engage with apparel companies on their environmental and social impacts.

Digital rights: EOS intends to publish high-level expectations on digital rights in Q1 2022. Digital products and services can play a critical role in strengthening human rights but have also brought unanticipated harms and new challenges.

We also use our voting rights as a means of addressing systemic risks. For example, EOS has had a formal climate change voting policy in place since 2019 targeting climate-change laggards and we strengthened this again in 2021. We continued to use the Transition Pathway Initiative (TPI) assessment, setting a threshold of Level 4 for all European companies, coal mining companies or oil and gas companies, or Level 3 for all other companies. More information on how we use our voting rights is available under Principle 12.

We track the progress of our engagement with investees, including on systemic issues, using our proprietary milestone system. The outcomes of our engagement with investees are described under Principles 9, 10 and 11. We also publish regular case studies from EOS and our investment teams to document our engagement outcomes in more detail.

Throughout this report we have sought to provide a range of outcomes, including where we have not seen the desired outcomes of engagement. Below, we set out in more detail how we have responded to three of the key market-wide and systemic risks in 2021: climate change, biodiversity, Covid-19 and social inclusion.

These are examples of how our response to identified market-wide and systemic risks can result in changes to our investment portfolios, our engagement with companies and our advocacy efforts. The sections below are also therefore relevant to Principles 7 and 9-12.

In focus: climate change

We aim to understand both a company's contribution to climate change and its exposure to related risks and opportunities, which should allow us to play a positive role in encouraging firms to generate lower emissions and reduce the risks arising from climate change.

Our Climate-Related Financial Disclosures report sets out in more detail how we have integrated an assessment and management of climate-related risks and opportunities into our investment decision making. This includes the governance structures we have in place to ensure climate-related risks and opportunities are appropriately managed and that the outcomes of our risk-management processes feed into our business strategy. Our assessment of, and response to, the systemic risk of climate change spans our top-down investment risk and asset-level analysis, our engagement activities and our operational risk management.

In 2021, our Climate Change Working Group continued to focus on designing and implementing a strengthened firm-wide climate strategy, which included expanding our existing top-down and bottom-up risk-management approaches. We intend to publish our approach and interim targets later this year as part of our commitment to the Net Zero Asset Manager Initiative (NZAMI).

Through this initiative, we commit to work in partnership with clients on their decarbonization goals and to set an interim target for the proportion of assets to be managed in line with the attainment of net-zero emissions by 2050. We intend to report annually on our progress toward this commitment starting in 2022, including a climate action plan, which will be submitted to the Board for review. We also commit to collaborating with other NZAMI members to develop methodologies for the decarbonization of additional asset classes and to capture real economy impact where such methodologies do not yet exist.

Assessing risk in public markets

Our integrated approach to managing climate risk and opportunities is based on our belief that we can create positive feedback loops between investment and stewardship. This should help reduce climate-related risks and maximise the opportunities for the companies and assets in which we invest.

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

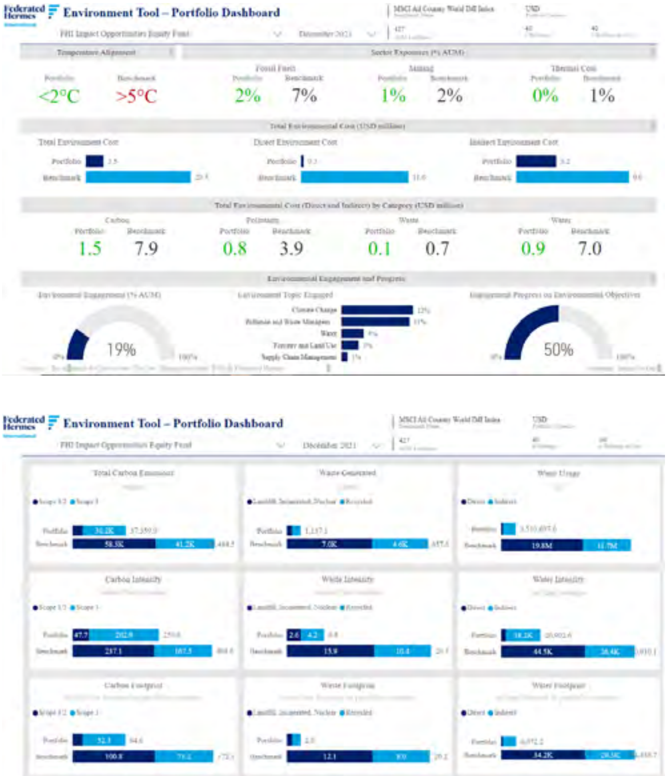
The information also helps increase our investment team's awareness of carbon-related risks, which can lead to updated valuations and potentially change investment decisions.

Figure 16. Carbon footprint – portfolio dashboard

Source: Federated Hermes Limited, as at 28 February 2021. For illustrative purposes only.

During 2021, we launched our environmental tool. Our environmental tool assesses both portfolios and companies on their carbon, water and waste performance. It also looks to quantify the environmental cost of the impact via the following six lenses; carbon, water, waste, air pollutants, land/water pollutants and natural resource use. In addition, we have incorporated the temperature alignment of portfolios and companies alongside exposures to carbon intensive sectors; namely fossil fuels, mining and thermal coal.

Figure 17. Environmental Tool – Portfolio dashboards



Source: Federated Hermes Limited, as at 28 February 2022. For illustrative purposes only.

Our environmental tool assesses both portfolios and companies on their carbon, water and waste performance.

We also use other external tools, including the Trucost climate tool and are currently exploring the Science Based Targets temperature scoring and portfolio alignment tools, among others.

EOS: engaging on climate-change issues

Engagement is a crucial element of our approach to managing climate change risks and opportunities – and climate is a specific engagement focus in EOS' public-markets engagement programme. EOS aims for all companies to have a business model consistent with achieving net-zero emissions and an effective transition plan to deliver this by 2050 or sooner.

We continued to play a leadership role in the collaborative engagement initiative Climate Action 100+ (CA100+) where we lead or co-lead engagements at over 25 of the 167 focus companies across Europe, North America, and Asia. (More detail on our involvement is included under Principles 10 and 11.)

As an indication of effectiveness, according to analysis by research company BNEF, 111 of the Climate Action 100+ focus companies have set a net-zero or equivalent target, compared with five prior to January 2018 when the initiative was launched. BNEF estimates that in 2030, the net-zero targets set by these 111 focus companies will reduce greenhouse gas emissions by 3.7bn metric tons of carbon dioxide equivalent annually.

In March 2021, CA100+ published its first assessment of focus companies against the Net-Zero Company Benchmark, a standardised framework for evaluating company progress. EOS contributed to the benchmark through its collaboration with the Institutional Investors Group on Climate Change (IIGCC) – for example, on the inclusion of a test for capital expenditure alignment.

We continued to play a leadership role in the collaborative engagement initiative Climate Action 100+ (CA100+) where we lead or co-lead engagements at over 25 of the 167 focus companies

In the run up to COP26, over 300 companies committed to achieving net-zero emissions. However, data from the Climate Action 100+ Benchmark shows that while 52% of the world's largest emitters had net-zero goals, only 20% had short and medium-term emissions reduction targets and only 7% had targets aligned with the Paris Agreement goals. The emphasis of our engagement is therefore on matching long-term commitments with a Paris-aligned strategy and targets.

We also support action to ensure published financial accounts and political lobbying are similarly aligned. And as the climate changes and extreme weather events become more frequent and severe, it will be important for companies to demonstrate that they have a physical risk strategy.

While CA100+ is focused on 167 of the world's biggest corporate emitters, it is vital that decarbonisation is achieved across the entire economy. In 2021 EOS contributed to the new CA100+ Global Sector Strategies workstream, which will provide transition roadmaps for key sectors and identify the priority actions that companies, industries and investors should take. The aim is to help transform entire sections of the economy that require coordinated action. EOS contributed to the first Global Sector Strategy Reports on the steel sector and the food and beverage sector, highlighting the cross-sector actions needed to reach net zero.

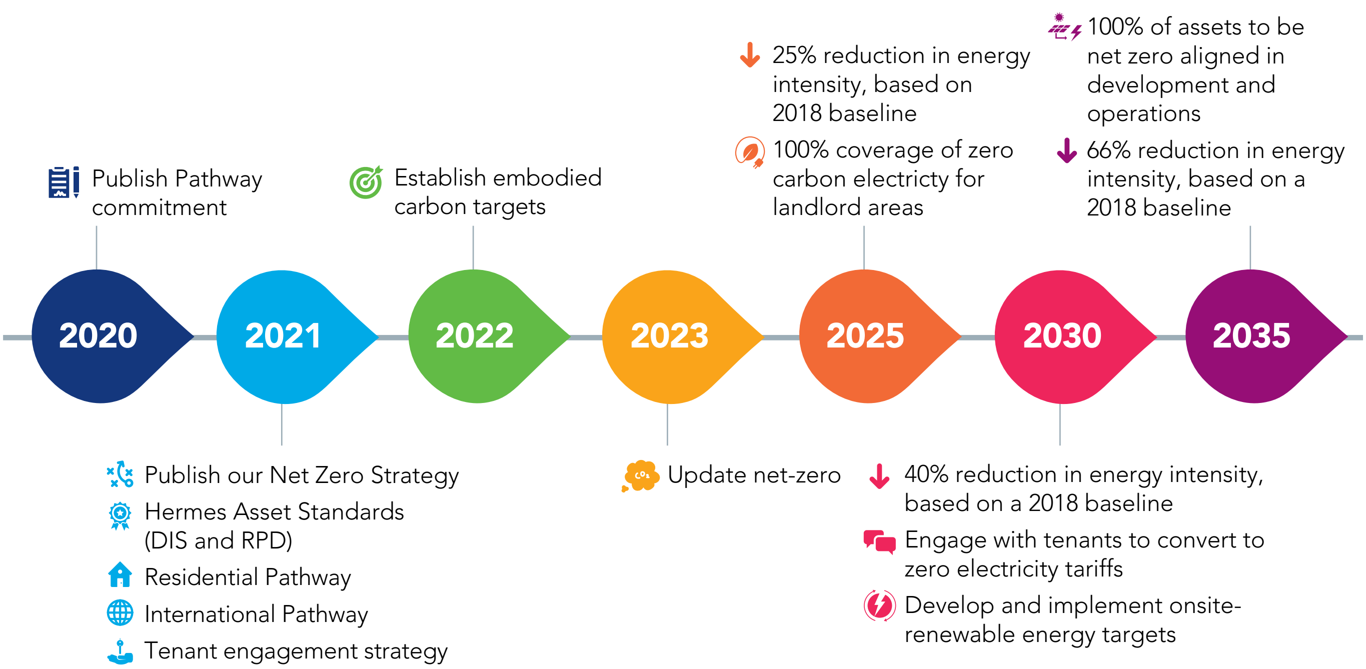
Under Principles 10 and 11 we provide further detail on our collaborative involvement in CA100+ with specific examples of company engagement.

Real estate – building a better future

Our Real Estate team has integrated climate risk management throughout its investment decision-making and asset-management processes. An ESG checklist is used for every acquisition and this has been updated in the last year. It covers specific ESG issues like climate change, with a particular focus on flood risk and mitigation.

Our Real Estate team's responsible property development and refurbishment guidance also sets out a series of guidelines and principles for our project and development managers to follow. This ensures a consistent, start-to-finish approach to sustainable refurbishment and development, making use of key RIBA Stages.[18] The approach also follows BREEAM principles[19], which adopt sustainable methods of construction to deliver an operationally efficient and sustainable building or refurbishment.

Figure 18: Real Estate approach to net zero



Source: Federated Hermes Limited, as at 31 December 2021

[18] The Royal Institute of British Architects (RIBA) Plan of Work organises the process of briefing, designing, constructing and operating building projects into eight stages and explains the stage outcomes, core tasks and information exchanges required at each stage.

[19] BREEAM is the Building Research Establishment (BRE) Environmental Assessment Method, first launched in the UK in 1990. It sets best practice standards for the environmental performance of buildings through design, specification, construction and operation.

In 2019, we joined the Better Building Partnership Climate Change Commitment (along with 22 other signatories) with the aim of achieving net-zero emissions across our real estate portfolios by 2050.

As part of this commitment, on behalf of our clients, during 2021, the Real Estate team issued the Net-Zero Pathway document which sets out both the targets and approach to reaching net zero emissions across the managed assets (approximately £4.05bn worth of assets) included within our £6.1bn UK real estate portfolio.[20]

By taking a proactive approach in developing and operating net zero buildings, we intend to reduce the risks of having stranded assets, asset value declines and potential so-called 'brown penalties' (a higher cost of capital for carbon-intensive buildings). Net zero also presents opportunities for market leadership: to generate income resilience for our clients; support and retain our tenants; and provide long-term value to our stakeholders.

We aim to deliver on this aspiration in four specific areas:

1. **Decarbonisation.** Remove the use of fossil fuels, increase energy efficiency, use green tariffs and reduce embodied carbon in our new development and major refurbishments. This should support improvements in local infrastructure and emphasise best-practice innovation.
2. **Deliver energy efficiency.** Reduce energy use intensity by 66% in the years to 2035 against a 2018 baseline.[21]
3. **Stakeholder engagement.** Work with occupiers, suppliers and other stakeholders to successfully transition to net-zero alignment.
4. **Utilise offset opportunities.** Use credible, permanent carbon-removal methodologies for residual carbon utilising schemes, such as natural-capital solutions for carbon sequestration to address embodied carbon.

We have developed this pathway using the UK Green Building Council's Advancing Net-Zero Framework and aligning the 2035 target with our clients' stated objectives and targets.

The pathway has a phased approach. The first phase aims to address managed assets in the UK, looking at the publication of detailed targets and timelines. Subsequent phases will seek to address the wider international portfolio and consider the specific challenges relating to the occupied areas of the residential assets.

Our real estate clients' pathway to net zero excludes our corporate office and related activities, our real-estate debt capability and funds where we only have an advisory role. All of these will have their own targets and net-zero strategies and we intend to look to align our managed-asset portfolio's pathway.

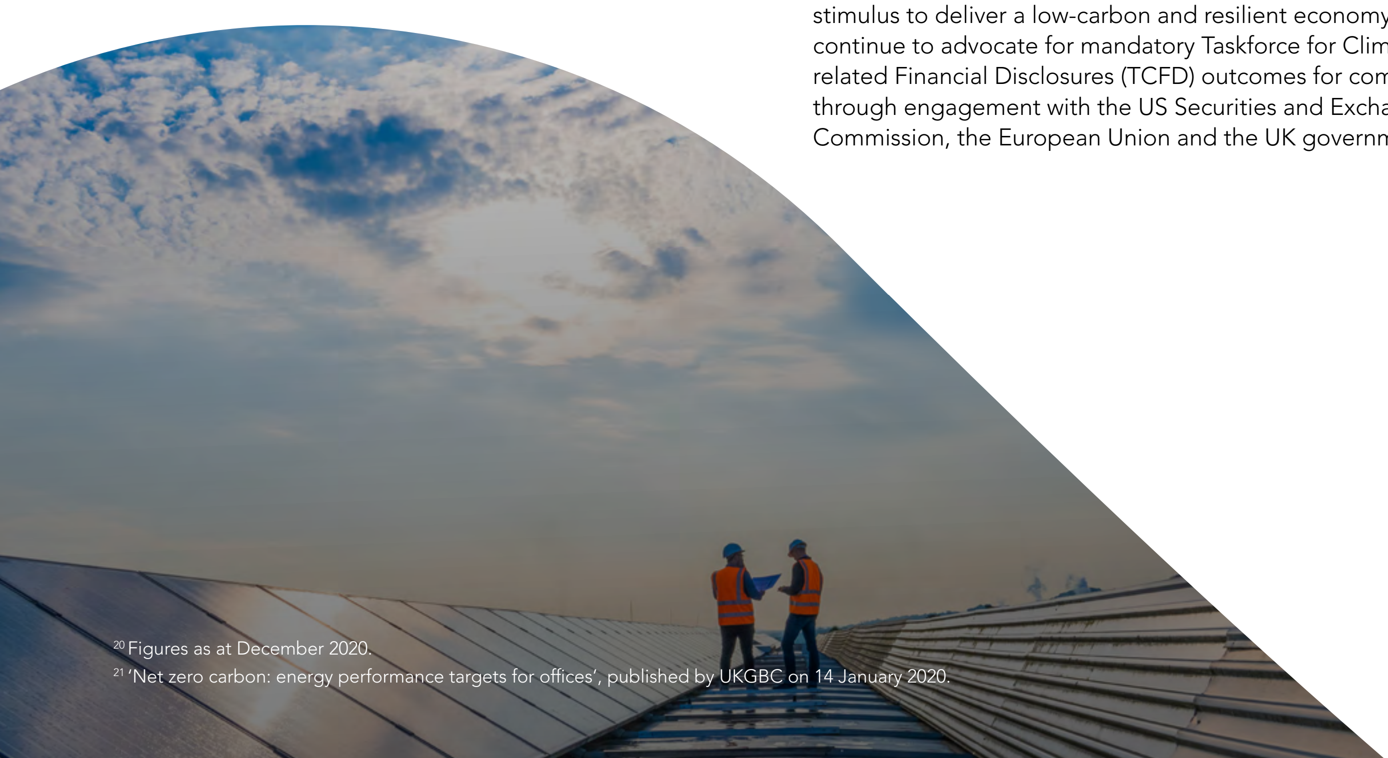
We continue to develop and implement initiatives across our real-estate portfolio that are designed to reduce carbon emissions and to improve efficiencies in our built environment portfolio, making use of new technology and best practice gleaned from our active engagement in peer-group benchmarking. A case study on our approach to achieving our net zero goals in real estate is included under Principle 9.

Advocacy: delivering positive industry-wide change

Looking beyond investment and stewardship, we also believe that policymakers have a key role to play in determining the investment risks and opportunities created by climate change. In 2021, we carried out extensive advocacy work on climate-related issues.

Throughout 2021 we have participated in public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties to contribute to the development of policy and best practice to facilitate the transition to a net zero carbon economy. The aim is to protect and enhance value for our clients by improving shareholder rights.

We have advocated for a number of changes to public policy and market best practice, including asking governments to commit to more ambitious climate targets. In our public policy engagement with the UK and European governments we have called for, among other things, tougher greenhouse gas (GHG) emissions targets to 2030 and 2050 and for a new fiscal stimulus to deliver a low-carbon and resilient economy. We continue to advocate for mandatory Taskforce for Climate-related Financial Disclosures (TCFD) outcomes for companies, through engagement with the US Securities and Exchange Commission, the European Union and the UK government.



[20] Figures as at December 2020.
[21] 'Net zero carbon: energy performance targets for offices', published by UKGBC on 14 January 2020.

Advocacy around deforestation and other sectoral pledges helped to shrink the 2030 global emissions gap by a further

9% on top of NDC commitments.

At COP26 we set out our expectations of policymakers, calling for the following:

- Countries to make more ambitious commitments, called Nationally Determined Contributions (NDCs), to reduce their emissions in line with 1.5°C. These NDCs should have clear short- and medium-term commitments over the vital period to 2030, to help cut global emissions by 40-60% from today's baseline by 2030. Advocacy around deforestation and other sectoral pledges helped to shrink the 2030 emissions gap by a further 9% on top of NDC commitments.
- Developed nations to meet and go beyond the existing pledge of $100bn per annum dedicated to helping developing nations to accelerate their energy transition and adapt to the growing physical impacts of climate change. While the $100bn per year climate finance pledge was still not met, due to increased pressure, it is projected to be reached by 2022-2023 (COP27) and we have already started to see a greater emphasis on adaptation in the most vulnerable regions.
- Finalisation of the Paris Rulebook (the rules needed to implement the Paris Agreement), including Article 6, which covers international carbon markets. This would enable nations to trade emissions allowances and create offsets, unlocking financial flows and market efficiencies to streamline decarbonisation and target the least-cost carbon reduction opportunities first. While this was successfully achieved, further policing of integrity will be required to ensure credits are used appropriately.

As a pioneer in responsible investing, Federated Hermes Limited was an active participant at COP 26 in November 2021. We hosted a two-day event called the Further, Faster conference, which addressed the three interlinked emergencies of Climate, Nature and Social Injustice. Further, Faster was hosted by our CEO, Saker Nusseibeh, and brought together world-leading experts in these fields to set 'How much? By when?' objectives to deal with these emergencies and to put a cost on them. The conference was concluded with a Financial Industry session that proposed solutions for how these objectives could be funded and how the industry might need to transform itself to be fit for this essential purpose. Our event was attended by approximately 150 clients, members of the media and other industry participants and was streamed live over the two days with recordings also available on our Climate Change microsite.

We hosted a two-day fringe event at COP26 called the Further, Faster conference, which addressed the three interlinked emergencies of Climate, Nature and Social Injustice

DEEP DIVE: UK Climate Financial Risk Forum

A key focus of our advocacy work over the past two years has been as a member of the UK Climate Financial Risk Forum (CFRF). The CFRF, co-chaired by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), builds capacity and shares best practice across financial regulators and industry, to advance our sector's responses to the financial risks from climate change. The CFRF plays a critical role in supporting firms as they get to grips with some of the more challenging aspects of climate change mitigation and adaptation by providing guidance by industry, for industry. Our CEO has chaired the Disclosures Working Group (DWG) of the CFRF for two years during 2020 and 2021. In the first year of the forum's work, we led the development of practical guidance published in June 2020 on how financial institutions can best disclose climate-related financial risk. The outputs of the first session have already been used widely both within and beyond the UK and referenced by the FCA as a useful guide for firms wishing to go beyond minimum regulatory disclosure standards.

In our second year as Chair, the DWG published further guidance in a cross-Forum report on data and metrics, including a dashboard of recommended 'use cases' that firms should keep in mind when selecting metrics for disclosure. The DWG also produced a briefing paper on managing legal risks associated with climate disclosure, particularly in relation to forward-looking metrics such as scenario analysis outputs and emissions projections. Finally, we produced a case study describing how our climate approach has evolved over time. Our leadership of this group has enabled us to develop stronger relationships between regulators and our peers, allowing us to keep abreast of developing best practice, and to help us to further strengthen our grasp the collective challenges and opportunities facing financial institutions in this area. We plan to continue to support the work of the Disclosure, Data and Metrics Working Group and will also join the Transition to Net Zero Working Group in 2022.

In March 2021, Climate Action 100+ published its first assessment of focus companies against the Net-Zero Company Benchmark, a standardised framework for evaluating company progress. EOS contributed to the benchmark through its collaboration with the Institutional Investors Group on Climate Change (IIGCC) – for example, on the inclusion of a test for capital expenditure alignment. We have also contributed to the policy group of the Glasgow Financial Alliance for Net Zero (GFANZ) as a taskforce member and will actively support country level engagements over the course of 2022.

In focus: Covid-19 and social inclusion

The Covid-19 pandemic continued to represent a top issue in 2021, with officially recorded deaths having risen to over six million worldwide, from approximately two million at the end of 2020. The pandemic has exacerbated social inequalities, increasing the risk of unacceptable working conditions such as modern slavery, and limiting access to food and medicines, including effective coronavirus vaccines. The pandemic has also shone a light on companies' treatment of their employees, including contract workers. Despite continuing stop-start lockdowns in many markets and severely curtailed international travel, economic activity bounced back in 2021, revealing a labour shortage for many sectors and forcing companies to re-evaluate their employee value proposition in order to retain staff.

Risk management

The Covid-19 pandemic presented a major threat to economic sustainability, businesses and individual households. Its impact on many, if not all of our ultimate clients –beneficiaries of pension, insurance and other funds who are also members of the workforce and citizens – is unprecedented in modern times. Our experience of the crisis supports our long-held belief that the support of stakeholders and a social licence to operate are fundamental to long-term value creation.

As part of the Risk Team's and Investment Office's stress tests described earlier in this section, we run regular liquidity stress tests which assume a constraint on trading conditions. Liquidity risk is two-sided, and we consider both how long it would take to liquidate portfolios without incurring excessive trading costs and what client redemptions are likely to be under particular scenarios.

We have seen large liquidity events in recent times including the Covid-19 pandemic, however our products remained resilient throughout the pandemic. Having a liquidity risk framework in place pre-pandemic ensured a variety of liquidity tools at our disposal, including mock gating exercises. This is in effect a fire drill situation and puts investment risk stress testing to a practical and beneficial use within our firm. This exercise walks through the entirety of a mock scenario involving a significant market impact and/or corresponding investor redemption including engagement with our liquidity committee and various boards. It ensures each team is fully aware of their responsibilities in an emergency situation. The introduction of this exercise ensures we have a live documented process which is fully engrained across the various teams, ensuring that in the event of a situation or crisis that the entire decision-making process can be completed in a tight and efficient manner. This and our other liquidity tools available via our liquidity framework continue to be invaluable tools to help respond to liquidity market shocks and given current market conditions in early 2022 with serious geopolitical events ongoing, rising interest rates and inflation, more potential liquidity shocks are likely. This exercise will ensure fast, accurate and efficient outcomes for our funds' and our clients' best interests.

Our ability to weather this crisis has reinforced the importance and robustness of our existing risk-management practices. Our risk management and governance framework allowed the risk function to support our firm in adapting, understanding and responding quickly to these risks. Reporting and processes were developed to monitor operational resilience as we moved to a remote/hybrid working environment. During this time, the Risk team closely monitored the effects on our people, operations and control environment, ensuring that senior management were informed of risks and mitigants as they emerged in the rapidly changing environment, and that business processes continued to be carried out effectively. Given the ongoing nature of the crisis, and rising geopolitical tensions, we will continue to evaluate the efficiency of our risk-management practices in order to identify any learnings and future development.

Engagement approach

Perhaps our most significant response to the Covid-19 pandemic has been through engagement. We did not predict the scale of the risk emanating from the pandemic, yet we believe we have tailored our approach to engagement during the crisis as effectively as possible and recognise the unprecedented challenges that companies have faced.

We believe that the businesses that pay the closest attention to their stakeholders, while supporting the efforts of governments and wider society, will emerge from the crisis the strongest. Through encouraging this approach in our engagement, we believe we are helping to promote the return of well-functioning financial markets.

As the pandemic rolled on through 2021, it became clear that key workers in retail, healthcare, logistics and other people-facing roles were significantly worse off than office workers who could work from home. Gig workers, who are often excluded from benefits that full-time or part-time employees receive such as paid sick leave, were particularly hard hit, even

as demand for their labour increased. A lack of sick pay provision means that if workers fall ill, they may have to choose between losing their income or going to work while sick, increasing the risk of passing on the infection to others.

Existing social and economic inequalities affecting women and people of colour were also exacerbated by the pandemic. Home schooling meant that unpaid care work increased, with the burden impacting women to a greater degree, while racial and ethnic minorities were disproportionately represented in key sectors such as retail, healthcare and manufacturing, putting them at greater risk of exposure to Covid-19. We investigated these issues, and how they could be addressed, in a series of EOS Insights published throughout 2021.

During the pandemic our engagement has centred around company management of the most material human capital issues as we believe that increased productivity and business sustainability is achieved through investment in the workforce. Our engagement expectations are:

- **Safe treatment of workers:** The safe and equitable treatment of employees and contract workers is vital. Companies have a responsibility and an obligation to provide a safe working environment. Policies around Covid-19 testing and vaccines need to consider a disproportionate impact or burden along with safety, while sick pay provisions help to mitigate the spread of Covid-19.
- **Gig and contract workers:** For gig and contract workers, we have specific expectations. Companies should ensure that there are measures in place to compensate workers for lost pay if they are unable to work during the pandemic; consider hazard pay for those working in frontline positions; have measures in place to ensure that the appropriate type and amount of personal protective equipment (PPE) is readily available at no net cost to workers; and ensure that Covid-19 policies and processes are clearly communicated to workers.
- **Gender equality:** The disruption caused by the pandemic offers a chance to reset working habits, so companies should be prepared to consider how their work practices can become more inclusive and effective. For example, companies should consider adopting formal policies, such as providing gender-equal parental leave and encouraging and supporting male employees to make use of this, and improving managers' sensitivity towards these issues through training. This could lead to changes in working arrangements, the fostering of more inclusive cultures, and a consideration of hidden labour burdens in performance reviews. As part of a concerted effort to increase gender diversity across the Japanese companies in our engagement programme, we welcomed the significant improvement that Nifco made in its disclosure of data on human capital management and gender diversity. While the company was unable to meet its target to improve the proportion of female managers to 8% by the deadline, it described various measures to improve this. For example, it has appointed a female executive officer from outside, changed its personnel system and is focused on identifying and developing young talent as management candidates. We systematically asked engagement companies about the impact of Covid-19 on the women in their workforces given that an estimated 2.5 million women left the US workforce during the pandemic.[22] Responses from companies varied, but we found that regardless of sector, those companies that offered flexibility, childcare support and other expanded benefits like mental health and wellness were able to retain their staff.
- **Racial and ethnic representation:** Companies should consider racial and ethnic representation within their workforce. Companies with higher diversity among frontline workers versus more senior office-based roles need to be mindful of, and work to address, the disproportionate racial and ethnic safety implications that arise. In engagement we ask how a company is building a diverse and inclusive workplace at all levels from job creation and hiring to retention and promotion. At Walt Disney, for example, we were encouraged to see the company update its compensation committee board charter to include human resources oversight. We also welcomed the company's six pillar diversity and inclusion strategy and its intention to report EEO-1 employment data in the future. For fuller inclusion, companies should consider and address the potential inequitable impacts of their products and services and use innovation to expand the economy for all stakeholders.

Widening income inequalities due to the Covid-19 pandemic, and the advocacy of social movements such as Black Lives Matter, have emphasised the importance of our engagement on SDG 5 – gender equality, and SDG 10 – reduced inequalities. Many companies received racial equity shareholder proposals in the 2021 voting season and we supported efforts to further companies' own commitments, increase the effectiveness of their programmes, and signal wider market support for meaningful action. See Principle 12 for examples.

[22] US Bureau of Labor Statistics data cited by US Vice President Kamala Harris, New York Times (nytimes.com).

DEEP DIVE: FAIRR

The pandemic exposed and exacerbated the fundamental and structural human capital risks in the animal farming industry. In 2021, EOS partnered with FAIRR, a global investor network seeking to raise awareness of the material ESG risks and opportunities caused by intensive livestock production. In this collaborative engagement, the group targeted the seven largest protein producers globally, the aim being to empower workers and support risk mitigation in three key areas. These were health and safety, fair working conditions and worker representation.

Aligned with FAIRR's requests, we are urging companies to take the following steps to mitigate some of the human capital management and human rights risks in the food system supply chain:

Empower workers and support health and safety by implementing, and monitoring the effectiveness of, robust grievance mechanisms. They should also permanently provide paid sick leave to all workers, including subcontracted and temporary workers across operating markets, regardless of whether this provision is included in the national legislation.

Provide mechanisms and oversight to ensure fair working conditions including reviews and the disclosure of the distribution of workers across different contract types, with regular reports to the board on the workforce composition by contract type.

Improve worker representation, voice and engagement and include workers as important stakeholders in discussions around industry trends and subsequent impacts.

The disproportionate impact of Covid-19 on the meat industry is a cautionary tale of unexpected costs, shrinking production capacity, and disruption of operations and food supply chains globally. Some meat producers are now facing fines, prosecution, investigations, and employee litigation, but the growing reputational and financial impacts associated with poor labour practices are present throughout the agricultural supply chain. Issues ranging from the working conditions of farmers in the field to the impact of Covid-19 on frontline workers in markets and grocery stores are relevant when considering investments and engagement topics with such companies. We see our role as investors as to engage across the food value chain to encourage companies to improve worker conditions and ensure that workers have a voice in the decisions and policies that impact them

EOS is also working with FAIRR on the issue of antimicrobial resistance (AMR). AMR could be the next big public health crisis unless we can arrest the misuse of antibiotics in industrial livestock farming. EOS contributed to the latest report from the FAIRR initiative, a collaborative investor network that raises awareness of the ESG risks and opportunities inherent in intensive livestock production. Feeding Resistance: Antimicrobial Stewardship in the Animal Health Industry[23] explores the current practices of the 10 largest publicly-listed players in the animal health industry and the actions required to ensure resilience of the companies' product portfolios and good AMR stewardship.

[23] https://www.fairr.org/research/animal-health/

Looking beyond the pandemic

As countries plan for a post-pandemic recovery, we are engaging with companies, policymakers and society as a whole to reflect on the factors behind the crisis. This may mean reassessing business models, energy and transport infrastructure and economic systems that fail to align with the goals of the Paris Agreement on climate change.

In the first instance, companies should not be surprised if governments regulate to insulate society from future pandemics. Actions that could impact companies include enhancements to employment law and health and safety regulations. We also believe that business activities that threaten future health and wellbeing, including those relating to intensive animal farming with its links to anti-microbial resistance and infections transmitted from animals to humans, could face new controls.

In 2022 we intend to continue to expand our work on human rights, living standards and social inclusion which have eroded significantly as a result of the pandemic:

Human and labour rights: The Covid-19 pandemic has exacerbated social inequalities, increasing the risk of unacceptable working conditions such as modern slavery, and limiting access to food and medicines, including effective coronavirus vaccines. In our engagements we ask companies to respect all human and labour-related rights linked to a company's operations, products and supply chains, including through the provision of affordable essential goods and services to help reduce poverty.

Human capital: The pandemic has shone a light on companies' treatment of their employees, including contract workers. In 2022, we intend to press companies to provide fair wages and benefits so that everyone can achieve a decent living standard. We intend to also encourage them to develop and implement a human capital management strategy to promote best practice physical and mental wellbeing in the workplace.

Board effectiveness and ethical culture: We will also ask boards to consider the lessons of the pandemic, including the possibility for more internationally diverse board appointments, enabled by more effective remote working practices.

In Focus: Nature and Biodiversity

Biodiversity loss was recognised as an urgent challenge in 2021 given the importance of ecosystems for sustaining global food supplies, providing clean water and air, and absorbing harmful carbon dioxide to help mitigate global heating.

Thought leadership and advocacy

In early 2021 we published a white paper, Our Commitment to Nature, which set out our engagement priorities and expectations for sustainable land use.

Our white paper highlighted the extent to which investors' and companies' current approaches to nature are unsustainable. It made the business case for action and outlined how investor engagement with companies is a key route by which biodiversity loss can be halted and reversed.

DEEP DIVE: Finance for Biodiversity

After demonstrating our commitment to this issue in 2020 by signing the Finance for Biodiversity pledge alongside 84 signatories that represent over US$14tn, we continued to co-chair the Finance for Biodiversity Foundation Engagement and Public Policy Advocacy working groups. Work is now underway to meet the ambitious goals of the Finance For Biodiversity pledge. As part of this pledge, as well as committing to engage on biodiversity, we also committed to assess our investments for significant positive and negative impacts on biodiversity loss and report publicly by 2024.

The Finance for Biodiversity Foundation was set up to support a call to action and collaboration between financial institutions on this important issue. Within the Finance for Biodiversity Foundation, we have advocated for an ambitious Global Biodiversity Framework (GBF) to be agreed at COP15 in Kunming in 2022. During 2021, we contributed to the pre-COP15 discussions on the GBF on behalf of the 28 financial institutions that are part of the Finance for Biodiversity Foundation. We emphasised that the GBF should explicitly reference the role of the financial sector in halting and reversing biodiversity loss and stressed that the framework should require the alignment of public and private financial flows with the goals and targets of the GBF. We also asked governments to create an enabling regulatory environment so that the financial and private sectors can address biodiversity-related risks and opportunities. We were pleased that our proposal received support from the EU on behalf of its 27 member states.

We played a key role in writing a statement, which was coordinated by the Finance for Biodiversity Foundation and Ceres, addressed to governments ahead of the biodiversity COP 15.[24] The statement calls on governments to address biodiversity loss by agreeing an ambitious and transformative GBF, and through their national policies, including by introducing consistent and decision-useful corporate disclosure requirements.

We are working with a number of other initiatives too – including the Partnership for Biodiversity Accounting Financials (PBAF) and Global Canopy Aligned Accountability Project – to advance the industry's understanding of how to measure positive and negative biodiversity impacts. We plan to intensify our work on nature-related disclosure via the Taskforce on Nature-related Financial Disclosures (TNFD) Measurement Working Group in 2022.

[24] COP15 Financial Institution Statement https://www.financeforbiodiversity.org/publications/financial-institution-statement-ahead-of-the-convention-on-biological-diversity-cop15/

We continue to call on companies to commit to having a net-positive impact on biodiversity throughout their operations and supply chains by 2030 at the latest. We expect this goal to be accompanied by strong governance, effective measurement, an impactful strategy, and regular disclosure. The framework and white paper have been well received by peers, companies and others.

Subsequently, we looked at the role that marine ecosystems play in regulating our climate and providing key services, such as the production of oxygen, and carbon sequestration. We identified five engagement themes for ocean sustainability: addressing the climate crisis, tackling pollution, transitioning to sustainable food systems, reversing the loss of biodiversity and protecting human rights.

CASE STUDY: St Mary Le Port – Bristol

Our Real Estate team has also integrated nature-related risk management throughout its investment decision-making and asset-management processes.

St Mary Le Port (SMLP) is a proposed redevelopment of 1.15 hectares site in Bristol City Centre. The redevelopment includes demolition of current derelict buildings, construction of three new buildings for office and retail uses, extensive public realm improvements, new internal street layout, tree planting, rich soft landscaping, rooftop terraces and biodiverse green roofs.

Figure 19. A view of Mary Le Port Street building

Source: Federated Hermes Limited.

The scheme is currently subject to a planning application and has carried out Natural Capital Assessment (NCA) to assess the impacts of the proposals on natural assets and its potential Environmental Net Gain (ENG).

Figure 20. SDGs targeted by SMLP redevelopment

Source: UN Sustainable Development Goals, Federated Hermes Limited.

We also delved deeper into the sustainable food systems theme through an EOS Insights series. This highlighted how the food system is currently a principal driver of biodiversity loss, even though biodiversity and ecosystem services underpin farming and food production.

Throughout 2021, we advocated for better public policy frameworks through our work with the Finance for Biodiversity Foundation and other collaborative initiatives.

Halting and reversing tropical deforestation will be essential if we are to avoid the consequences of severe climate change and biodiversity loss. Deforestation and forest degradation, mostly driven by beef, palm oil, soy and other agricultural commodity production, has continued despite the immense value of tropical rainforests. We are working as part of the PRI Sustainable Commodities Practitioners Group to explore how the finance sector can effectively address deforestation and within the Investors Policy Dialogue on Deforestation in Brazil to reverse this trend in the Amazon rainforest, engaging with relevant government authorities and associations to promote sustainable land use and to improve company disclosure and management of the various ESG risks associated with soy and cattle.

Deforestation and forest degradation, mostly driven by beef, palm oil, soy and other agricultural commodity production, has continued despite the immense value of tropical rainforests.

The vision for this redevelopment revolves around the SMLP Sustainability Charter[25] set at the inception of the project and the current and proposed legislations – both of which promote implementation of ENG working with various stakeholders and long-term stewardship of the natural environment to benefit wildlife and ensure its welfare benefits.

Natural capital is to be understood as acting in combination with human and produced capitals to ensure society's health, wealth and wellbeing. The NCA work for SMLP follows relevant guidance from the Natural Capital Committee (NCC) workbook which provides a five-step model to protect and improve local environment and natural capital and provide a sustainable flow of benefits. Based on this and given the urban context of the site the following four objectives were identified:

1. Ensure biodiversity net gain
2. Reduce the carbon footprint and improve air quality
3. Promote the circular economy and reduce waste
4. Enhance recreational, landscape and welfare value.

The proposed ENG on the development site will lead to long-term and sustainable gains in biodiversity in the area, by providing better, bigger and more habitats, which would enable better connections with other habitats. This would allow the maintenance of existing habitats, and the reproduction of new habitats in the wider area through pollination, wildlife population control and seed dispersal.

The scheme is expected to achieve a Biodiversity Net Gain score of 85%.[26] This is expected to support reduction in carbon emissions, potential decrease in air pollutants, welfare benefits to people through enhanced landscape encouraging physical and recreational activities that could improve physical as well as mental health and wellbeing. Providing habitats to protected birds and other species could encourage tourism in the area for wildlife watching and offer educational opportunities.

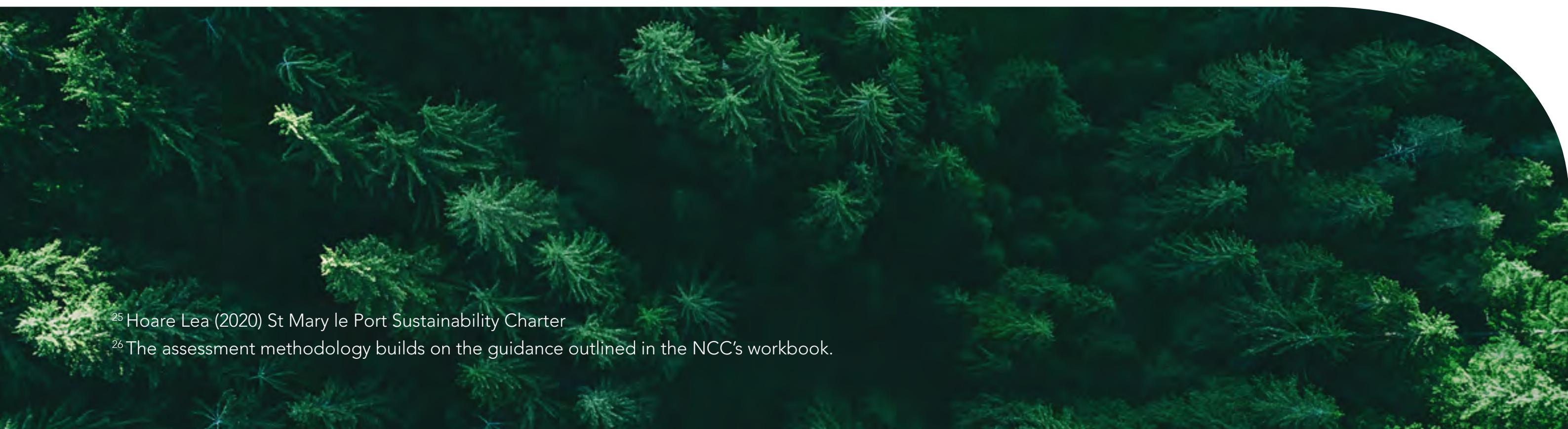
Engagement and integration

At COP26, we were an early responder to the UN High Level Champions' Call to Action, and alongside 30 other investors, representing $8.7tn, committed to strengthen efforts to tackle commodity-driven deforestation in investment portfolios. The commitment, which covers cattle products, palm oil, soy, and pulp and paper production, will be met primarily through due diligence, engagement and stewardship. This will mean stepping up engagement on deforestation and continuing to focus on this topic within our vote policy.

We also joined the Natural Capital Investment Alliance (NCIA), which was created by His Royal Highness The Prince of Wales under his Sustainable Markets Initiative and aims to accelerate the development of Natural Capital as a mainstream investment theme. We intend to contribute towards the goal of mobilising more than $10bn in aggregate by the end of 2022 and support the development of policy guidance to help better define and grow this market. Following on from this commitment, in Q2 we launched our Biodiversity Fund. The team at Federated Hermes Limited has extensively researched the major regional and global threats to biodiversity. They have defined six themes for the Fund: land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation. These discrete themes contain businesses which help mitigate the loss of, or provide solutions to, the specific biodiversity risks they bear. Each of these themes has multiple sub-verticals that are aligned to specific UN Sustainable Development Goals (SDGs).

We continue to engage with companies across a range of sectors on how they can reduce their contribution to the five drivers of biodiversity loss, including climate change, pollution, and land and sea use change. Engagement on biodiversity is growing and we are working in collaboration with others in the industry to strengthen and streamline approaches, including as co-chair of the Engagement Working Group within the Finance for Biodiversity Foundation. With a small group of investors, we are also working to establish a Nature Action 100 initiative, which would facilitate collaborative engagement with companies that have the greatest impact on biodiversity. In 2022, we intend to focus biodiversity-related engagement on halting and reversing biodiversity loss at companies that are involved in the production and retailing of food.

Our responsible asset and property management programme integrates minimum sustainability requirements for real estate refurbishments and developments. This includes a requirement that construction contractors comply with minimum requirements on pollution, sustainable materials, waste, energy, water and biodiversity.



[25] Hoare Lea (2020) St Mary le Port Sustainability Charter
[26] The assessment methodology builds on the guidance outlined in the NCC's workbook.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Ensuring our policies support effective stewardship

The latest versions of our policies are available on our Policies and Disclosures webpage. We regularly review our policies to ensure they remain effective. The process for doing so depends on the specific policy:

- Our Conflicts of Interest Policy is reviewed annually by our Risk and Compliance Committee, which reports into our Board. No material changes were made to this policy in 2021.
- Our Stewardship Conflicts of Interest Policy is reviewed annually by the Governance Committee to ensure it adequately reflects the types of conflicts that may arise. This means we can ensure that they are appropriately managed and, as far as possible, mitigated. In 2021, reference was added to a real or perceived conflict of interest that may arise where we engage with a company which is a tenant of our Real Estate division's property investment.
- Our Engagement Policy for Federated Hermes Limited is reviewed annually by our Governance Committee. This policy fulfils our requirements under the Shareholder Rights Directive II (SRDII) to have an engagement policy covering our public equity engagement approach. In 2021, we expanded the policy to cover all asset classes of Federated Hermes Limited (excluding HGPE). We also added further information on our overall engagement approach. As required under SRDII, we report annually against this Engagement Policy. We have incorporated our reporting against SRDII into this Stewardship Code report. More information is available in the Annex.

We regularly review our policies to ensure they remain effective.

- Our Engagement Plan is a key policy for public-markets engagement and covers the next three years. It is updated on an annual basis using a structured horizon scanning exercise which considers extensive feedback from our investment teams and EOS third-party clients, as well as an external scan of industry issues. This ensures that we consider fresh perspectives and continue to identify the key themes which cover our clients' priority areas, ensuring we carry out effective stewardship.
- EOS' Global Voting Guidelines act as a policy which inform EOS' voting recommendations to our investment teams as well as to EOS clients who request to receive voting recommendations. The Federated Hermes Limited Global Voting Policy and Guidelines, which are aligned with EOS' Global Voting Guidelines, inform the voting decisions made by our investment teams. Our Guidelines are informed by a hierarchy of external and internally developed global and regional best-practice guidelines. We have 22 EOS-developed regional corporate governance principles, available on our website, which set out our fundamental expectations of the companies our clients invest in. We also have nearly 50 country-level policies. The primary policy-development cycle for EOS voting guidelines is an annual process and runs in conjunction with the policy-review process at ISS,[27] which informs its benchmark research. EOS looks at feedback from clients, evolving best practice in each market, as well as the changes made at ISS in view of resolution-level data for past voting seasons, to consider what additional changes are warranted. Further input is provided by our Engagement Plan, which identifies thematic priorities for engagement. These can often be boosted by enhanced vigilance and potentially escalation through our voting recommendations. EOS completes its major policy changes before the main voting season in each market. Once changes are applied, the policy is monitored to ensure it is having the desired effect and is adjusted further where appropriate. Our Global Voting Policy and Guidelines are approved annually by the Governance Committee. The regional corporate governance principles are approved by the Engagement Management Committee and noted by the Governance Committee.

[27] ISS is a provider of corporate data, analytics and insight. Its services include proxy-voting services. The way we use ISS research is explained further under Principle 12.

- Our approach to controversial activities is reviewed at least annually by the Governance Committee. This policy applies across asset classes.
- Our Design Innovation Standards, which were issued in 2021, and our Responsible Property Management Refurbishment guide also help us embed sustainability principles into development, refurbishment and maintenance. This internal guidance is reviewed at least annually or if there is a relevant major legislation change. It is reviewed by our third-party delivery partners where appropriate.

Our approach to assurance

We have several internal and external processes in place to maintain high standards of stewardship.

Internal processes

The Risk and Compliance department, together with senior management, continues to augment and embed our firm's compliance framework, which includes:

- Managing any potential conflicts of interest.
- Improving the monitoring of regulatory and client-specific guidelines through the implementation of new systems.
- Ensuring that the risks associated with new products, instruments and markets/locations are adequately considered.
- Money laundering and 'Know Your Client' responsibilities.[28]
- Staff inductions and regulatory training.

Our Compliance team is represented on the Portfolio Review Committee (PRC) and Customer Outcomes Group (COG). More information is available under Principle 2.

Our internal audit function's primary role is to help the Board, its committees and executive management to protect the assets, reputation and sustainability of the organisation. The Internal Audit team is independent of the day-to-day operations and management of the company and is responsible for providing independent, objective assurance to management through a systematic and disciplined risk-based audit approach and assessment of the internal control framework across our firm. Internal audit reports are published at the conclusion of each audit. The individual reports highlight any control weaknesses noted, along with agreed remediation actions, owners and expected resolution dates. Updates on all reports and the status of open internal audit issues are provided to the Senior Management team (SMT) and the Federated Hermes Limited Audit Committee.

Responsibility matters and ESG integration remain key areas of continued audit focus. Specifically these were considered in the 2021 Audit Plan through reviews of the Responsibility Office activities, Change projects including the ESG and Sustainability tools development process, Sustainable Finance Disclosures Regulation (SFDR) Implementation, Investment Risk Oversight, Conduct Risk Management Framework, Culture and Behaviours, Real Estate Management and Development and Third-Party Risk Management and Remuneration.

Our internal audit function's primary role is to help the Board, its committees and executive management to protect the assets, reputation and sustainability of the organisation.

Bespoke 'responsibility accountabilities' have been defined for each business area within the organisation and, as appropriate, relevant goals will be part of each colleague's technical performance objectives. These 'accountabilities' set out what responsibility each business area has for supporting the delivery of our purpose. These responsibility accountabilities are reviewed every two years by the Responsibility Office with each business area and actions are identified where improvements can be made. The outcome of this review and key actions are reported to the SMT. Our next review will take place in 2022.

To maintain the quality of our public-markets engagements we have established a quality-assurance programme. Day-to-day operations and quality assurance are managed by the EOS leadership team, consisting of the Head of Responsibility, the Head of Stewardship, the Head of Client Service and Business Development, the Director of Business Management and the Regional Team Leads (North America, Europe and Asia and Emerging Markets).

In relation to engagement quality, there is an Engagement Management Committee which considers engagement quality, continuity and coverage in the interests of clients. There are also Director-led engagement clinics to confirm that engagement is focused on the right objectives and issues and review the proposed approach to engagement. In addition to engagement clinics, an annual review of objectives also takes place.

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

Our Real Estate ESG team has a comprehensive monitoring programme to measure, monitor and report on our ESG performance. The results are published annually in our Real Estate ESG report, available to the public. All data used in Real Estate ESG reporting are verified and assured by a third party in accordance with relevant industry standards.

[28] This includes checking and verifying clients' identities.

External assurance

Prime Advocates Limited, an independent external assurer, undertook a limited assurance engagement on the information disclosed as part of the sustainability reporting of Federated Hermes Limited (at the time, Hermes Fund Managers Limited) in the period from June 2020 to July 2021 (inclusive). The limited assurance engagement related only to our stewardship and ESG integration within our listed equities, credit, real estate and infrastructure investment portfolios.[29]

The selected subject matter for stewardship & ESG assurance was as follows:

- Federated Hermes Limited engagement and ESG integration policies and procedures.
- Federated Hermes Limited (including EOS) engagement policies and procedures regarding Federated Hermes Limited stewardship and ESG integration.
- Representations and assertions in Federated Hermes Limited reports and financial statements about ESG matters.
- Compliance with regulatory requirements and best practice standards.
- Federated Hermes Limited internal guidance documents and general control policies and procedures in connection with stewardship and ESG integration.
- Internal systems, controls and processes for ESG integration.
- ESG and engagement outputs.

Figure 21. Assurance Summary – stewardship and ESG integration

Overall: Meets/Exceeds ✔ ◆	Scope of conceptual stewardship & ESG application	Processes, procedures and implementation
Equity (listed)	✔/◆	◆
Credit (listed)	✔/◆	◆
Real Estate	◆	◆
Infrastructure	✔/◆	✔/◆

✖ Fail ✔ Meet ◆ Exceed

Source: Prime Advocates Limited

Conclusion: The assurer's report contained the following conclusion: 'Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that [Federated Hermes' Limited's stewardship and ESG integration] within its portfolio investment for Equity, Credit, Real Estate and Infrastructure has not been prepared, in all material respects, in accordance with the identified applicable appropriate criteria. We are satisfied, subject to our limited reasonable assurance, that [Federated Hermes Limited] **Exceeds** regulatory requirements and current best practice for [stewardship and ESG integration].'

The assurer also identified the following areas of attainment and areas for improvement:

Areas of attainment/ excellence:

- Federated Hermes Limited's holistic ESG data driven approach, pervasively applied across all investments and strategy types. [All]
- Expert internal senior ESG expertise of the Responsible Working Group/ Responsibility Office applied across all asset classes to varying degrees. [All]
- Leverage of the market leading EOS stewardship engagement service, adding information, active management, oversight controls and ESG issue engagement power. [All].
- Use of EOS engagement methodology for better engagement in Infrastructure. [Infrastructure]
- Federated Hermes Limited's legacy and leading industry position. Utilisation of Federated Hermes Limited's market leading Public Policy/ Advocacy teams allow Federated Hermes Limited to influence and innovate on ESG themes, progressing the market and assisting their portfolio's stewardship and ESG integration. [All]
- Federated Hermes Limited is out-performing best practice on management of ESG integration and the collection and disclosure of quantitative ESG data across its investments. [Real Estate]

[29] Our infrastructure investment portfolios are part of HGPE, which is outside the scope of this report.

Areas for improvement:

- Added quantitative ESG metric disclosure of Federated Hermes Limited's goals and actions relevant to portfolios (for increased accountability and optimisation) (e.g., Carbon / Scope 2 commitments or Net Zero positioning). [Equity/ Credit/ Real Estate/ Infrastructure]
- Alternative additional ESG data criteria tool. [Equity / Credit].
- Bespoke data capture questionnaires and frequent material ESG data points allowing for strategic Federated Hermes Limited's integration management and reporting. [Infrastructure]
- Detailed stage by stage Net Zero action plan roll-out and implementation. [Real Estate]

A more detailed report from the external assurance provider will be available in our integrated annual report.

The Real Estate ESG team completes Global Real Estate Sustainability Benchmark (GRESB) reporting to benchmark our real-estate assets against their peers. All data is managed and verified by a qualified third party and is submitted to the relevant certification scheme. This data output and analysis is fed back to the internal teams on a quarterly basis through update reports by property managers. We also have a checklist to ensure the appropriate sustainability due diligence is carried out on all ESG factors when acquiring new assets. In addition, we have developed internal Design Innovation Standards during 2021 with guidance for new developments. This sets out requirements for the site teams to follow to ensure the relevant ESG principles are embedded into the design, construction and operations of the asset. We explore additional industry benchmarking and certification to ensure a third-party verified certification is carried out for specific assets to implement sustainability initiatives and to engage with tenants. We provide more detail on the outcomes of such certification processes under Principle 9.

Fair, balanced and understandable stewardship reporting

As described above, we have internal and external assurance processes in place to ensure the quality of our stewardship. EOS also undertakes a competitor analysis review on a regular basis. In the introduction to this report, we set out the steps we have taken to ensure that our reporting is fair, balanced and understandable, including representing a range of outcomes in our reporting and describing lessons learned We have sought to proportionately represent the breakdown of asset classes and geographies in the examples and case studies that we use, and been clear about any differences in approach.

Relevant business areas have reviewed the content of this report relating to their business area, and the report has been approved by our Board.

Continuous improvements

We use these assurance processes and reviews and learnings from our investment and stewardship practices to continue to make improvements to our stewardship approach. This ensures we continue to provide best-practice services for our clients.

We intend to consider how to tackle the recommendations of our external assurance provider in relation to stewardship and ESG integration during 2022. As part of our commitment to the Net Zero Asset Managers Initiative we intend to publish interim targets later this year.

Changes in governance and oversight to the Engagement Management Committee (EMC): Following an external consultancy review in 2019, EOS made changes to the EMC to implement the recommendations. In addition to the regional representations included in the last review, we have recently added formal insight from the client team into the EMC to ensure well rounded discussions.

Diversity, equity and inclusion: We enlisted an external consultant to undertake a series of listening and coaching circles with leadership colleagues on ethnic diversity and inclusion. The resulting Insight Report was presented to all staff. Our Race Steering Committee is responsible for overseeing the implementation of the report's recommendations.

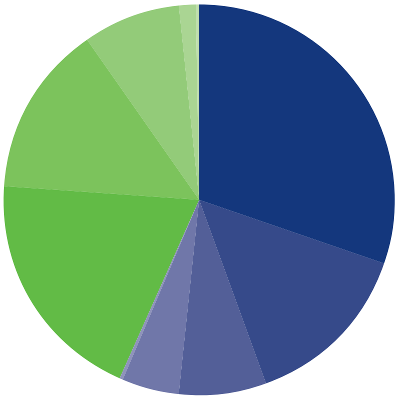
As described under Principle 2, we have made further changes in response to internal and external assurance, including adding additional oversight to monitor our progress against the commitments we make.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Our client base

Figure 22. The approximate breakdown of our client base:



	Sum of AUM %		Sum of AUM %
Institutional	**56.87**	**Wholesale**	**43.13**
United Kingdom & Ireland	30.42	Europe	19.45
Europe	14.07	United Kingdom & Ireland	14.14
North America	7.24	North America	8.02
Asia Pacific	4.74	Asia Pacific	1.49
MENA	0.40	MENA	0.02

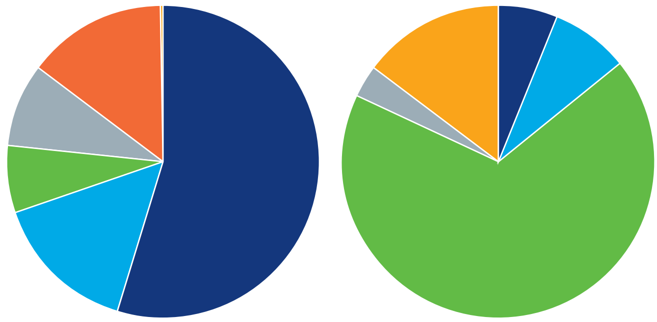
Grand Total 100.00%

This figure includes the AUM of HGPE. HGPE is outside the scope of this report.

Source: Federated Hermes Limited, as at 31 December 2021.

Our assets under management

Figure 23. The approximate breakdown of assets under management by asset class and geographies:



	% of AUM
Equity	54.91%
Fixed Income	15.06%
Infrastructure	6.70%
Private Equity	8.83%
Real Estate	14.48%
Multi Asset	0.02%
Grand Total	**100.00**

	% of AUM
Asia ex-Japan	6.30%
Europe ex-UK	7.90%
Global	68.02%
North America	3.20%
UK	14.58%
Grand Total	**100.00**

This figure includes the AUM of HGPE (infrastructure and private equity). Hermes GPE is outside the scope of this report.

Source: Federated Hermes Limited, as at 31 December 2021.

Our investment time horizons

Our approach is to seek opportunities to deliver long term sustainable wealth creation for investors. It is this understanding that informs our belief that we have a duty to consider the longer-term risks and opportunities when investing. This means carrying out extra work when analysing companies to understand externalities, governance practices, environmental impacts, treatment of workforces and the influence of operations on local communities. It also means using our influence to improve the behaviour of those companies in which we have invested, the operations of the assets that we directly manage and advocating for systematic improvements to the financial system in which we participate. Some engagement initiatives will take a number of years to come to fruition.

All of our strategies adopt a long-term investment horizon. While this will vary depending on the investment strategy and the markets within which they invest, a typical time horizon adopted by our investment teams is three to five years. This aligns us with our pension-fund clients who typically invest over the long term.

How we have sought and incorporated our clients' views

We seek client views through a number of fora to ensure we understand how we can continue to best meet their needs. We meet regularly with our clients to seek their views and feedback and have continued to do so virtually during periods of remote working in 2021. We held regular webinars for our clients across our strategies to apprise them of market trends, portfolio performance and attribution, as well as our outlook and resulting positioning. Furthermore, we held regular client conferences and seminars, including our ESG Academy and COP26 Fringe Festival (described later in this section).

The majority of our clients have an appointed client team to meet their needs, which consists of relationship managers, sales managers and client-services managers. Several of the teams also involve members of senior management or other parts of the business. These client teams are responsible for developing a deep understanding of their client, their needs, views and approach. The client teams are trained to listen to clients, support them and develop new ideas in tandem with them.

Through this approach, we have developed a number of commingled funds with existing clients. These funds are a testament to our ability to work closely with our clients, take their views and needs into account and launch strategies that are appealing to like-minded clients. During 2021, we added to our 'impact' product offering with the launch of the Federated Hermes Climate Change High Yield Credit Fund. The UCITS Fund, seeded by and designed in partnership with Swedish National Pension Fund AP1, aims to generate long-term, risk-adjusted outperformance by investing in attractive high-yield credit instruments and deliver positive impact that supports a low-carbon future. Our Credit team have a long-standing relationship with AP1 having been appointed in 2017 to manage one of its Global High Yield investment mandates. We have now strengthened our partnership to create a unique and critical product open to investors across the globe. Since its inception, the fund AUM have already doubled (as at February 2022).

We also consulted with clients on the design of the Federated Hermes Biodiversity Equity Fund, and how to bring it to market. We have now launched the fund with the support of some of those clients who are providing seed funding.

We set up the Federated Hermes Academy in 2021, an education hub developed by our experts for our clients and prospects seeking to understand responsible investing and how the integration of ESG and stewardship can help create long-term wealth sustainably. We ran five Continuing Professional Development (CPD) accredited seminars throughout the year as part of our Academy, which are also available on our website. There were a total of 1,483 registrations across all five modules, with 437 registrations for the inaugural module 'The Purpose of Investment: ESG Essentials'.

We also employ the services of third-party market-research agencies to help identify client demands and needs. This is conducted both for existing strategies and any new products.

As we set out under Principle 1, we use our Customer Outcomes Group (COG) to conduct post-implementation annual reviews on an ongoing basis. This is to confirm that all products continue to meet a customer need, perform in line with their stated objectives and have continued commercial viability. Client feedback may be obtained by a third-party market-research agency or directly through the sales and client teams, and this feedback will be considered as part of the review. For example, during 2021 we modified two of our funds to require them to achieve specific sustainability-related objectives and to exclude a broader range of controversial activities. These changes were initiated after a review was conducted by the COG identifying the opportunity to make changes to the funds to better meet our client's needs. The changes were formulated based on insight from existing clients and a review of the external competitor marketplace.

We continue to receive positive feedback from our clients on the service we provide, our thought leadership and the way in which we manage their assets. This is a strong indication that our clients feel that their views are being heard and that we are providing a service that meets their needs.

Finding the right fit

We offer a range of strategies across asset classes, each with their own investment style and stewardship approach, so that clients are able to invest in products that meet their needs. All of our products are high active share, integrate ESG considerations and engagement insights in investment decision making and deploy best practice stewardship. The stewardship approach will be informed and aligned to our firm-wide policy, as articulated in various policy documents (see Principle 5).

While each investment team is responsible for the investment and stewardship decisions within the strategies that they manage, we are in regular dialogue with our clients for their views and inputs on certain topics or issues. This ensures that the client is front and centre of every decision that we make.

Our investment offering is structured on three strategic pillars of Active ESG, Sustainable and Impact. Each product managed is mapped to the EU Sustainable Finance Disclosure Regulations (SFDR) classifications where applicable and aligned with one of these investment categories to outline the level of ESG integration adopted by that particular strategy and ensures complete transparency with our clients.

Our Active ESG products offer best-practice integration of ESG analysis and engagement insights, with the objective of delivering long-term outperformance.

Our Sustainable products offer thematic exposure to companies we consider to be leaders in offering environmental or social products and services or mitigating their environmental impact. These portfolios also have a clear set of exclusions to ensure that potentially harmful activities cannot be invested in and an additional objective to deliver a reduced environmental footprint vs. their benchmarks.

Our Impact products seek to deliver real-world measurable positive change either through investment in companies that provide products and services which help to solve the worlds environmental or social challenges or through companies that, with effective investor engagement, can make a greater material positive contribution to the world.

While these approaches differ and may appeal to different client types, each is underpinned by our best-practice integration of ESG analysis and engagement insights and the delivery of sustainable outcomes through effective stewardship.

The EOS Engagement Plan was developed to provide clients with a clear articulation of the approach to engagement being carried out acting as a statement of our stewardship priorities and objectives on our clients' behalf. Under Principle 9, we identify our 12 key themes and 37 related sub-themes for the next three years. We find this breadth of coverage is necessary to reflect the diversity of the issues affecting companies in our global engagement programme. The Engagement Plan is developed utilising the engagement team's specialist expertise and is informed by input from EOS' third-party clients and our investment teams. This ensures that the themes represent client priorities and those of their underlying beneficiaries. Through the EOS annual survey, we have seen that a consistent majority of clients say that engaging for impact and outcomes is a priority.

To ensure that we continue to manage our assets in line with the approach we market to prospects and agree with clients, our Compliance department monitors fund guidelines – including objectives and constraints – through thinkFolio, an order management and trading system. All active portfolios undergo pre- and post-trade compliance. Where possible, pre-trade portfolio parameters, counterparty limits and other guidelines are coded into thinkFolio before investment. A member of the Compliance department undertakes the guideline coding, while another member conducts a second review. The thinkFolio programme is coded to prevent any trade in a prohibited counterparty or jurisdiction taking place before execution.

The EOS Engagement Plan was developed to provide clients with a clear articulation of the approach to engagement being carried out acting as a statement of our stewardship priorities and objectives on our clients' behalf.

The Compliance team also runs a daily post-trade breach report in thinkFolio, which shows when investment guideline limits have been exceeded. This is irrespective of whether the breach has occurred as a result of market movements or a corporate action.

The Investment Office monitors adherence to internal risk guidelines and provides an early warning of potential breaches. If any internal risk guidelines are breached, the situation will immediately be flagged to the appropriate investment team and the portfolio manager will usually adjust their position. However, in cases where investment teams believe it is more appropriate to continue with an outlying position or challenge the internal risk guideline, the situation will be escalated for discussion at the Portfolio Review Committee (PRC) to agree a resolution.

Communicating with our clients

We are committed to being open and transparent. As noted earlier, the Federated Hermes Pledge underpins our firm-wide commitment to always put clients first and to act responsibly. Our publicly available integrated annual report reflects this approach and goes beyond the minimum disclosure expectations, with details and statistics on stewardship and ESG integration. We also report on our activities to ensure we are a responsible firm – such as our corporate citizenship activities and efforts to reduce our operational environmental footprint – and outline future targets.

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

We have published our annual Climate Related Financial Disclosures report, where we lay out our approach to identifying and managing climate-related risks and seizing opportunities as a business. These include how we are involved at the policy level in developing climate-related initiatives and how we ensure that everyone in the business factors the weight of the climate emergency into the work that they do.

We regularly publish detailed case studies that cover a range of asset classes, alongside thought pieces, blogs and podcasts on topical and emerging ESG issues. We also make publicly available a quarterly EOS engagement and voting recommendations report covering thematic ESG topics and EOS' annual report, which includes statistics, case studies and public-policy information.

In May 2021, we launched a new Sustainability Hub on our website that is available in English, French, German, Italian and Spanish. The site contains a plethora of timely and relevant sustainability content, which is also distributed via social media, native advertising, content placements and newsletters, in order to keep clients informed and help drive engagement.

Our Real Estate team publishes an annual ESG report, which publicly discloses environmental and social outcomes for our real estate funds. We have also published several reports to measure the social and economic outcomes of our real estate placemaking initiatives. Social value reporting has not been published in 2020 or 2021 as the measures put in place during the Covid-19 pandemic have prevented us from measuring the impact in this area.

ESG analysis and engagement insights are integrated into all of our investment decisions across each of our strategies. We are continuously improving our reporting on ESG so that our clients can fully understand our approach to responsible investment and plan to roll out further enhancements on ESG reporting as tools and technologies evolve. For our equity funds, we aim to provide clients with carbon performance and high-level engagement and voting information relevant to the portfolio on at least a quarterly basis. In the future we intend to roll out equivalent reporting on carbon performance and engagement to our public fixed income reporting. We also report on our water and waste performance for three of our equity strategies with an objective to outperform the benchmark on these factors. We provide detailed quarterly and half-year reporting on both ESG and engagement information to the clients of our SDG Engagement and Impact funds.

Typically, we offer clients annual meetings where the client director and portfolio manager review the portfolio and provide insight into ESG activities undertaken. However, we aim to meet the needs of each client and can be available to meet at more frequent intervals or via conference calls as required. We hold regular webinars for our clients across our strategies to apprise them of market trends, portfolio performance and attribution, as well as our outlook and resulting positioning. Furthermore, we held regular client conferences and seminars including our ESG Academy and COP26 Fringe Festival.

As a pioneer in responsible investing, Federated Hermes was an active participant at COP26 in November 2021. In the lead up to the event, we launched a Climate Change microsite containing a range of content from our experts, including articles, thought-pieces and interviews. Moreover, Federated Hermes hosted a two-day event called the Further, Faster conference, which addressed the three interlinked emergencies of Climate, Nature and Social Injustice. Further, Faster was hosted by our CEO, Saker Nusseibeh, and brought together world-leading experts in these fields to set 'How much? By when?' objectives to deal with these emergencies and to put a cost on them. The conference was concluded with a Financial Industry session that proposed solutions for how these objectives could be funded and how the industry might need to transform itself to be fit for this essential purpose. Our event was attended by approximately 150 clients and members of the media and was streamed live over the two days with recordings also available on the Climate Change microsite.

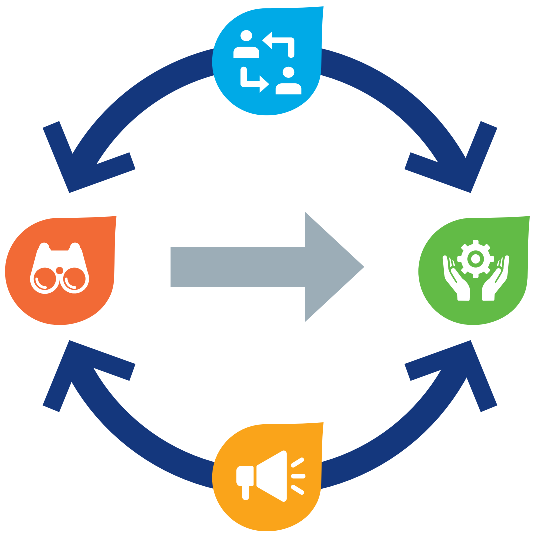
We are continuously improving our reporting on ESG so that our clients can fully understand our approach to responsible investment and plan to roll out further enhancements on ESG reporting as tools and technologies evolve.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

At Federated Hermes Limited, we believe there are two mutually reinforcing strands of responsible investment management: responsible investment and responsible ownership. Within these strands, we aim to generate sustainable wealth creation for the end beneficiary – the investor – by delivering superior investment returns and positive social and environmental impacts.

Figure 24. Creating wealth sustainably



Source: Federated Hermes Limited, as at 30 April 2022.

We do not see the integration of ESG and engagement insights within investment decisions as a separate category of investing. Instead, we believe that ESG risks and opportunities should inform all investment decisions. That is why we integrate ESG considerations and engagement insights into our investment processes in all of our products, across all asset classes. As our research has demonstrated, investors do not need to sacrifice returns to invest responsibly. On the contrary, our research shows that companies with good governance and social performance indicators tend to outperform others over the medium and long term.[30] In the credit space, our research on ESG risk in CDS spreads and sovereign credit further evidence the importance of ESG in investment decisions.[31]

For this reason, we aim to ensure that investors' capital is deployed to create wealth sustainably, delivering sustainable long-term growth and helping to build a better society and planet for all – dual perspectives that we believe should not be separated, but considered as one.

Our mutually reinforcing responsible ownership work covers asset engagement, or the process of actively engaging with companies to request that they align their behaviours with the long-term interests of clients and their beneficiaries by improving the strategic, financial and ESG-related performance of companies and assets. It also includes advocacy, where we engage with public policymakers, regulators and industry bodies to enhance industry norms,

[30] "ESG investing: a social uprising," published by Federated Hermes in October 2018

[31] Pricing ESG risk in credit markets: reinforcing our conviction | Federated Hermes (International) (hermes-investment.com); Pricing ESG risk in sovereign credit: an emerging divergence | Federated Hermes (International) (hermes-investment.com)

and market rules and regulatory requirements in relation to corporate governance, stewardship and environmental and social policy globally and regionally.

Prioritising issues for assessment of investments

Taking an active approach is a central part of our investment proposition. As a result, our portfolio managers are able to take a selective approach by only investing in companies with the necessary characteristics, in the team's opinion, to be sustainably successful over the long term. This approach stems from our values and investment beliefs, which we described earlier under Principle 1. We consider all material investment factors, including those relating to material ESG issues.

While the most pressing material risks are those that will crystallise in the short term, we are long-term investors that strive to deliver sustainable wealth creation for our end investors. This means that our definition of materiality is necessarily wider. We believe that a wider range of risks will ultimately become material over a longer timeframe and that we need to engage proactively to mitigate them.

The key medium- to long-term risks – many of which may also present threats over shorter timescales – that we factor into our investment analysis and engagements include climate change, natural resource scarcity, pollution, human rights, human capital and labour rights, conduct, culture and ethics, corporate governance and strategy, risk and communications. More detail about how we engage on these issues and the outcomes we seek is available under Principle 9.

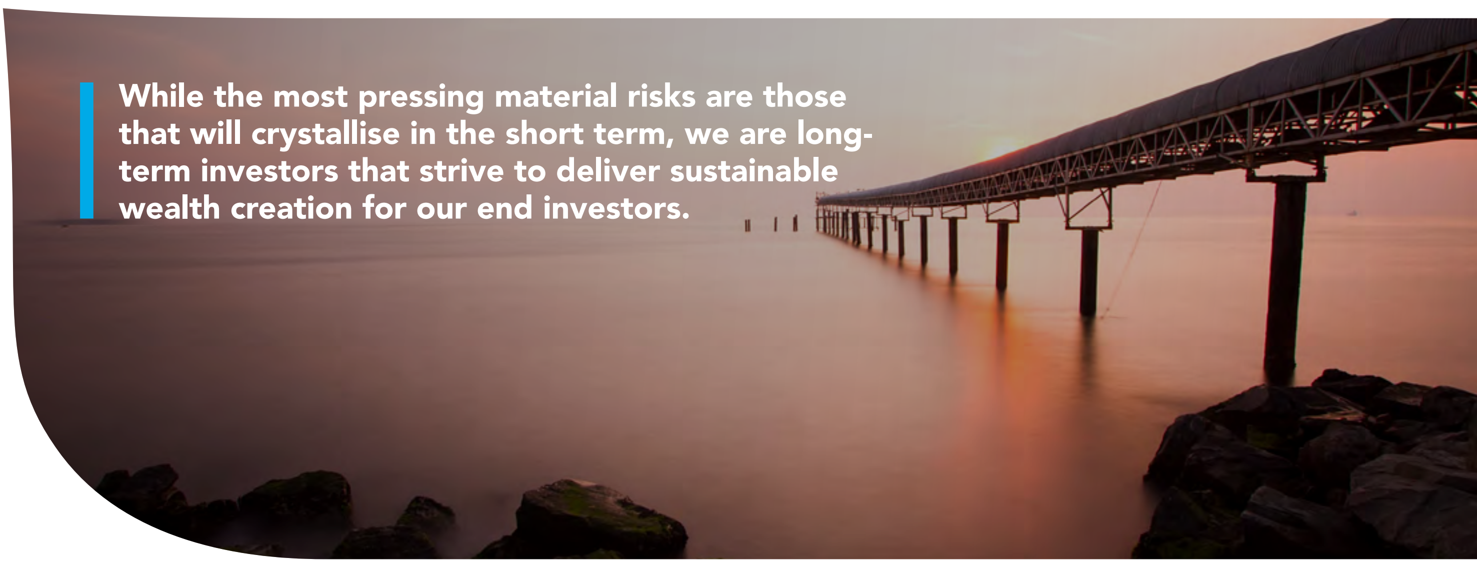
ESG issues will rarely be the sole or standalone driver behind any investment decision. Instead, material ESG factors are integrated into fundamental analysis and inform the teams' investment decision making. The presence of ESG risk does not necessarily preclude investment, but rather helps investment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

ESG issues are prioritised at the sector level and we look at material areas of concern for each of the sectors and industries, with an overlay of material ESG issues by region. This is done by using, among others, the SASB Materiality Map, as well as insights from EOS. Relevant ESG issues – whether macroeconomic risks, thematic focus of the investment strategy or those specific to that company – are then considered on a company-by-company basis, with implications for both inclusion and weighting in an investment portfolio, as well as engagement.

The ESG Integration team within the Responsibility Office also works very closely with the investment teams to help identify material ESG issues that are specific to the investment manager's strategy. The ESG Integration team organises sector-level knowledge-share sessions between EOS and the investment teams and also works with the investment teams to develop frameworks which assess the materiality of ESG risks at the company level. Finally, the ESG Integration team obtains data from third-party providers, which is overlaid in our proprietary tools by insights gleaned from our engagement with the company, and is also used by analysts and engagers in their company research and portfolio analysis.

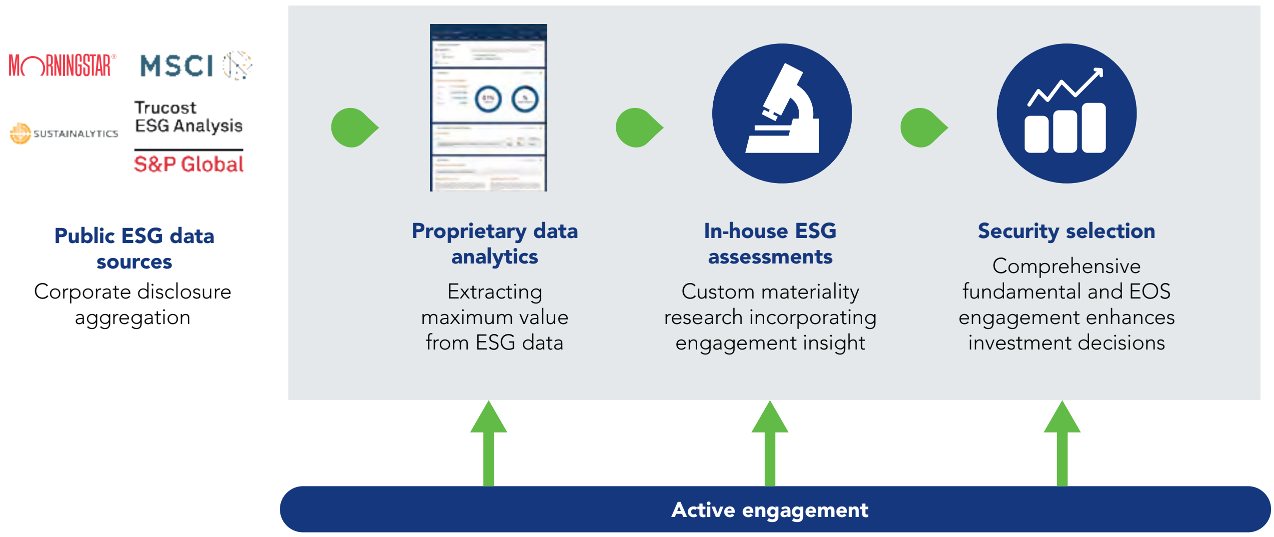
We encourage our fund managers to use their own expert judgement when considering ESG issues, just as they would with other fundamental investment factors – for example, the strength of a company's structural competitive position or the quality and depth of management.

Climate change was a key priority across our investment teams in 2021, demonstrated by the work of our Climate Change and Biodiversity Working Group. In particular, we launched our environmental tool, which looks to assess a portfolio and companies on its water, waste and carbon performance alongside metrics such as temperature alignment and exposures to sectors that are carbon intensive. We are also in the process of developing a climate tool that will look at transition and physical risk to feed into our investment process. Biodiversity and nature issues are also increasingly rising up the agenda, as demonstrated by their prominence at COP26. More detailed explanations of our work on climate-change risk and opportunities, biodiversity and social issues are available under Principle 4.



How we integrate stewardship and investment across our products

Figure 25. ESG and engagement integration: leveraging market leading engagement capability to enhance investment performance



Source: Federated Hermes Limited, as at 30 April 2022.

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

Developing a holistic view: Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, risk and material ESG factors (including from a range of proprietary ESG and engagement tools), and the overlaps between these elements. Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress – is a key input into this process and investment strategy. Such engagement is carried out both by our investment teams and by EOS on their behalf. These factors influence decisions to invest and are also actively monitored after investment, with the potential to influence decisions to increase/decrease our exposure to the asset as well as sell an asset. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and seek to reduce the risk.

Stewardship integration: Our experience suggests that a systematic engagement approach, combined with tried and tested methods of escalation such as collaboration or shareholder meeting interventions, is needed to accelerate change at companies, such as those failing to prepare for the low-carbon transition. Driving change through engagement is one side of the coin – effective integration of stewardship insights is the other.

The principal objective of stewardship is to maintain or enhance the value of an asset. The beneficial outcomes sought through engagement include those of a governance, strategic, environmental or social nature. Examples of these outcomes are provided later in this report under Principle 9.

In addition, engagements can deliver useful investment insights (although engagers and analysts must always seek to avoid acquiring any inside information). The investment teams assess and continue to monitor strategy, financials, risk, material ESG factors and the overlaps between these elements throughout the life of the holding. The monitoring of strategy, financial and non-financial performance and risk and capital structure is done through carrying out a financial analysis of company reports, attending analyst meetings and investor presentations, using media sources and third-party research and attending engagement meetings. Each investment team is responsible for looking at the financial performance, risk and capital structure of investee companies. As described earlier, all teams also have access to ESG data and proprietary tools, including engagement information. When there is a concern, this will inform engagement and investment decisions.

Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, risk and material ESG factors (including from a range of proprietary ESG and engagement tools), and the overlaps between these elements.

ESG factors and engagement insights can be a component of a screen, a source of ideas, an input into fundamental analysis or an adjustment to valuation drivers and/or a portfolio construction factor.

The information we gather through stewardship enables us to develop a more comprehensive view of both the risk and opportunities a company is exposed to and to factor this into valuations and investment decisions. Such assessments are not a one-off but rather form an ongoing feedback loop. Monitoring this information informs our engagements, while engagement insights inform our investment decisions. Our fundamental research benefits from our ongoing dialogue with investees, as well as that between our public-markets investment teams and stewardship arm. We invest time and resources to encourage companies to strengthen their governance, give our views on strategy and encourage companies to take a long-term view, particularly on sustainability issues. The insights we glean from these interactions help us to better understand a company's complex strategic challenges – something that ultimately helps us serve our clients. Research shows that changes in ESG and effective engagement on ESG issues can deliver excess returns.[32] This approach supports our aim to generate sustainable wealth creation for the end beneficiary investor, encompassing both investment returns and their social and environmental impact.

We also consider the environment that an asset is operating in when assessing risks, including ESG risks. For example, because emerging markets are not as transparent as developed markets, the risks are higher. As a result, our Global Emerging Markets team recognises that investors need to be more prudent and seek a margin of safety – something that can be secured by integrating ESG factors. Similarly, for our Asia ex-Japan fund, assessments of corporate governance factors are particularly important when considering potential investments in countries such as China and South Korea. The team has a varied and lengthy list of warning signs that they consider and seek to visit and/or speak directly to management prior to investing in a stock.

Given the integrated approach of all of our investment teams, information gathered through stewardship directly informs our investment decisions (alongside other factors such as more traditional financial analysis).

The nature of engagement, as described here and in Principle 9, varies between asset classes. Engagement is also influenced by sector and geography and each investment team tailors its own ESG and engagement integration approach to suit their investment philosophy (see Principle 6 for a breakdown of our asset classes). ESG factors and engagement insights can be a component of a screen, a source of ideas, an input into fundamental analysis or an adjustment to valuation drivers and/or a portfolio construction factor. But common across all of our funds is a set of shared investment beliefs, as set out in Principle 1, which influences every aspect of the investment process. ESG factors and engagement insights are integrated into investment decision making, whether it is deciding to avoid, buy, hold or exit a position.

We are currently working on an approach to assess counterparties' ESG and sustainability performance, which will be integrated into our current counterparty preview and approval process.

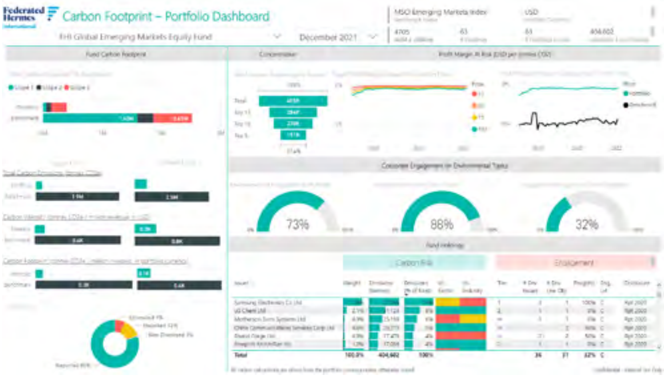
Public markets

For public markets, our firm's proprietary ESG tools are of particular note:

- Our **ESG Dashboard** includes our proprietary Quantitative ESG (QESG) Score and identifies stocks with positive ESG characteristics and/or stocks demonstrating positive ESG change. The QESG score captures how a company manages its ESG risks.
- Our **Carbon Tool** (see Principle 4) enables fund managers and engagers to identify carbon risks in portfolios and companies that currently exist or may develop in the future. Importantly, the tool incorporates our stewardship activity and intelligence and is able to identify companies that are priorities for engagement and their progress against environmental objectives.
- The **Portfolio Snapshot** allows us to observe the aggregate ESG risks across our portfolios relative to their benchmarks. It also examines ESG ratings and controversies and identifies contingent risks. Our portfolio managers use this tool to evaluate a strategy's ESG performance over time. It also provides insights into engagement and the progress made, and our voting choices relative to the benchmark.
- Our **Corporate Governance Tool** provides a breakdown of corporate governance characteristics, such as information on board independence, diversity and audit tenure. This tool compares the governance of companies to the expectations we have set and flags any companies that do not meet the expected standard.
- Our **Environmental Tool** assesses both portfolios and companies on their carbon, water and waste performance. It also looks to quantify the environmental cost of the impact via the following six lenses; carbon, water, waste, air pollutants, land/water pollutants and natural resource use. In addition, we have incorporated the temperature alignment of portfolios and companies alongside exposures to carbon intensive sectors, namely: fossil fuels, mining and thermal coal.

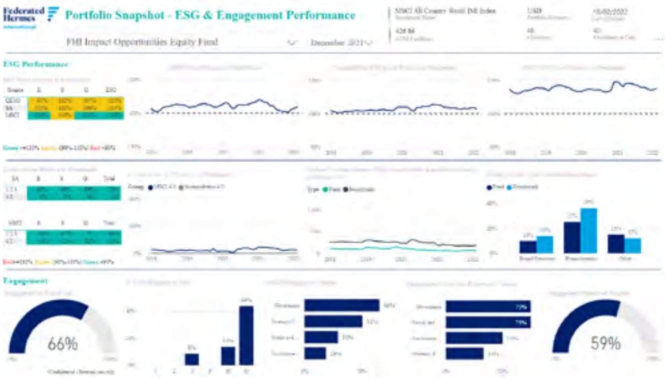
[32] https://www.hermes-investment.com/uki/insight/equities/esg-investing-a-social-uprising/; Hoepner, A.G.F., Oikonomou, I., Sautner, Z., Starks, L.T., and X.Y. Zhou. (2020). ESG Shareholder Engagement and Downside Risk. ECGI Finance Working Paper 671/2020.

Figure 26. Carbon footprint – portfolio dashboard



Source: Federated Hermes Limited, as at 28 February 2022. For illustrative purposes only.

Figure 27. Portfolio Snapshot – ESG and engagement performance

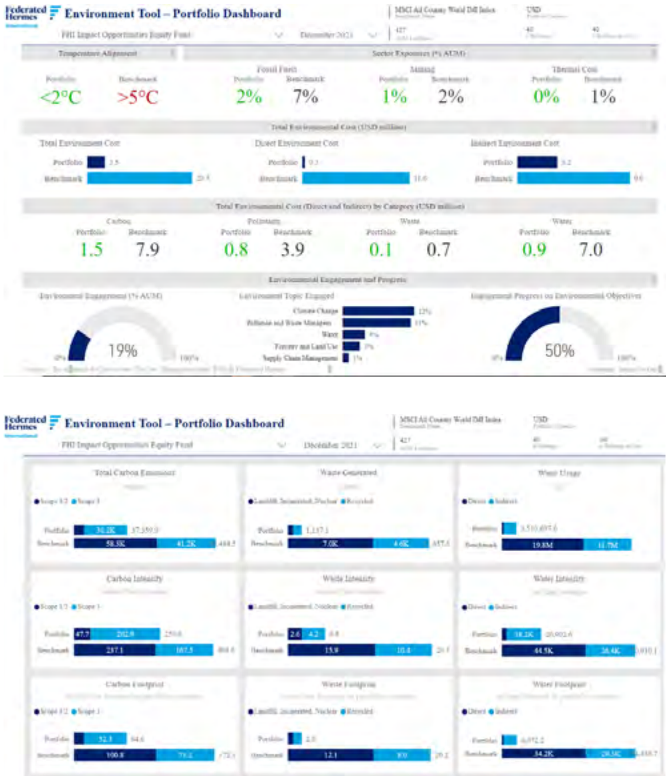


Source: Federated Hermes LImited, as at 28 February 2022. For illustrative purposes only.

Figure 28. Corporate governance – company dashboard

Source: Federated Hermes Limited, as at 28 February 2022. For illustrative purposes only.

Figure 29. Environmental Tool – Portfolio dashboards



Source: Federated Hermes Limited, as at 28 February 2022. For illustrative purposes only.

Through these tools, along with additional EOS engagement information, the public-equities and fixed-income teams have access to third-party ESG data, as well as insights on engagement carried out by EOS with investee companies and the broader investable universe. These sources are a valuable input to the investment process, as well as to the ongoing monitoring of and engagement with companies.

We believe that ESG-aware investors should not rely on ESG data alone. The information provided by companies may not be comparable with peers. In addition, it is often backward looking, updated infrequently and with a time lag. As such, engagement activities and voting information can be used by our teams to provide a forward-looking view of ESG characteristics and the broader performance of a company. As well as accessing EOS' engagement portal – which includes the engagement history and progress against live objectives – portfolio managers can, and are encouraged to, attend engagement meetings with the engagers. The benefit of these joint meetings is substantial and results in more robust engagement that focuses on the relevant and material ESG risks and opportunities. Our investment teams also regularly discuss salient ESG issues with company management directly.

Our investment teams regularly interact with the relevant sector or regional lead within EOS to better understand the ESG issues within their investment universe, and also discuss specific companies with the relevant engager. Such interactions can help the portfolio manager discern whether a particular ESG issue is material or not, something which cannot always be gleaned from raw ESG research data. Therefore, we believe that to implement a credible and successful ESG integration approach it is of utmost importance that engagement information is part of the ESG information universe.

Because our EOS engagement team engages globally with both our internal holdings[33] and the holdings of EOS' third-party clients, its coverage extends beyond our own holdings. This coverage allows our analysts to benefit from these engagement insights when looking at prospects, as well as in relation to ex-post monitoring.

While there are principles that govern our ESG and stewardship integration across our investment teams, we believe in developing processes that are relevant to the investment strategy. Therefore, the method of this integration can vary by investment team. Below is an outline of our public credit team's approach.

Public Credit

The public credit team believe there is a direct link between ESG risk and credit risk, and see no separation between ESG-integrated investing and more traditional investing based purely on financial metrics. Their approach not only relies on inputs from various external data providers, but also builds on the extensive experience of our EOS engagement platform and the bottom-up work of individual analysts. The methodology aims to capture the positive movement in a company's ESG characteristics and not rest on annual data inputs. The insight gained from engaging with companies is an important ongoing additional input into the fund managers' investment considerations as a strong focus is placed on driving positive change within investee companies. The team believe that there is an opportunity to add alpha by investing in companies that may score poorly in ESG characteristics as measured by the traditional data providers, but show an earnest desire to improve those ESG behaviours. This can be achieved by investing and engaging with the company prior to its ESG risk reduction being priced into market consensus.

The team's holistic approach to ESG integration considers ESG factors within all stages of the investment process, from initial universe screening through to stewardship and advocacy. The process begins when screening global credit markets to create the core investible universe (the universe from which portfolio managers can select securities). They are able to 'screen in' securities on which we have high conviction from a sustainability perspective (as indicated by their proprietary sustainability scores) but which are not already captured by other criteria. This means they are able to include securities that would not necessarily screen highly if considered from the purely financial angle of the investment process. In addition to this, the team operates a minimum ESG threshold for investment. Using the proprietary and forward-looking ESG scoring system (detailed below), the lowest scoring issuers from an ESG perspective are excluded from portfolios.

For investment solutions governed by a sustainable investment objective alongside a financial investment objective, the engagers take the lead in the development and maintenance of sustainable investment processes and proprietary sustainability scores. For the purposes of these solutions, the sustainability scores act as a further lens to review and screen the investible universe to ensure the portfolio is constructed in a way that feeds into the sustainable objective of the strategy.

> **The team's holistic approach to ESG integration considers ESG factors within all stages of the investment process, from initial universe screening through to stewardship and advocacy.**

[33] Throughout this report, references to Federated Hermes Limited holdings relate to the holdings that we manage on behalf of clients.

The team's suite of proprietary ESG and sustainability scores

- ESG score (from one to five) – assesses the potential forward-looking impact of non-fundamental factors on a company's enterprise value. The scores are assigned by credit analysts as part of their bottom-up assessment of each issuer, alongside more traditional financial scores of credit and value. Within their assessment, the analysts will consider the Federated Hermes Limited QESG score, as well as the sustainability scores assigned by the engagers, which are considered in the ESG score for each issuer.
- Sustainable Development Goals (SDG) Score (from one to five) – determines the ex-ante potential for a company to effect positive change on society and environment. SDG scores assess a company's willingness and ability to manage its operating process and/or the products it produces in a purposeful way for the benefit of society and/or the environment.
- Climate Change Impact (CCI) Score (from one to five) – assesses the climate change credentials of a company along two dimensions: 1) how credible is the company's process and progress in decarbonisation compared to its own goals — if any — and compared to its sector peers (i.e. scope and ambition of decarbonisation plans; near-term and mid-term goals innovation; capital expenditure; reporting) and 2) the impact of decarbonisation on the company and on the wider economy (i.e. materiality; time frame; avoided emissions; value change contribution).
- Sustainable Leaders (SL) Scores (from one to five) – a sector-weighted, ordinal assessment of the sustainability leadership of companies, derived from the sector-weighted average combination of our proprietary scores overlaid by views from credit analysts and engagers.

The credit research analysts and engagers discuss the ESG and sustainability scores in detail at the credit committee when evaluating credit selection. Engagers work closely with the credit research analysts throughout the process and take ownership of evaluating each issuer for the sustainability scores.

If a company advances through the initial screening, then it is included in the investment universe. These scores are reviewed on a regular basis to ensure any updates are taken into consideration.

Once in the universe, the credit research analysts will assess various factors to understand how much the company's behaviours jeopardise or enhance its enterprise value. The criteria do not differ across jurisdictions or sectors; however, the team recognises that certain sectors are more vulnerable to ESG behaviours which can lead to sudden degradation in firm value. To that end – while the team looks at the relative standing of a company within its sector for each of the three components of ESG – for each sector they might emphasise one ESG factor more than others. The main criterion for the governance category is the earnestness with which a company seeks to improve all of its behaviours and their responsiveness to the team's engagement. The analyst assesses management's desire and ability to build a sustainable business that will support and perpetuate firm value.

Once issuers have gone through our screening and bottom-up research process, they are available for selection by portfolio managers across our range of credit funds. Our suite of ESG and sustainability scores have a direct effect on the sizing and selection of securities, depending on the fund's objective.

The credit research analysts and engagers discuss the ESG and sustainability scores in detail at the credit committee when evaluating credit selection.

The team's approach to stewardship

The team pursue engagements with companies that either have weaker ESG scores but reflect good relative value, or score well but in which we have a sizeable position and demonstrate a willingness to engage. Generally, engagements are carried out in collaboration with our in-house engagement team, EOS, and the EOS analyst will lead the engagement relationship. The Credit team, however, also benefits from having a dedicated engagement team, who are responsible for developing engagement strategies and work with their investee companies. Wherever possible, the relevant credit analyst will attend joint engagement meetings. In both instances, credit analysts will sit with EOS analysts before and after meetings to share knowledge, perspectives and ideas.

For sustainable and impact portfolios, which include a sustainable investment objective alongside a financial investment objective, the dedicated engagement team will play a greater role in setting the engagement strategy and objectives, along with the requirements of the mandate. For example, within our SDG Engagement High Yield strategy, the team owns the engagement programme, which seeks to generate social and environment impact in line with the UN SDG framework.

For sustainable and impact portfolios, which include a sustainable investment objective alongside a financial investment objective, the dedicated engagement team will play a greater role in setting the engagement strategy and objectives, along with the requirements of the mandate.

CASE STUDY

Levi Strauss & Co (Levi's)

Founded in 1853, Levi Strauss & Co (Levi's) created the first pair of jeans and has since grown into an internationally renowned brand that engages in the design, marketing and sale of apparel products. Its product offering has since diversified beyond jeans to include a full range of apparel and accessories for men, women and children under the Levi's®, Dockers®, Signature by Levi Strauss & Co.™ and Denizen® brands. The company operates across 110 countries and employs 14,800 workers across these markets, 45% of which are in the Americas. Levi's is held in the Federated Hermes SDG Engagement High Yield Credit Strategy.

As one of the largest branded apparel companies, Levi's benefits from its diversified geographic exposure. It has strong branding and diversification across multiple retail channels, including growing direct-to-consumer exposure. However, the business is constrained from a brand and product perspective – Levi's is predominantly known for its flagship product, men's jeans. The recent acquisition of Beyond Yoga broadens the company's product mix, focusing on athletic and lifestyle apparel, and is accretive to operating margins.

We have been engaging with the company on the following:

- Gender and ethnic diversity – In June, 2020, the Levi's CEO directly addressed the company's diversity problems, including a lack of diversity in leadership and management positions relative to the retail workforce, revealing an uncomfortable truth on how inclusion has been managed historically at the company. We followed this announcement by engaging with the company to discuss strategies it could implement to address the challenges ahead. This led us to set an objective for Levi's to develop a long-term gender and racial diversity strategy with targets to measure progress. A new chief diversity officer has since been hired to lead the strategy, followed by the commissioning of annual gender and racial equity pay reports. We intend to assess this new strategy, with the expectation that the company will show meaningful changes to diversity and inclusion by 2023, with disclosure on how executives have been incentivised to drive targeted progress.
- Circular economy – Levi's has pioneered several circular innovations, including textile dye re-use, certified second-hand apparel sales in corporate locations, and some initial pilots on recycled materials for use in apparel. Through engagement, we learned that the company actively manages its supply chain, confirming supplier compliance twice in 2020 and banning the network from using cotton sourced from the Xinjiang, Uzbek and Turkmen regions. Levi's, however, does not yet have a concerted strategy with goals and end-dates for deeper innovation which brings circular production to greater scale within its production and retail value chains. While its current strategy is ambitious, we believe measurable outcomes are needed to demonstrate how this is turning from ideas into scaled, commercial success. We are engaging on our objective for the development of a circular economy strategy with targets, and we raised the issue during 2021 engagement. Levi's has indicated that circular economy targets should be part of a new long-term sustainability strategy it is developing to be 'circular-ready'.
- ESG Disclosure – Levi's already discloses information on issues including carbon emissions across its value chain, water management in water-stressed regions, chemicals safety, sustainable product design and innovation, health and safety, and human capital management. Data on these practices is provided but monitoring progress and comparing results against peers is difficult. Levi's needs to evolve to comparable, annual sustainability reporting that summarises all sustainability practices, provides comparable year-over-year quantitative data on performance, and complies with current and future ESG disclosure frameworks. We raised this in 2020, and set an objective for the company to align with best-practice sustainability disclosure standards. The company acknowledged the need for a 'top-down' view of sustainability progress and has since provided a report that discloses information in line with major frameworks (including Sustainability Accounting Standards Board, Global Reporting Initiative and Task Force on Climate-related Financial Disclosures). We intend to provide feedback on this evolution, as well as what we think are necessary next steps, in 2022 engagement.

Given the progress the investee company had made and their receptiveness to engagement, we have remained an investor and increased our exposure to this name.

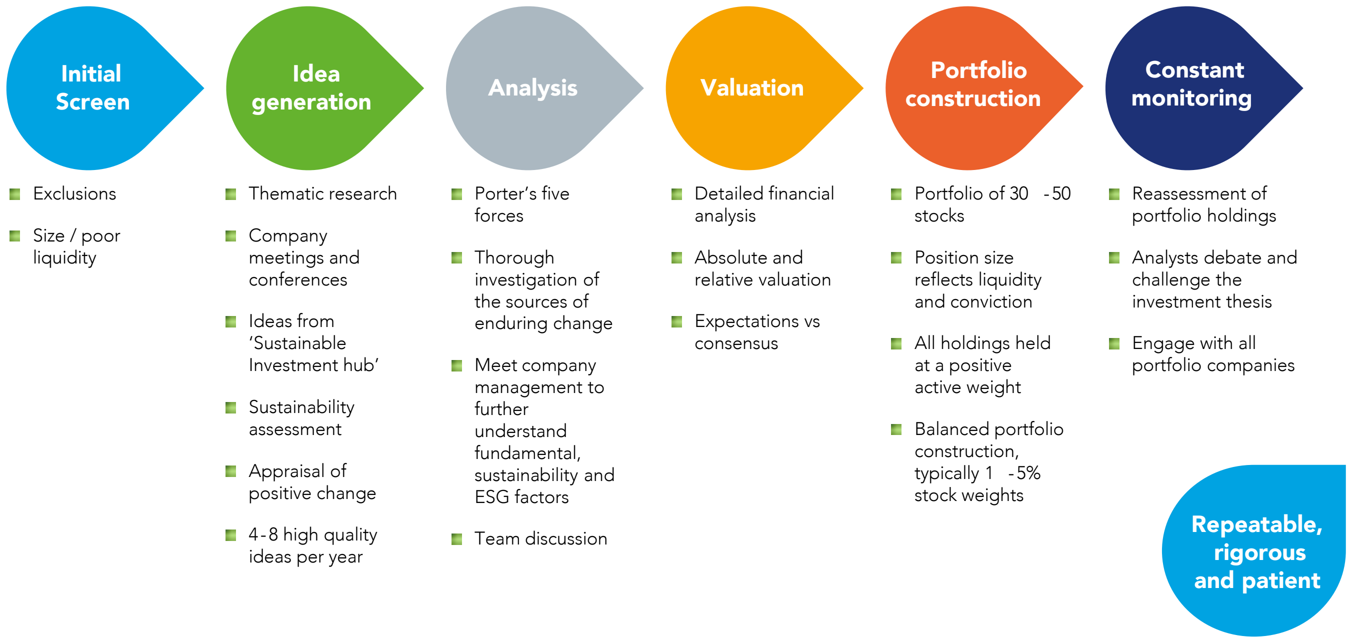
Further examples of how some of our investment teams integrate ESG and stewardship in their investment decision-making processes are below:

European Equities

The team's approach to ESG integration goes hand-in-hand with their investment process. As long-term investors, the team is interested in the sustainability of a company's business model and its future strategy. Understanding their strategy and management's track record (including consideration of their incentives) also gives the team a good sense of the management team's quality.

The team takes a bottom-up approach to investing, with stock selection the key driver to returns and the dominant source of relative portfolio risk. Evaluation of a company's sustainability credentials and assessment of how it manages its ESG risks is a crucial part of the idea generation process. Both quantitative and qualitative techniques are used in the assessment and the team use a range of proprietary tools, such as the ESG Dashboard, QESG score, Portfolio Snapshot, Carbon Tool, Corporate Governance Tool and Environmental Tool, alongside EOS engagement insights. This is combined with external research and data from MSCI, Sustainalytics, Trucost, CDP, ISS, FactSet and Bloomberg.

Figure 30: European Equities Investment Process



Source: Federated Hermes Limited, as at 30 April 2022.

Global Equities

Assessment of the ESG characteristics of a company is a vital part of the team's investment approach and the team uses ESG research in both proprietary models and in discussion with EOS.

The team have built a bespoke quantitative assessment of the most important ESG issues, the QESG Score, which evaluates a company's ESG characteristics and identifies positive ESG change. The team believes that companies less exposed to ESG risks than peers will outperform over the long term. Further, it believes that companies that are improving their ESG profile through positive change can unlock shareholder value.

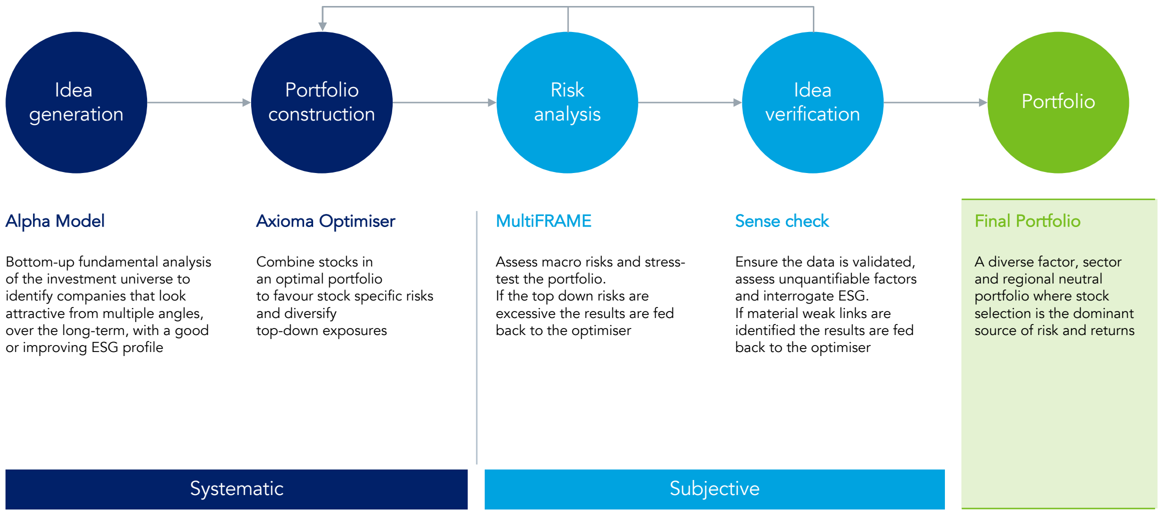
The QESG Score is designed to capture a company's behaviour on various ESG issues, as well as observed change in its ESG behaviour. The score combines data from EOS, Sustainalytics, MSCI, CDP, ISS, Trucost, FactSet and Bloomberg and is weighted 50% governance factors, 25% environmental factors and 25% social factors. The score is shown in the ESG Dashboard. The weightings used are based on the expertise of the EOS team. Following research into the growing impact of ESG factors, the team found a meaningful correlation between governance and stock performance.

The QESG Score is a valuable component of the ESG Dashboard, which is used in the subjective part of the process and provides a concise digest of the ever-increasing amount of data on ESG risks. As such, all of the team's investments are analysed from an ESG perspective.

The expertise of EOS has also helped define the key performance indicators or risk factors on which each company is measured. These are either generic, such as board structure, or sector specific, focusing on the major risks by industry – such as CO2 emissions and fleet consumption for the automobiles industry, paper sourcing for media and energy efficiency for airlines. The team uses it to identify ESG risks within companies and determine the materiality of these risks. Any change in the level of ESG risk and progress on current engagements are key factors that could influence an investment decision.

The ESG integration approach adopted by the team is complemented by direct dialogue with businesses that is made possible through EOS, which ensures the team remains active owners of the companies held in the portfolio.

Figure 31 Global Equities Investment Process



Source: Federated Hermes Limited, as at 30 April 2022.

Figure 32: Identifying opportunities and avoiding harmful or controversial behaviour

	Uninvestable	Potentially attractive	Attractive
Behaviour	Reliance on harmful products (eg: Tobacco, coal, weapons) Significant ESG Controversies Breach of UN Global Compact	Good company but products have little societal benefit OK company, but limited ESG improvements Challenged company, but reducing exposure to harmful products	Sustainable products that benefit society Robust processes & effective management of ESG risks Leading and improving governance standards
Outcome	Alpha Score severely reduced Major financial & reputational risks	Alpha score driven mainly by financial characteristics Engagement vital in understanding & controlling risk	Alpha score enhanced to reflect the lower risk and higher quality company

Source: Federated Hermes Limited, as at 30 April 2022.

Our Responsibility Office is tasked with monitoring and overseeing every investment team's integration approach. To that effect, the Responsibility Office meets with every investment team on a quarterly basis to review the portfolio holdings from an ESG point of view and flag, if necessary, particular holdings which our third-party ESG data vendors might have highlighted as controversial. As such, the Responsibility Office and the investment teams regularly use our proprietary ESG tools to review the ESG performance and engagement coverage of our holdings.

The Responsibility Office also conducts an assessment using our proprietary ESG Assessment Matrix on a semi-annual basis to determine where each of the investment teams are in their ESG and stewardship integration journey. The matrix contains 86 Key Performance Indicators across 28 sub-indicators and aims to assess the teams on the following:

- **Investment process and philosophy** – how well the team understands material ESG factors for its universe and how they stay abreast of developments, where in the process the team integrates ESG and stewardship insights and how this impacts investment decisions to the benefit of clients and their investors. Within the stewardship sub-category – the teams are assessed on their proactiveness in identifying areas of engagement, their interactions with EOS and how involved they are in the engagements, how regularly the teams assess the progress made on engagements and how this influences their investment decisions.
- **Communication** – how clearly the team articulates, for clients and their investors, the ESG and stewardship approach of an investment strategy, and how it reports on its ESG performance.
- **Advocacy** – how actively the team is involved in initiatives in clients and their investors' interests, both internally and externally, on ESG themes as well as ESG and stewardship integration in asset management.

SDG Engagement Strategies

While all of our strategies integrate engagement into their investment processes, we have a selection of strategies with a specific focus on selecting companies with engagement potential. Our SDG Engagement Equity Strategy and SDG Engagement High Yield Credit Strategy seek to achieve a meaningful social and/or environmental impact as well as a compelling return through investing in and engaging with companies to drive positive change in line with the relevant SDGs. The SDGs provide an ideal framework to identify ex-ante potential for creating positive societal and environmental change through engagement to create more impactful and profitable companies. Given the added focus on engagement for these strategies, we have dedicated engagers based in the relevant investment teams who focus solely on these strategies and work closely with EOS to ensure a consistent approach. All investments are formally reviewed by the lead manager and lead engager, while the relevant analysts and team members also provide input every six months. These meetings investigate whether the original engagement thesis is still valid and also measure progress towards any specific objectives. In addition to the case study below, case studies for our SDG Engagement strategies are available under Principle 9.

CASE STUDY

SDG Engagement Equity Strategy

Our SDG Engagement Equity fund has been invested in Fortune Brands Home & Security since its launch in 2017. Headquartered in the US, Fortune Brands offers industry-leading, innovative brands for kitchens, bathrooms, entryways and outdoor living spaces. It is a well-managed and governed company with an extended track record of execution, along with a strong balance sheet and free cashflow generation.

Upon investment, our belief was that we would be able to enact positive change through engagement in the following three areas: sustainable sourcing, resource efficient manufacturing and eco-efficient products. Over the period of the investment, the team have met extensively with management to discuss issues of interest and have been encouraged by the progress made. While there remains scope for further progress, the company has delivered meaningful improvements. Most notably, its ESG disclosures go further than those provided by its principal domestic peers and is catching up with international competitors.

Fortune Brands' portfolio of businesses includes consumer faucet brand Moen. To further Moen's commitment to saving 1 trillion gallons of water by 2030, the company has adapted all of its kitchen faucets to a lower flow rate of 1.5 gallons per minute. In doing so, it has taken a leadership position in the industry. We are currently engaging with the company on establishing a sustainable timber policy with targets for certified wood sourcing and recycled timber and for the company to measure and report on its Scope 1 and 2 emissions, establish forward-looking targets to move towards carbon neutral operations and ultimately set net-zero commitments.

Private markets

In private markets, ESG data is often less readily available. As such, the teams are heavily reliant on their due-diligence process and have developed their own frameworks for assessing ESG risks within their investments.

The private-debt teams consider ESG behaviours when carrying out credit analysis for each potential investment. ESG considerations are tabled at the Private Debt Investment Committee and are considered as part of the research presented for all new transactions. Material ESG issues will often form part of engagement with the company prior to investment and once invested.

For our Direct Lending team, the key is to identify meaningful ESG risks (both current and potential) before investing. Due to the difficulty of divesting and the capped upside, it is important to manage the downside ex-ante. The Direct Lending team undertakes enhanced due diligence on industries that are deemed controversial, such as energy, chemicals, forestry and agricultural commodities, manufacturing and mining and metals. They also undertake transaction-specific ESG analysis by carrying out an assessment on ESG risk for every investment opportunity. In addition, the team focuses acutely on the sensitivity of the company's cashflows to sudden damage that could arise from the identified potential ESG risks. With that in mind, the Direct Lending team will evaluate if investors are adequately remunerated for the ESG risk(s) of the transaction. We have recently developed a modelling tool to help us estimate Scope 1 carbon emissions for companies that do not disclose their carbon emissions. The team have been using this to estimate carbon emissions for their holdings to form part of their investment analysis as well as use it as a tool for engagement to improve disclosures by the company.

ESG considerations are tabled at the Private Debt Investment Committee and are considered as part of the research presented for all new transactions.

CASE STUDY

Direct Lending

Our Direct Lending team reviewed the opportunity to lend to a Nordic-based manufacturer of road marking materials. The company produces products that are used in infrastructure such as roads, car parks, cycle paths and public access areas. Customers include road and state authorities, municipalities and building contractors. We had the opportunity to support a transformational acquisition to expand the borrower's geographic footprint, product specialisms, customer base and manufacturing capabilities. As part of the due diligence process, environmental reports were commissioned that identified some deficiencies with respect to ESG practices. Through this analysis we were able to identify areas of improvement for the company and have built specific undertakings into the loan documentation to mitigate associated ESG risks and improve the company's ESG characteristics. By building this into the documentation, we have an agreed plan that is measurable and timebound and failure to deliver the plan would trigger an Event of Default and mandatory prepayment of the loan. Examples of agreed actions include investment in health and safety equipment, introduction of health and safety practices/programmes for workers and improvement in environmental reporting standards.

As with our direct-lending investments, it is important for our Asset Based Lending team to identify risks that may impact on a borrower's ability to repay their loan. We have integrated our responsible property investment (RPI) principles and programme into the debt-investment procedures. This is done as follows:

- **Underwriting and due diligence:** The focus of our responsibility programme is on ensuring a strong due-diligence process, including assessments of ESG and climate risks and opportunities before agreeing new loans.
- **Loan origination and documentation:** The business plan agreed is included in the loan documentation at the loan-origination stage. This includes all mitigation activities identified and detailed in the asset business plan, asset refurbishment plans and/or planned and preventive maintenance programmes.
- **Management and monitoring post closure, asset upgrade finance:** We collect and manage the sustainability information we hold on the borrowers and the underlying assets.

Where we provide capital for refurbishment in accordance with the business plan, refurbishment agreements include a review of our responsible refurbishment guide and minimum requirements.

ESG is integrated into the investment strategy and working practices of all of our real-estate portfolios. A consideration of ESG principles is embedded into the property selection and investment process, including through initial screening and due diligence and as part of the investment decision.

At the transaction stage, we use a number of procedures and tools that have been developed internally and through our sector engagement programme. This includes an initial screening, where the team assesses the risks and opportunities for value-add from ESG characteristics. This is then followed by a responsible investment due diligence for any new acquisitions, where surveyors and environmental consultants collect relevant data on the buildings to identify risks and opportunities. As part of our due diligence process we inquire to understand the level of community and tenant engagement in the assets being considered. The findings from this then inform the asset-management plans and processes.

Sustainability regulatory risk assessments are then used to identify typical risks that should be incorporated when devising the parameters entered into the investment models (using discounted cash flow analysis). Typically, the team integrates ESG information that can affect investment fundamentals such as refurbishment budgets, risks of voids, lease lengths and obsolescence. ESG criteria and assessments are integrated into the investment decision papers submitted for approval to the Investment Executive Committee. The Head of Real Estate ESG sits on the Investment Executive Committee to review and ensure that ESG integration is appropriately covered.

ESG and engagement information continue to be integrated into the development and monitoring of our real-estate assets after purchase:

- Setting ESG requirements: through our internal responsible property development requirements we have set minimum requirements that assets must meet when undergoing refurbishment or new construction. This is monitored through an online platform.
- Monitoring and data collection: we work with our property managers, facilities managers and consultants to monitor ongoing implementation and improvements. This is reported back to the business on a quarterly basis. Annual key performance indicators (KPIs) are set and progress against them is measured.
- Engagement: we work with our property and asset managers on site to engage with the delivery teams, tenants, occupiers and visitors. Site-specific annual surveys and other engagement activities are carried out successfully.

For our Real Estate team's indirect and international investments, we carry out active engagement on governance matters and on ESG policies and strategies with property developers, property management teams, tenants, lawyers and agents. We include commitments to develop a joint ESG strategy on acquisitions for jointly managed assets.

The Responsibility Office oversees and supports all of the above ESG and stewardship integration activities. This is achieved through a number of different activities, such as coordinating knowledge-share sessions between teams (including EOS), working with the investment teams to develop frameworks to assess different ESG risks and coordinating conversations with EOS to ensure there is good engagement across the strategies. The investment teams also meet formally with the Responsibility Office at least every quarter to discuss their ESG and engagement integration activities.

How we have aligned our approach with client investment time horizons

Under Principles 1 and 6 addressed earlier in this report, we set out our belief that the purpose of investment is to create wealth sustainably over the long term. This informs our view that we have a duty to consider the longer-term risks and opportunities when investing, which aligns with the goals of our pension-fund clients who typically look out over the long term. All of our strategies adopt a long-term investment horizon. While this will vary depending on the investment strategy and the markets in which they invest, a typical time horizon adopted by our investment teams is three to five years.

All of our strategies look to deliver sustainable wealth creation over the long term and our combined approach to responsible investment and responsible ownership is the key to catalysing positive change within companies and generating financial gain over the long term. We believe we cannot deliver long-term returns without identifying and working towards mitigating material ESG risks and, where possible, seizing positive opportunities.

We consider our clients' and potential clients' needs throughout the entire product-development process. As such, stewardship and ESG integration is built into the investment process at the outset and clearly articulated in any legal and marketing documentation for the strategy. The Customer Outcomes Group (COG) then uses this documentation to monitor the investment teams at least annually to ensure they are acting in line with the parameters they have set for themselves. More information about the COG and other processes that ensure we continue to meet client needs is available in our reporting under Principle 1.

Service providers

All of our stewardship is undertaken in-house by our investment teams and EOS, as described under Principles 7, 8 and 9. Likewise, the investment teams are responsible for integrating ESG and engagement information into their investment processes (with the support of the Responsibility Office, which ensures best practice).

We also use third-party data providers, as described under Principles 7 and 8. In some cases, we integrate this third-party data into our proprietary tools to enable our investment teams and engagers to access and compare a wide range of data quickly. The parameters for such services are clearly set out in the relevant contracts and the ESG Integration team within our Responsibility Office monitors the provision of such services on an ongoing basis. Key parameters that we consider when assessing a data provider are data quality, methodology used for any calculated data points, frequency of update, data delivery mechanisms and coverage.

As described in more detail under Principle 8, our Real Estate team use external property managers for all day-to-day property management. To ensure our expectations are clearly understood, ESG requirements and targets are included in their contractual service agreements. The managers are responsible for the implementation of our ESG programme and health-and-safety measures, as stated in their service agreement.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

We do not use external engagement services. All voting recommendations to our investment teams are made internally by EOS and engagement activity across asset classes is carried out by EOS or the investment teams themselves. More detail on how we use ISS research to inform our voting decisions – and how EOS use ISS research to inform voting recommendations to voting services clients – is available under Principle 12.

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

As part of our ongoing research into assessing sustainability within companies we have spoken with a number of data providers on their frameworks and how these are applied to companies and sectors. Having worked with the data providers over many years we are able to critically assess the strengths and weaknesses of the approaches and feed this insight back to the service providers.

We may also engage with data providers when we identify incorrect information. Over the course of 2021, we identified instances where environmental data received from the data provider did not match our expectation of the company's performance on those factors. We have had extensive dialogue with the data provider on this and have attributed a number of the instances to limitations in the modelling/estimating capability as well as lack of reported data by the company. We continue to monitor data received to ensure they are as accurate as possible. This reinforced our view that such third-party data sources can only be one input alongside our fundamental analysis and engagement insights.

CASE STUDY

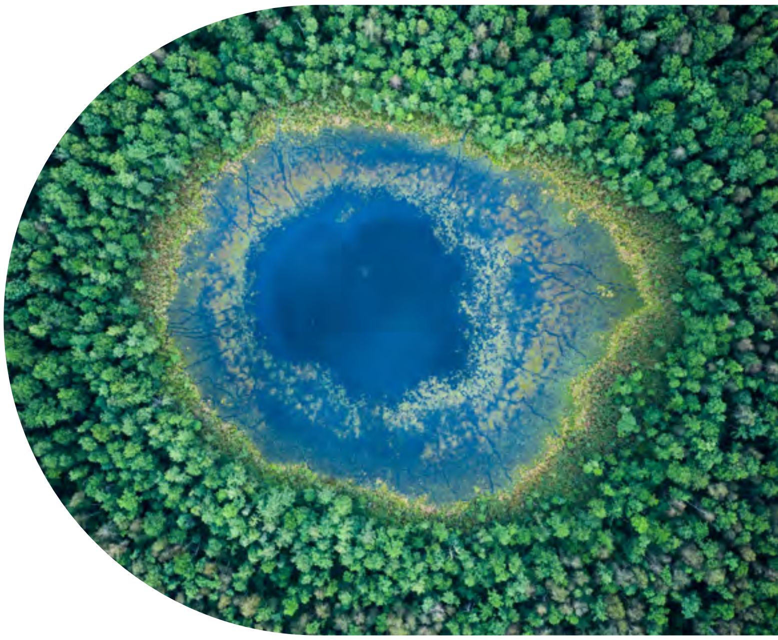
Engagement with ISS

In 2021, we contributed to a letter sent to the ISS president and CEO, which was prepared by the Net Zero Stewardship group convened by the Institutional Investors Group on Climate Change ("IIGCC"). ISS is a proxy advisory firm. The letter asked ISS to make a public commitment to support net-zero investing and to develop a suite of proxy advice solutions for investors committed to net-zero emissions by 2050. It communicated that the goal should be for all companies with a material impact on climate change to set out a credible net-zero transition plan in the next few years, as well as the need for ISS to develop the capacity to assess net-zero transition plans. The letter asked for four key actions from ISS. First, it should incorporate the transition to a net-zero economy into the ISS benchmark policy, specifically to help investors identify material governance failures related to climate. Second, it should develop a speciality net-zero policy formed from the current climate speciality policy. Third, it should develop customised net-zero solutions that distribute the necessary data to ISS clients to enable customised net-zero related voting. Fourth, it should make a public commitment to support net-zero investing including through aligning its advice with investors' fiduciary responsibilities in this matter.

Following the correspondence to ISS, we attended a meeting with ISS alongside a group of asset owners and asset managers to encourage the firm to provide greater support to investors assessing company management of climate risks. The group also communicated the importance of ISS providing research to inform voting decisions on the increasing number of 'say on climate' votes. The group highlighted that the inclusion of climate-related analysis in the ISS benchmark policy was essential because of its impact on the entire market. It also flagged that it was important for investors to receive analysis on the relative ambition of emissions reduction targets, company lobbying activities, and the inclusion of climate in company auditing.

In December 2021, ISS announced updates to its benchmark policies for the 2022 financial year. These included a new board accountability policy that will be applied to Climate Action 100+ companies, which results in recommending votes against responsible directors at companies that have inadequate climate disclosure (for example, the disclosures are not TCFD-aligned) or do not have emissions reduction targets that cover a significant portion of emissions. A set of policies for analysing both management and shareholder Say on Climate proposals was also announced, which will assess company climate transition plans against a number of core criteria.

For our Real Estate team, all day-to-day property management – including rent and debt collection and active responsible property management – is dealt with by external property management agents. They are selected following a rigorous process that includes ESG considerations, while ESG requirements and targets are included in their contractual service agreements. The performance of property manager agents – and any other agents appointed for work on activities such as rent reviews, lease renewals, transactions property maintenance, health-and-safety issues and environmental issues – is closely monitored by our internal asset managers. The property managers are contractually responsible for implementing the ESG programme and health-and-safety measures, as stated in their service agreements. Their requirements include risk management, refurbishment and development, utilities measurement and reporting, ESG business plans, energy management, water management, waste management, transport, procurement and supply chain, environmental risk and management, stakeholders (tenants and community) and quarterly monitoring of progress against targets. In 2021, our property and asset managers continued to work extremely hard to meet their annual KPIs in the challenging context of the pandemic. The national lockdowns were particularly challenging, and we needed to carry out significantly more engagements with tenants during these periods. We worked with our property managers to achieve this, keeping in mind our fiduciary duty towards our clients and the need to meet our wider energy, sustainability and insurance targets.



In terms of our investment operations, our middle-office employees are responsible for monitoring outsourced functions on a day-to-day basis. We also have an Outsourcing Review Group that is responsible for the oversight of material outsource arrangements and other third party providers where regular reviews of legal agreements, financials, audit and controls reports are conducted. Our contracts with material outsourced service providers include a service level agreement (SLA) when applicable. The SLA details service standards, and where applicable, dependencies and escalation requirements. The contract and/or SLA (where applicable) include details of the governance structure, service reviews and service credits.

We measure a number of agreed key performance indicators (KPIs) – some daily but all at least monthly – in order to identify as early as possible any deterioration in service standards. We have regular meetings including monthly service reviews and calls with our outsourced service providers where requests for a change to the service and potential new business is discussed. Oversight is normally through regular scoring, management information, monitoring of key risk indicators and KPIs measured against service standards and discussed during the regular meetings.

We have regular meetings including monthly service reviews and calls with our outsourced service providers where requests for a change to the service and potential new business is discussed.

As part of the governance structure, significant or persistent issues can be escalated to senior internal committees with members from the Risk, Compliance and Operations functions. In addition to the service reviews, periodic on-site visits and due diligence reviews take place and the latest SAS70 reports (or equivalent controls report) and financial statements are reviewed to identify any adverse conditions that may have an impact on the services provided.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

How we identify issues for engagement and develop objectives

Our approach to engagement is driven by our purpose and investment beliefs. We believe that the purpose of investment is to create wealth sustainably over the long term and that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment. We aim to generate sustainable wealth creation for the end beneficiary investor, encompassing both investment returns and their social and environmental impact. As a result, our engagement is outcomes-driven and focused on ensuring that the companies we invest in are creating wealth sustainably. Given the time horizons of our strategies to meet our clients' needs (as described under Principle 6) we are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies. We believe that this approach delivers the best results for our clients and end beneficiaries.

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

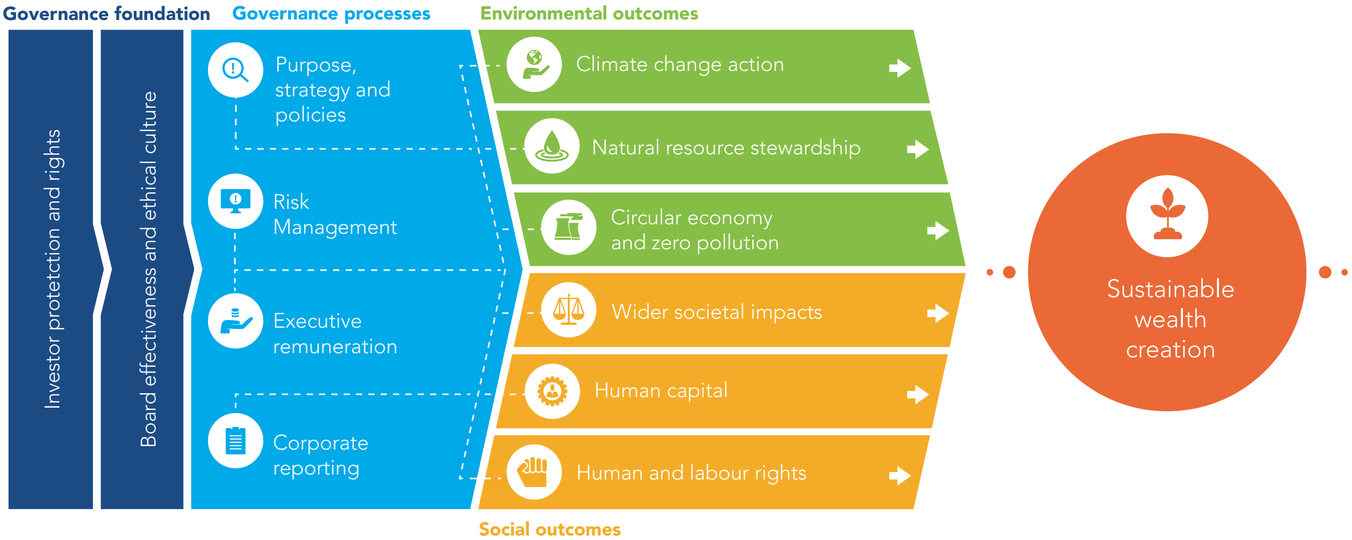
Our Responsible Ownership Principles, which we developed in 2002 and updated in 2010 and 2017 by drawing on our extensive experience as an active and engaged shareholder, set out a number of expectations which we believe should exist between owners, boards and managers to create a framework for communication and dialogue. Similarly, our Climate Change Expectations for investee companies set out very clearly our rationale for believing climate change is a material issue – and six key expectations of companies that range from setting science-based targets to having a positive public policy position on the issue and committing to disclosing in line with the TCFD.

While we can be robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines through campaigns that could undermine the trust that would otherwise exist between a company and its owners. We are honest and open with companies about the nature of our discussions and aim to keep these private. Not only has this proven to be the most effective way to bring about change, but it also offers a level of protection for our clients by ensuring their positions will not be misrepresented in the media.

Public markets

EOS has established a detailed public markets engagement plan on a rolling three-year basis, with themes ranging from human and labour rights to circular economy and zero pollution. EOS focuses its stewardship on the issues that have the greatest potential for long-term positive outcomes for investors and their beneficiaries. The full taxonomy below identifies 12 key themes and 37 related sub-themes for engagement. This breadth of coverage across the whole programme is necessary to reflect the diversity of issues in our global Engagement Plan, which covers all regions and sectors, including those which are most material to the individual companies. The selection of these themes is developed in line with input from the investment teams at Federated Hermes Limited, as well as EOS' third-party clients.

Figure 33. Engagement themes: Our stewardship process to achieve long-term sustainable returns on investment



Source: Federated Hermes Limited, as at 30 April 2022.

We review our engagement plan every year to ensure it is up to date and reflects client priorities. In 2021, we spent some time reflecting on our approach to engagement and updated the theme taxonomy to reflect latest best practice areas. The theme formally referred to as Conduct, Culture and Ethics has been renamed Wider Societal Impacts to reflect the societal impact of positive ethical behaviours (such as zero tolerance of bribery and corruption), as well as the benefits of achieving safer products and responsible tax practices.

Nonetheless, our work maintains a focus on the most material themes, with four priority areas being: climate change, human and labour rights, human capital management and board effectiveness and ethical culture.

Four priority themes

Climate change action:

- In the run up to COP26, more than 300 companies committed to achieving net-zero emissions. However, data from the Climate Action 100+ Benchmark shows that while 52% of the world's largest emitters had net-zero goals, only 20% had short and medium-term emissions reduction targets and only 7% had targets aligned with the Paris Agreement goals. The emphasis of our engagement is therefore on matching long-term commitments with a Paris-aligned strategy and targets. We also support action to ensure that published financial accounts and political lobbying are similarly aligned.

Human and labour rights:

- In our engagements we ask companies to respect all human and labour-related rights linked to a company's operations, products and supply chains, including through the provision of affordable essential goods and services to help reduce poverty.

Human capital management:

- We are engaging on human-capital issues including diversity equity and, inclusion and full representation of workers; fair wages, incentives and benefits; and health, safety and wellbeing.

Board effectiveness and ethical culture:

- We are engaging with companies to ensure that they have well-functioning boards with independent individuals that represent the diversity of the stakeholders they serve.
- We also intend to ask boards to consider the lessons of the pandemic, including the possibility for more internationally diverse board appointments, enabled by more effective remote working practices.
- We remain committed to improving a board's 'software' (relating to how it functions), in addition to its 'hardware' (relating to its composition and structure). The board should continuously monitor and assess the prevailing company culture to ensure it is in line with the company's purpose, strategy and values.

We annually review, develop and publish a rolling three-year engagement plan. The EOS engagement selection process is a key structure which enables us to support client stewardship. We select around 325 companies for the core EOS Engagement Programme, of which approximately 130 are held by Federated Hermes Limited's equity and credit teams (as at 31 December 2021). These companies are formally identified on an annual basis, and intermittently throughout the year. The three key considerations are:

1. Size of holdings. EOS take into consideration the aggregate holding size of Federated Hermes Limited and EOS clients.
2. Materiality of identified ESG and financial risks. This is assessed using quantitative and qualitative data sources, including inputs from external providers like Sustainalytics, MSCI, Trucost, CDP, BoardEx, Reuters Knowledge, FactSet, Factiva and Bloomberg. EOS also considers the output from our quarterly screening tool, the Controversial Companies Report, which looks at the UN Global Compact Principles. It also uses the proprietary ESG Dashboard and QESG score, which captures how a company manages its ESG risks and whether it is improving. All this data is scrutinised by the EOS team, alongside insights from engagement and voting recommendations history, media flow, investment management intelligence, public policy and market best-practice trends.
3. Feasibility of engagement. We endeavour to allocate our engagement resources efficiently and towards companies where we can affect change.

This combination of analysis supports our pursuit of stewardship through our shared service model.

With regard to climate change, we use our own proprietary carbon and environmental tools to systematically assess which of our holdings are exposed to material climate-related transition risks. Where the risk is significant, we intend to add the companies into our engagement programme.

Each company in our core engagement programme is given an appropriate intensity tier, based on the likely impact of engagement and ultimate benefit to the value of the underlying investment. We then assess the required intensity or depth of the engagement needed to resolve the issues:

- **Tier 1** – Companies with material client holdings that have more significant or numerous long-term sustainability or corporate-governance issues. There is the opportunity to feasibly engage with these firms, although the engagements will require more time and effort to progress. This typically results in a more intense engagement and we expect at least five interactions a year.
- **Tier 2** – Companies with material client holdings and identifiable long-term sustainability or corporate-governance issues. There is the opportunity to feasibly engage with these firms and we believe that the efforts can be meaningfully pursued with an average amount of time and effort. We expect three to five interactions a year.
- **Tier 3** – Companies that represent significant client holdings but whose long-term sustainability is generally less at risk. Tier 3 firms also include those being monitored to see the implementation of previous engagement work. We typically set only a small number of objectives or pursue engagement issues rather than specific engagement objectives. We plan one to two interactions a year.

There are many companies that we engage with that sit outside of our core engagement plan. EOS proactively engage with around 580 companies annually, of which approximately 370 are held by Federated Hermes Limited. Around 100 of the companies which are not in the core engagement programme are selected as EOS engagement targets by our investment teams based again on the size of our holding, the materiality of the issues and the feasibility of engagement. Although these engagement targets are selected by our investment teams, the output of these engagements are also provided to EOS third-party clients. The dedicated engagers in our SDG Engagement strategies engaged with 107 companies in addition to those companies engaged with by EOS. The remainder of these engagements relate to issues around voting at general meetings or are in reaction to events that cannot be predicted in advance. Our investment teams also conduct engagements with companies directly. These engagements are not reflected in our overall engagement statistics.

EOS proactively engage with around

580 companies annually, of which approximately

370 are held by Federated Hermes Limited.

In addition, EOS provides voting recommendations for around 13,000 meetings to both Federated Hermes Limited and third-party clients, using engagement insights to inform its rationale where possible. Finally, EOS monitors around 17,000 companies held by Federated Hermes Limited and third-party clients. Overall, these processes enable us to provide comprehensive stewardship coverage.

Our Engagement Management Committee reviews and advises on the design and implementation of our Engagement Plan and engagement programme, in addition to our voting recommendations and screening services. It considers engagement quality, continuity and coverage in the interests of clients.

Setting engagement objectives: We set clear and specific objectives within our company engagements to ensure we achieve positive outcomes. An objective is a specific, measurable change defined at the company – an outcome we are seeking to achieve. Each objective is tracked using milestones. Objectives are regularly reviewed until they are completed – when the company has demonstrably implemented the change requested – or discontinued. Objectives may be discontinued if the objective is no longer relevant, or because the engagement is no longer feasible or material.

Issues: An issue is a topic we have raised with a company in engagement but, unlike objectives, we do not precisely define the outcome that we are seeking to achieve. This can be more appropriate if the issue is of lower materiality and so we do not anticipate engaging with the frequency required to pursue an objective. Or perhaps we are still in the process of identifying what type of change we may want to see at a company and so are not yet able to set a precise objective. Issues are frequently used for companies outside our continuous engagement programme, for example those where we typically engage only around the annual shareholder meeting and our voting recommendation.

Milestones: To measure our progress and the achievement of engagement objectives, we use a four-stage milestone strategy. When we set an objective at the start of an engagement, we also identify recognisable milestones that need to be achieved. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

Figure 34. EOS' proprietary milestone system

Source: Federated Hermes Limited, as at 30 April 2022.

In this example, we have applied human rights, which is one of our Engagement Plan social and ethical themes, and focused on the specific disclosure sub-theme to set a tailored objective for a US software company. We asked the firm to establish a clear board or executive level oversight for human rights risks in its products and services and detail below how we would recognise progress along our milestone stages:

- **Milestone 1:** Concerns raised at company on how directors oversee and manage risks related to data privacy, freedom of expression, and artificial intelligence.
- **Milestone 2:** Company acknowledges our concern by accepting our shareholder proposal for its 2020 AGM where we seek improved disclosure of relevant metrics that show the supplier code of conduct is adhered to as intended.
- **Milestone 3:** Milestone progress made: company develops in content quality policies and facial recognition applications and commissions a formal human rights impact assessment (HRIA).
- **Milestone 4:** Completion – company clarifies Audit Committee broader responsibilities to include sustainability and human rights and commits to establishing a human rights executive council to oversee and provide guidance on a groupwide human rights programme and added information on due diligence and transparency.

In this particular example, Milestone 4 was achieved after a year of engagement.

> **An engagement objective can take up to three years to complete, depending on factors that include the nature of the issue and how receptive the company is to engagement.**

Our milestones are specific and measurable, which helps us identify progress towards achieving the objective. An engagement objective can take up to three years to complete, depending on factors that include the nature of the issue and how receptive the company is to engagement. Engagement clinics are held with directors to review and challenge engagement strategy and tactics, to ensure that objectives are appropriate and also that milestone progress correctly reflects reality. In some rare instances, we will discontinue engagements on the basis that our engagement efforts have been met with strong resistance or the matter has dissolved.

Actions: These are the interactions that take place between our engagement professionals and the companies or public policy bodies with whom they are engaging. Every call, meeting or correspondence is recorded as an action. Actions can be linked to objectives or issues. We only consider companies to be engaged when we have an individual interaction with the company that relates to an objective or issue.

Private markets

For our private market strategies, engagements are prioritised according to the exposure of the portfolios. For example, in our Direct Lending strategy, the team engages with the sponsor and management team to remedy any ESG issue that arises during the life of a loan. This engagement is conducted in collaboration with EOS to ensure that the engagement is outcomes-focused and impactful.

Our real estate business is an industry leader in responsible asset management and has developed its own ESG principles. These focus on effective environmental management, a key component of our real estate management proposition, and informs the issues we engage on. Following growing awareness in the investment industry, we believe that responsible investors need to go beyond standard KPIs and develop qualitative processes to assess the wider socioeconomic impacts of their investment programmes and occupier and tenant engagements.

Over the years, the increasing focus on ESG has demanded fresh thinking and new ways of working. The Real Estate team has been monitoring the sustainability performance of its directly managed assets since 2006 and has annual targets which are monitored and reported against in our public Real Estate ESG report. The team has also created a range of dedicated tools and procedures that cover all aspects of our real-estate operations. Our responsible asset and property management programme integrates the following ESG procedures and tools:

- Minimum sustainability requirements for refurbishments and developments set out in our internal Design Innovation Standards and Responsible Property Management Refurbishment Guide. These include requirements that construction contractors comply with sustainability guidelines, environmental site-selection requirements, environmental site-development requirements, resilient building design and orientation and minimum requirements on pollution, sustainable materials, waste, energy, water and biodiversity.
- Dedicated Responsible Property Management (RPM) guidelines for our directly managed assets, covering the following ESG matters: water efficiency requirements, energy efficiency requirements, energy generation from on-site renewable sources, waste management plans at sites and occupier health and wellbeing requirements.
- Strategic and operational sustainability benchmarking of our real-estate funds.
- Active data management systems for utilities and waste.
- Ongoing monitoring of performance with continuous feedback between property managers, asset managers and sustainability experts.
- Stringent risk and safety requirements and supporting tools.
- Community and occupier engagement tools and programmes.

These tools enable us to assess, monitor and manage social and environmental risks and opportunities in the real-estate portfolio, and therefore informs the objectives of our engagement.

> **The Real Estate team has been monitoring the sustainability performance of its directly managed assets since 2006 and has annual targets which are monitored and reported against in our public Real Estate ESG report.**

As part of our Real Estate ESG programme, we have been assessing what positive impact investment would mean for each step of our investment process. Our 'impactful intent' approach aims to deepen our ESG practice by intentionally seeking a defined positive environmental or social outcome in a particular place or market as a core focus of our responsible investment strategy, in addition to strong risk-adjusted financial returns. This involves using a purposeful framework to focus our real-estate operations on three specific impactful investment themes. For each of these investment themes we are committing to activities with measurable environmental, economic and societal outcomes, which ultimately support specific SDG targets. Our impactful investment themes are:

- Meaningful placemaking that creates civic pride;
- Healthy, engaged and productive communities that drive desirable social and environmental outcomes; and
- Climate and resource efficiency and achieving a just transition to a low-carbon, circular economy in order to help prevent further adverse climate change and resource scarcity.

At the heart of our approach is our commitment to creating a 'meaningful city' – or a place that people want to live and work in, and which foster a sense of belonging among inhabitants. Because most of our investment is concentrated in densely populated urban areas, it is inevitable that the way we manage these developments will have a deep, long-lasting effect on the cities and the people that live in them.

How we engage

Our public markets dialogue with investee companies is primarily conducted through in-person meetings, calls, letters or emails, either directly or as part of a collaborative group. The nature and frequency of the dialogue depends on the location of the company, stage of engagement, severity of the issue and willingness of the company to engage. As evidenced by research, effective engagement that delivers value, demands a specific skill set that goes far beyond written activity or interaction with lower-level company representatives. Change is brought about by access at the board level gained by engagement professionals who have industry or professional experience, gravitas and specialist skills at challenging senior decision makers.[34] The majority of our dialogues are conducted with the board of directors (primarily the chair, lead independent director and chairs of board committees), corporate secretary, subject specialists or investor relations. Occasionally the dialogue is with executive teams, although only where we believe the concern justifies their time and attention.

[34] https://www.hermes-investment.com/uki/press-centre/stewardship/new-research-shows-importance-board-level-contact-impactful-engagement/

Figure 35. Number of companies engaged at board/senior level in public markets

We have engaged 224 companies at board/senior management level,[35] including:

Senior management	
CEO	77
Chair	38
Company secretary	107
Executive management team	99
Other board director	39

Source: Federated Hermes Limited, as at 31 December 2021.

We use our own relationships to initiate and progress engagements in the majority of cases, whether this is through the investment teams or EOS, in addition to attending meetings facilitated by intermediaries. Most public-markets engagements are carried out by EOS, who may be joined by relevant portfolio managers or analysts from our investment teams. The investment teams also carry out engagements themselves. The Responsibility Office ensures that our investment teams and EOS work closely together with a joined-up approach.

Making realistic and realisable demands of companies, informed by hands-on experience of business management and strategy setting, is critical to the success of our engagements. With all engagements, we seek to build a strong relationship with the company and are willing to be patient, remaining focused on achieving goals which are directed towards long-term success. Our proprietary systems enable us to track progress against specific objectives and remain outcomes-focused throughout the duration of our engagement with a company. We have invested in the underlying systems in which we capture, measure, manage and then express our stewardship activity and outcomes. Not only can our engagement professionals better capture their progress, momentum, challenges and next steps and general workflow, but our clients are able to absorb the information in ways and through lenses that suit them.

Geographies: There are some nuances in how we engage with each market. EOS has developed 22 regional corporate governance principles which set out our fundamental expectations of the companies we invest in across a number of important ESG topics. This regional approach reflects the variations in the markets in which the companies we invest in operate. They also inform EOS' Global Voting Guidelines and Federated Hermes Limited's Global Voting Policy and Guidelines, which in turn guide EOS' voting recommendations and our investment teams' voting decisions for listed equities. EOS has intentionally built a diverse team of experienced and international voting and engagement professionals who have the expertise, language skills and cultural knowledge to work to deliver real beneficial change at companies. Our ability to engage in the local language and understanding of local culture and business practice are critical to the success of our engagement work. Within our team, we have nationals from 16 countries who are fluent in 14 languages.

Figure 36. 2021 Engagement activity

Theme	Companies engaged	Issues and objectives engaged
Environmental	275	517
Social and Ethical	245	436
Governance	433	818
Strategy, Risk and Communication	203	327
Total	**528**	**2,098**

Source: Federated Hermes Limited, as at 31 December 2021

Figure 37. Engagement by region in 2021

Region	Companies engaged	Issues and objectives engaged
Australia & New Zealand	20	45
Developed Asia	61	200
Emerging & Developing Markets	90	292
Europe	136	518
North America	192	929
United Kingdom	29	114
Total	**528**	**2,098**

Source: Federated Hermes Limited, as at 31 December 2021.

[35] Individual companies may be engaged at multiple levels of board or senior management.

Equity vs. Credit: Both equity and bond holders have a shared interest in sustainable growth, increasing enterprise value and the long-term health of companies. EOS' breadth of engagement allows us to engage with companies on behalf of equity and bondholders. We believe that engaging simultaneously on equity and credit creates a common long-term voice, increases access and influence and shared resourcing to pool the priorities of like-minded investors. In a two-part paper over 2018-19, we asserted that the shared interests of bondholders and shareholders provide incentives to jointly engage companies – and generate positive outcomes by doing so.[36] We summarise the top three benefits of this approach below:

A common long-term voice: Speaking with a common voice across asset classes gives companies a clearer signal of the key concerns of long-term investors and the agenda which the board should prioritise. Building a long-term sustainable business model which manages ESG risks and opportunities, overseen by good corporate governance in pursuit of business purpose, helps build enterprise value in the interests of all asset classes.

Access and influence: Aggregating equity and bond assets gains a company's attention. Representing an increased asset base across multiple asset classes gives greater leverage. We can also use shareholder rights such as voting at shareholder meetings or speaking at annual shareholder meetings, as well as speaking on behalf of credit in response to new issues raised in credit prospectuses.

Shared resourcing: Engagement on long-term value drivers across many sectors, themes and countries is complex. Our engagement is informed by our client-led approach which allows us to pool the priorities of like-minded investors to determine the companies and the themes of our engagement on ESG and strategic issues.

Both equity and bond holders have a shared interest in sustainable growth, increasing enterprise value and the long-term health of companies.

Where there are rare conflicts such as when a company is failing, and its very survival is in doubt, the interests of bond and shareholders can diverge as they compete over what remains for investors.

We have established a Stewardship Conflicts of Interest Policy to follow in such rare situations, as described under Principle 3. If a potential conflict of interest is identified, the issue is escalated first to a line manager and then an escalation group reporting to an independent sub-committee of the board of directors. If a potential conflict materialises, the joint equity-credit engagement is restricted to those objectives that are not affected.

As shareholders and creditors are both financial stakeholders, they share a common basis to engage in constructive dialogue with companies. However, as creditors serve as a recurring source of cash to a company, they have a different kind of influence. This influence varies even within fixed income. For example, for smaller companies in leveraged finance or direct lending, the disintermediation of capital is spread over a smaller investor base. This means these investors may have greater influence versus any individual investor in a large-cap name. When engaging as bondholders, we may be able to use other routes to the company such as the Chief Financial Officer or treasury department, or as part of bond roadshows, which are typically more frequent than equity issuance. Also, we may encourage companies to issue green and sustainability-labelled bonds to encourage clearer sustainability frameworks and reporting, and, in cases where companies issue such bonds, we may engage on the validity of any sustainability claims made. Moreover, we are seeing an increasing number of leveraged buyout deals being funded with green and sustainable bonds, and, in such cases, we may engage with private equity sponsors.

Engaging on derivatives in credit portfolios is done in the same way as we engage with equities and bonds; we engage with the underlying issuer. Engaging on sovereign bonds poses a particular challenge, as there is often a shortage of relevant data and little accessibility. However, we use what data we do have to assess ESG risks and their potential impact on the sovereign's ability and willingness to meet financial obligations. Momentum is building across the investment industry to improve the availability of data and engagement within this asset class.

[36] https://www.hermes-investment.com/uki/insight/stewardship/we-can-all-get-along/; https://www.hermes-investment.com/uki/insight/fixed-income/we-can-all-get-along-part-ii/

GLOBAL EMERGING MARKETS CASE STUDY

JD.Com

Since its initial public offering in 2014, JD.com – a Chinese e-commerce company – had not issued a standalone ESG report or held an annual shareholder meeting, albeit the company had released a corporate sustainability report up until 2018.

EOS began engaging with JD.com on shareholder rights in December 2017. We explained that holding an annual shareholder meeting allows minority shareholders to vote and elect independent directors aligned with their interests, in addition to voicing concerns and questions directly to the company. We were pleased that, in 2019, the company noted our concerns on board diversity and indicated that it was planning to hold a shareholder meeting later that year. The company also told us it would use our best practice ESG disclosures and seek to apply global reporting standards to its first standalone ESG report.

After the engagement with a senior executive in April 2021, the company published its first ESG report, covering topics discussed in our engagement. We welcomed its disclosure on corporate governance structure, data privacy and cybersecurity management, and its commitment to decarbonise. The reports meet international standards, and we expect further disclosure focused on human capital management. The company also confirmed arrangements for its first annual general meeting on 23 June 2021, in line with our request. In addition, we welcomed the appointment of its first female director to the board this year. This is a good step towards improving board diversity and is in line with our expectations. A full case study is available on our website.

Within private markets, our Real Estate team has an extensive community and occupier engagement programme across our retail and office assets that focuses on governance, skills, safety, culture and wellbeing. Retail and office assets represent, on average, about 50-60% of our direct investment, depending on the fund. We aim to positively impact the health and wellbeing of our occupiers and local communities by establishing a constructive dialogue through a range of activities carried out during the life cycle of real estate assets, including:

- Development and refurbishment: land decontamination, the use of safe and healthy materials and enforcing risk management and safety standards in development, refurbishment and property management.
- Asset management: actively managing wellbeing initiatives through our Collaborative Asset Performance Programme +, targeting greater occupier engagement, wellbeing and comfort.
- Attaining wellbeing certification: in 2021, we achieved a BREEAM In Use certificate for our second residential development at Pomona Wharf in Manchester, which followed the same certification for The Cargo building at Liverpool in 2020, in addition to our ongoing programme of BREEAM in Use across our directly managed commercial estate, which has been running since 2017. We have 42 BREEAM In Use certificates, 7 BREEAM Refurbishment certificates and 22 BREEAM construction certificates across the portfolio as well as 7 Fitwell certificates.[37]
- Participating or supporting initiatives that promote wellbeing among occupiers and communities: we have addressed sustainable transport, healthy living among occupiers and community health, and have implemented the UK Modern Slavery act through our activities and supply chain.
- The team have also engaged with all occupiers during lease negotiations, with the intention of including sustainability clauses in all lease agreements.

We have continued to focus on reducing the carbon footprint of our real estate portfolios in 2021.

[37] BREEAM is a sustainability assessment method for projects, infrastructure and buildings. Fitwel offers a certification system for building health.

CASE STUDY – REAL ESTATE NET ZERO CARBON PORTFOLIO

Real Estate Net Zero Carbon Portfolio

Figure 38: 4 Angel Square, NOMA, Manchester

Source: Federated Hermes Limited.

As a part of our fight against global climate crisis we have committed to reach net zero carbon in our real estate portfolio by 2035.

Mitigating climate change risk is the only way to ensure our real estate portfolios are resilient and deliver long-term value for our investors. To ensure this, our Real Estate team signed up to the Better Building Partnership (BBP) Climate Change Commitment.[38] As a part of this, a net zero pathway has been developed for our managed assets (approximately £4.05bn, as at December 2020) across the whole portfolio. Its scope includes both landlord and tenant areas covering Scope 1,2 and 3 emissions and whole lifecycle carbon, including embodied and operational carbon.

Mitigating climate change risk is the only way to ensure our real estate portfolios are resilient and deliver long-term value for our investors.

The transition to a net zero carbon (NZC) portfolio will require strong governance and both a top-down approach – to help set up the overall policy and processes for real estate assets – and a bottom-up approach to help address specific challenges of individual assets.

Figure 39: SDGs Targeted By Real Estate Net Zero Carbon Portfolio Pathway

Source: UN Sustainable Development Goals

The top-down process: To implement the NZC pathway, a net zero working group was set up consisting of all decision makers and delivery partners. This group provides governance for the pathway development, sign-off for key commitments and e support during implementation.

Furthermore, several internal guidance documents have been developed to provide support for assets during their lifecycle, including an acquisition checklist, design innovation guide, refurbishment guide and net zero score card. These documents will help embed key net zero requirements and review climate risks during decision making and in everyday operations of the assets.

To provide a consistent delivery approach across the portfolio, a principal contractor, Verco Global, has been appointed to work as our real estate delivery partner and to help develop consistent overarching processes for the NZC implementation.

To implement the NZC pathway, a net zero working group was set up consisting of all decision makers and delivery partners.

The bottom-up process: While the top-down process was under development, several assets reached a key intervention point due to lease expiry, lease renewal, planned maintenance and refurbishment. Asset level NZC deep dives are being carried out to identify opportunities, risks, remediation measures, capital cost and timescales. At asset level, other initiatives like solar photo voltaic, electric vehicle, smart optimisation in buildings, circular economy, water efficiency and nature-based solutions are also being implemented.

Furthermore, we signed up to the BBP Design for Performance (DfP) pioneer project[39] and London Energy Transformation Initiative (LETI) pioneer project[40]. The success of the NZC pathway will hinge on engagement with various internal and external stakeholders, in particular our tenants.

[38] https://www.betterbuildingspartnership.co.uk/node/877.
[39] https://www.betterbuildingspartnership.co.uk/our-projects/design-performance/pioneer-projects.
[40] https://www.leti.london/leti-pioneers.

We manage our community engagement programme through our property managers and have established a stakeholder engagement tool, which provides support to our property managers, sets minimum requirements, and facilitates additional community engagement activities. Our property managers have continued to engage with our tenants during the pandemic, and this ongoing engagement creates a relationship with the tenants that helps us achieve some of our wider sustainability goals. Moving forward, the Real Estate ESG team will place an increased emphasis on tenant and occupier engagement.

It is naturally more challenging to engage with occupiers within the industrial and retail sectors, given the type of leases and structure of their activities. The full repairing and insuring (FRI) lease structure common in these types of assets offers the occupiers complete autonomy in how they manage and maintain the building and carry out procurement activities. This means that obtaining data and encouraging sustainable procurement choices can be challenging. In our indirect funds, the managing partners engage with the occupiers.

Meaningful cities provide a well-functioning backdrop that allows citizens to participate freely in social, economic, leisure and community-based activities. Cities designed around such holistic principles create a virtuous cycle, benefiting individuals, communities, businesses and local and regional government authorities, while helping to preserve natural capital and ensuring the historic continuity of built environments. In turn, meaningful cities can likely sustain higher economic growth by attracting and retaining talent and capital, which provides a better return on capital for investors: a true win-win.

Over the last two decades, we have undertaken eight large urban regeneration developments across the UK. Such sites have provided the perfect opportunity to showcase our meaningful placemaking concept in action. But rather than relying on in-house perceptions, we engaged independent economic researcher, Hatch, in 2018 to provide an objective view on our placemaking performance. We are looking to develop this further through in-depth and long-term social value measurement, with two projects that have already started.

We monitor our community-engagement programme once a year and reward best performance among managing agents, development teams and legal consultants at our Responsible Property Investment annual awards. This introduces healthy competition, raises awareness of successful initiatives and encourages our counterparts to continuously improve. The pandemic means that the Responsible Property Investment (RPI) awards did not take place during 2020 or 2021, as our priority was to engage with and support tenants.

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

Following the completion of an investment in the Direct Lending funds, ESG risks – like all credit risks – are monitored. Should an ESG issue arise during the life of the investment, the Direct Lending team will seek to engage with the sponsor and management of the borrower to rectify or improve the ESG issue.

We include information requirements in all of our real estate debt loan documentation to ensure that the borrower passes on the relevant ESG information to us, which we use to monitor ESG in our investments. Many of our real estate debt loans support assets where a wider impact is delivered, such as refurbishments and regeneration. These factors are a strong consideration before investments are made, as are risks posed by ESG factors. As with our direct lending investments, the key is to identify risks that may impact on a borrower's ability to repay their loan. We also intend to engage with the borrower where additional ESG issues arise during the life of the loan.

Outcomes of engagement in 2021

Public markets

Through stewardship activities, led by EOS, we engaged with **528** of our public markets holdings in 2021, covering **2,100** identified objectives or issues. We made progress on **54%** of all objectives related to our holdings, which equated to **77%** of our equity and credit AUM (compared to 78% in 2020).[41]

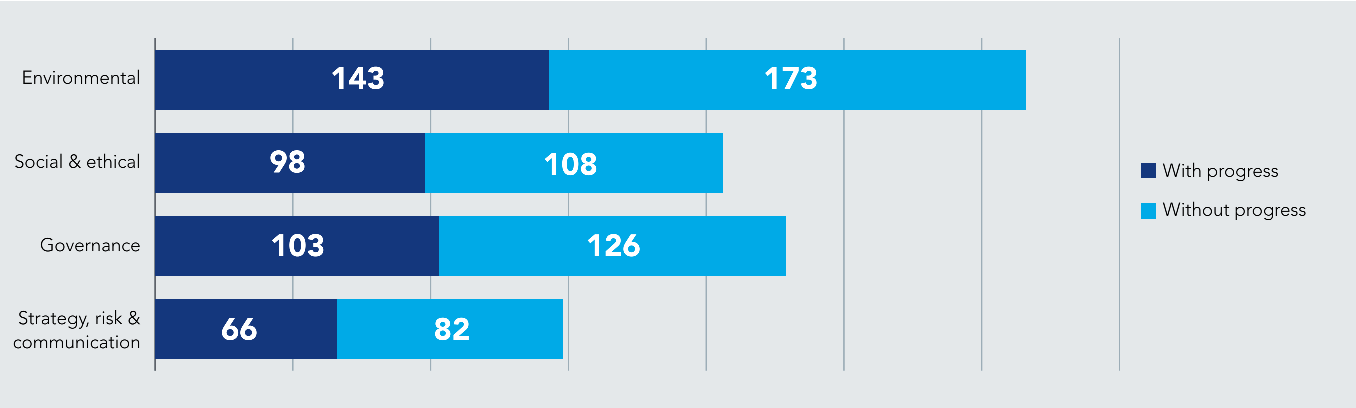
Figure 40. Fund level engagement coverage for pooled equity funds during 2021

Fund name	% AUM Engaged in 2021
Federated Hermes Asia ex-Japan Equity Fund	78%
Federated Hermes Emerging Asia Equity Fund	57%
Federated Hermes Global Emerging Markets Equity Fund	88%
Federated Hermes Global Emerging Markets SMID Equity Fund	34%
Federated Hermes Global Equity Fund	82%
Federated Hermes Global Equity ESG Fund	85%
Federated Hermes Sustainable European Equity Fund	79%
Federated Hermes Sustainable Europe ex-UK Equity Fund	77%
Federated Hermes Impact Opportunities Equity Fund	68%
Federated Hermes Sustainable Global Equity Fund	93%
Federated Hermes US SMID Equity Fund	75%
Federated Hermes Global Small Cap Equity Fund	77%
Federated Hermes SDG Engagement Equity Fund	100%
Federated Hermes Global High Yield Credit Fund	87%
Federated Hermes Multi-Strategy Credit Fund	88%
Federated Hermes Absolute Return Credit Fund	87%
Federated Hermes Unconstrained Credit Fund	85%
Federated Hermes SDG Engagement High Yield Credit Fund	96%
Federated Hermes Climate Change High Yield Credit Fund	82%

Source: Federated Hermes Limited, as at 31 December 2021.

[41] Our AUM here includes equities, warrants and bonds, as well as single name credit default swaps that give the firm long exposure to the underlying instrument and its associated company. Other derivatives, cash, index and government instruments are excluded.

Figure 41. Progress made on our engagement objectives by theme in 2021



Source: Federated Hermes Limited, as at 31 December 2021.

We publish case studies throughout the year on our website to demonstrate the approach we take and the outcomes of our engagement. EOS case studies are fact checked by the engagement companies and published on the EOS Insights website page.

CASE STUDY

Baidu

EOS has been engaging with Chinese technology company Baidu on human capital management since 2016. Our engagement began in the context of changing the company's culture to improve its search platform for ethical advertising.

A chief operating officer was appointed in 2016 to oversee the company's AI vision. In March 2017, we were therefore able to discuss human capital management in relation to incentivising and managing performance for AI applications.

In May 2019, we intensified our engagement on this issue. We also communicated our concerns about the accelerated outflow of Baidu's technology talent, which was deemed the worst among technology companies in China, heightened by increasing competition not only from within the technology industry but also from banks seeking to build digital solutions.

Baidu said this phenomenon is not new in the Chinese technology sector and the company's attrition rate was not higher than historical levels. On senior management turnover, Baidu said it was part of the natural talent review process. We urged the company to disclose relevant human capital management indicators and its efforts around talent retention.

In 2020, the company established an ESG committee, and we welcomed the company's commitment to publishing an ESG report on an annual basis instead of every three years. The company made a deliberate commitment to diversity and inclusion and took up our suggestions to include workforce statistics.

Finally, in March 2021, the company released its first special report on human capital management, in addition to the 2020 ESG report. We intend to follow-up with the company on the mechanism developed to ensure continuous improvement on talent management and progress the company is making. The full case study is available online.

CASE STUDY:

SDG Engagement Equity Strategy – Eagle Materials

Eagle Materials is the largest domestic-only producer of cement, aggregates and wallboard in North America. As of Q4 2021, Eagle Materials represented 16% of the Federated Hermes SDG Engagement Equity Fund's total carbon footprint. This figure, while high, is perhaps unsurprising given cement manufacturing is estimated to represent c.8% of total global emissions.[42]

Over the period of our investment, we have met with Eagle's management on numerous occasions to discuss issues of interest and have been encouraged by the progress made. We had long contended that their position as the most cost-efficient producer in North America was testament to their commitment to do more with less. While there remains scope for further progress, Eagle has already delivered meaningful improvements. Notably, the company's previously lagging ESG disclosures are now broader and richer. Before this year, the company's last sustainability report was back in 2011 – we are confident that these disclosures will now be annual rather than once a decade. Eagle's disclosures this year evidence their sound practices, aligning them to – or even placing them above – domestic peers in the building materials sector. The company is now catching up with international cement manufacturers. More pertinently, the company's carbon intensity of production, as of 2020, was 0.72 tons of CO_2 per ton of cement. While higher than international peers, it nonetheless suggests that when it comes to efficiency, Eagle's facilities are collectively in the top quartile of cement plants in the US, where the median carbon intensity is 0.78. There is still significant scope for progress, and we are pleased to note that the company is on the case.

We have been focusing our engagement on alternative fuels, clinker substitution, thermal efficiency and carbon capture, as well as setting science-based targets for greenhouse gases (GHG) in line with the Paris Agreement.

Eagle Materials has been in dialogue with the US Department of Energy and others for some time. Pleasingly, the company was able to announce, in Q4 2021, a collaboration with Chart Industries to test their Sustainable Energy Solutions Cryogenic Carbon Capture ('CCC') technology at their Central Plains facility in Sugar Creek. The project will scale the CCC system to a capacity of nominally 30 tons of CO_2 per day, with the intention of demonstrating that the system captures more than 95% of CO_2 and produces a CO_2 stream that is more than 95% pure. Notably, Chart Industries' CEO and President, Jill Evanko, has suggested that the company's CCC model increases cement production costs by just 24%, compared to 38%-130% for other systems, therefore offering some hope for potential commercial scalability.

We intend to continue to engage with Eagle Materials on identified central issues. We hope to see further progress made in the coming year with respect to explicit target setting around, for example, alternative fuel utilisation. Fundamentally, we are hopeful that the company will continue to take a leadership position within the industry, raising collective ambitions and in turn accelerating the progress towards net zero.

[42] Fast Company, Cement is responsible for 8% of global emissions—but it doesn't have to be, (19 November 2021).

CASE STUDY

SDG Engagement Equity Strategy – Brunswick 2021 Update

Brunswick is a global leader in recreational marine products, producing marine engines, parts and accessories, and recreational boats. In March 2018, we began our engagement with Brunswick, led by our SDG Engagement Equity strategy. This started with a positive introductory meeting with management, where it was agreed that the company needs to replicate the good work already in place at its engine business, Mercury Marine across the wider business. From 2018 through to 2021, our SDG-aligned engagements with Brunswick have focused on:

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

As we described in our Stewardship Report last year, since the inception of the strategy, we have had multiple interactions with Brunswick, including a number of meetings with the company's management team, a visit to its principal manufacturing facility and considered exercising of our voting rights. We have been impressed by the human-capital management and sustainability practices of specific divisions, notably Mercury. Pleasingly, the company has extended these practices across the group and is taking a leadership position on important issues for the industry. We continue to focus on engaging constructively with management and encouraging them to keep raising their ambitions.
We continue to engage on developing options for more circular usage at the end-of-life for the fiberglass material in vessels, as well as further innovations to reduce the group's direct (production) and indirect (product usage) emissions. Further to our 2020 case study, the company made the following progress in 2021/22 on our engagement objectives:

- End-of-life recycling: We have engaged with Brunswick since 2018 on the end-of-life process for aged vessels. In Q1 2022, the company announced a partnership with Arkema, a leader in speciality materials, to develop a fully recyclable fibreglass boat.
- Green products: We have encouraged the company to develop a more explicit product suite. Further to its ongoing electrification of onboard elements, such as diesel generators, in Q1 2022 the company launched an electric engine prototype. This follows the company announcing, in 2021, their intention to release new electric boat and propulsion offerings in 2022 and 2023.

CASE STUDY

SDG Engagement High Yield Credit Strategy – Alcoa

Alcoa is a major global producer of bauxite, alumina and aluminium. Its operations encompass all major production steps in the aluminium value chain, including value-added cast products. It has access to bauxite reserves at seven mines in Australia, Brazil, Guinea and Saudi Arabia, and operates seven alumina refineries. Its aluminium segment includes smelting, casting, and energy assets. Alcoa has approximately 14,000 employees in 15 countries.

We have engaged with Alcoa since 2019 on its climate action strategy, driven by our objective for the company to set a science-based target (SBT). We were therefore pleased, and unsurprised, by the company's increasing ambition in recent years. In 2020, Alcoa set more aggressive GHG reduction targets of 30% by 2025, and 50% by 2030, from a 2015 baseline. It later announced a sector-leading commitment to net-zero GHG emissions across global operations by 2050. Taken together, the three targets (with accompanying deadlines) appear well-aligned with the requirements of the Paris Agreement.

An important next step is to validate the decarbonisation pathway; Alcoa is working with the International Aluminium Institute to define this methodology. These actions are in line with our expectations, and we continue to engage on the next milestone objective: validation of the scientific basis for a 1.5 degree-aligned emissions reduction pathway in the targets being set. Alcoa's progress on decarbonisation will continue to be limited by its remaining reliance on coal for around 36% of its energy needs. Phasing out coal-driven production assets will continue to be a key point in future engagement.

Alcoa strives for zero fatalities and life threatening or life altering injuries and illnesses throughout its operations. It has identified its most critical risks across its activities as follows: the operation of earth-moving equipment during mining, the incidence of chemical burns during refining, and handling molten metal during the smelting and casting processes. After updating its safety standards in 2018, the company analysed the extent of existing gaps between its current operations and the standards it strives for in 2019, after which a three-year plan was established to address shortcomings. All of Alcoa's employees undergo regular environment, health and safety (EH&S) training, and any incidents are followed up using a detailed investigation process to identify areas of improvement.

However, in 2020, Alcoa did not meet some of its EH&S targets and, sadly, experienced a fatality at a Brazilian facility. During engagement, we underscored the importance of Alcoa meeting its ambitious targets when it comes to the safety of its workforce. Given the critical need to protect workforces, we continue to monitor this closely, and have set an objective to demonstrate a quantified pattern of improved health and safety performance outcomes over the next two years.

To the communities surrounding production sites, pollution and waste are of particular importance at a local level, underpinning Alcoa's licence to operate. Toxic substance spills have been reported at various Alcoa sites and, although occasional incidents are to be expected, it could signal poor operational risk management. We intend to engage the company on actions taken in response to the incidents and how it intends to achieve zero pollution events. Associated with this are a range of other pollutants that are inherent to the aluminium production process, rather than a result of unplanned incidents. We intend to set an objective for pollution management, which will be to exceed sector best practice and engage on pollution intensity reductions over time. We believe the company will be amenable to next steps in this area, as it has now published a biodiversity policy detailing its commitment to protecting and rehabilitating ecosystems impacted by operations. It is working with others in the industry to find ways to re-purpose red mud for cement production.

In some instances, we will discontinue engagements on the basis that our efforts have been met with strong resistance, or the matter is no longer relevant. The following are reasons an objective may be discontinued:

- Company unresponsive: the company has not been responsive to our engagement, and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- Company disagreed: the company has expressed its disagreement with our engagement proposals, and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- No longer relevant/ material: the original objective is no longer considered sufficiently material or relevant. This could be due to a change in the company's business profile (such as divestment of a business unit of concern) or if engagement reveals that the original concern is of lower materiality than originally anticipated.
- Restarted as new objective/issue: engagement reveals that the original objective should be materially changed – for example, split into two separate and related objectives or combined with another objective.

Providing explanations for scenarios where engagement has stalled – that is, in instances where engagement is moving slowly, or a company refuses to make changes – is more challenging because we conduct the majority of our engagements behind closed doors. We are mindful of the relationships we have built with companies, as well as our future engagements with them. For these reasons, we provide anonymised case study examples.

As a result of client feedback, we are looking to provide more clarity regarding our rationale for discontinuing objectives based on a range of scenarios.

CASE STUDY

Discontinued objective, dual share class structure

In 2019, we asked a manufacturing and construction company to set out a plan to abolish its dual share class structure, since this structure disenfranchises minority shareholders and often increases the power of one shareholder disproportionate to its financial stake. We conveyed our expectations, as set out in our Corporate Governance Principles, that issuers with multiple class share structures should adopt sunset provisions that put in place a 'one share, one –vote' single class structure. We also outlined that independent directors, convened in executive session, should meet annually with (or write to) super-voting rights holders. They should seek their agreement to sunset these super –voting, multiple-class share structures. The company acknowledged our concerns, stating that it would be open to transitioning to a single-class structure, if the prices were to converge.

In 2019 and 2020, we recommended opposing the chair of the nominating and governance committee over concerns to protect shareholder value, due to the dual class share structure and lack of a disclosed plan to sunset the arrangement. Since 2019, there has been no desire by the company to discontinue the dual class structure. The company acknowledged that some of its governance processes are unconventional, however, it believes these are best suited to its long-term approach to shareholder value. Based on our engagement with the company, it is unlikely that further dialogue will progress this objective. While our engagement on abolishing the dual class share structure failed to achieve the desired outcome, the company continues to advance its environmental and social disclosures and is receptive to continually improving its governance model, which we appreciate. Our engagement going forward will focus on improved board diversity, climate change risk and opportunity, and product stewardship.

Private markets Our Real Estate team publishes an annual ESG report, which publicly discloses environmental and social outcomes for our real estate funds. Through our placemaking activities, we have created significant social and economic growth in a number of our real estate construction projects. This has been achieved through generating construction jobs, apprenticeships and local supply chain spending. As we expand our reporting to cover the eight social hubs identified for real estate placemaking initiatives, we are developing a comparative framework, which will enable us to clearly measure and analyse the positive impact that investment on social infrastructure has with respect to the local economy and social infrastructure.

We did not publish any of these reports in 2020 or 2021, as the measures put in place during the Covid-19 pandemic prevented us from measuring the impact of these developments. Our most recent socioeconomic report was published in 2019 and covers NOMA in Manchester. The report provides an example of the style of reports we produce and the impacts we have had. It sets out quantified social and economic impacts, showing that the estimated construction investment of approximately £150m at the time of the report had supported approximately 2,250 construction workers over eight years, with 60% of the jobs filled by Greater Manchester residents. Over 1,000 construction workers received on-the-job training, and over 80 apprentices were involved in the redevelopment. Around 70% of construction spend was with Greater Manchester based contractors.

GRESB: GRESB – the global real-estate sustainability benchmark for real assets – is an investor-driven global sustainability benchmark and reporting framework for listed property companies, private property funds, developers and investors that invest directly in real estate.

The assessment is shaped by what investors and the industry consider to be material issues in the sustainability performance of real estate investments. Scoring covers seven areas: management, policy and disclosure, risks and opportunities, monitoring and environmental management systems, performance indicators, building certifications and stakeholder engagement.

The table below summarises the 2021 scores and movements from 2020 with improvements in all areas apart from developments, where the small decrease reflects the area of developments reducing in 2021.

Figure 42. Real Estate 2021 GRESB scores

Fund	Star Rating		Green Star	GRESB Score		Change in Score	Peer Ranking	
	2020	**2021**		2020	**2021**		2020	**2021**
BTPS	4	**5**	Yes	83	**87**	+4	2	**1**
BTPS Developments	5	**4**	Yes	89	**88**	-1	1	**4**
Federated Hermes Property Unit Trust (FHPUT)	3	**3**	Yes	73	**75**	+2	10	**13**
HCLLP	4	**4**	Yes	82	**86**	+4	5	**6**
Metro Property Unit Trust (MetroPUT)	3	**2**	Yes	68	**72**	+4	5	**7**
Centre:MK	5	**5**	Yes	93	**95**	+2	1	**1**
Hestia	2	**5**	Yes	68	**87**	+19	5	**2**

Source: Federated Hermes Limited, as at 31 December 2021.

In the overall ratings, Centre:MK, BTPS and Hestia all achieved a 5-star rating – this recognises entities placed in the top 20% of the benchmark. Both BTPS and Centre:MK were at the top of their peer group.

The success of our Real Estate ESG approach can also be seen in the certifications that our properties receive. In 2021 we achieved a second BREEAM In Use certificate for the residential development at Pomona Wharf in Manchester.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

We see value in both direct and collaborative engagement, and it is the combination of both which helps us to influence issuers and borrowers and to carry out effective stewardship. Where there are shared objectives – in particular the promotion of long-term sustainable value – we use both formal fora and other more informal links to work collaboratively with other investors on a global basis. Such interactions can be ad hoc or ongoing. Crucially, the primary concept of EOS' stewardship service is to provide a mechanism for like-minded asset owners to pool their resources and, in so doing, create a stronger and more effective stewardship voice. We consider initiatives on the basis of factors including effectiveness, feasibility, alignment, benefits to the end user and reputation. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. As described under Principle 4, we contribute to policy discussions both directly and in collaborative fora and initiatives. We are a member of a number of industry bodies and initiatives around the world, through which we conduct collaborative engagement both on thematic issues and with specific issuers.

Our collaborative engagements

Public markets

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

In order to succeed in the long run, we believe that companies will need to effectively manage relationships with key stakeholders. They also need to be mindful of their impact on the environment and their role in both the communities in which they operate and society as a whole – something that grants them their licence to operate. As a result, we are interested in and seek (if necessary) to influence a company's management of these wider risks, where they have been raised. While we do not generally communicate directly with stakeholders, we will feed back their concerns – once verified – to company management through our position as shareholders. We believe we have a duty to use our influence to improve the behaviour of the companies in which we invest; in turn, this should benefit society as a whole. Our stewardship activities may also include discussions with relevant stakeholders of investee companies, such as industry bodies, policymakers, regulators, customer groups, employee groups and civil society organisations. All of our activities are supplemented by our belief in transparency, and our public reporting may be of value to relevant stakeholders.

We list here examples of how we have collaborated with other investors to engage with issuers in 2021:

- **Lobbying and auditing:** The political lobbying and public policy advocacy conducted by companies directly, or through the trade associations to which they belong, can have a significant influence on the structural policy environment. We ask companies to assess their industry memberships and identify any areas of climate policy misalignment. For example, after three years of specific engagement by EOS, BMW, a company where EOS co-leads for Climate Action 100+ (but which is not a Federated Hermes Limited holding), published its first policy in relation to its trade association memberships. This describes how the company monitors the climate policy positions of its trade associations and its new, proactive approach to membership that seeks to influence the positions taken by these organisations.

  Another important issue is how companies have reflected climate risk in their financial reporting and accounts. At the COP26 Federated Hermes Fringe Festival held by Federated Hermes Limited, think tank Carbon Tracker hosted a panel event on climate accounting, highlighting that 80% of auditors do not provide evidence that climate is considered in the audit reports of carbon-intensive public companies, despite the materiality of climate change to these businesses. We have raised this topic across our engagement programme companies and, in November, we signed a letter to the Big Four audit firms asking that material climate risks be included in company audits. The letter also warned that investors would consider voting against the reappointment of the auditor if this was not addressed.

- **Advancing sustainable capitalism through corporate purpose:** EOS is helping to accelerate best practice purpose governance globally through its involvement in the Enacting Purpose Initiative (EPI). The EPI is a multi-institutional partnership between Federated Hermes, the University of Oxford, the University of California Berkeley, BCG Bright House, the British Academy, and over 65 board members, global investors, and asset owners. The EPI's second report was published in July, focusing on the US. In the report, 'Directors and investors: building on common ground to advance sustainable capitalism', market participants share their insights on the value of corporate purpose and how to leverage purpose to address societal and environmental issues. It builds on the EPI's initial report, 'Enacting purpose within the modern corporation: a framework for board directors', which convened 30 business leaders from organisations and institutions in the UK and continental Europe. The second report sets out how to define and measure purpose and includes case studies and best practice examples to assist boards in taking ownership of corporate purpose. EOS is using the outputs of this work to deepen its discussions with companies on how they can practically enact purpose and move beyond high-level statements and alignment with culture, to embed corporate and societal sustainability in their strategy and capital allocation.

- **Biopharma Sustainability Roundtable discussion:** During 2021, we participated in the third biopharma sustainability roundtable discussion with biopharma companies and investors to provide feedback on the results of the reporting methodology consultation. We expressed the need to shift thinking on disclosures in the sector away from a culture of compliance, to a culture that strives for the highest ethical standards. Leading indicators should be used to assess culture, and qualitative disclosures made around the processes and learnings applied when cultural failures are identified. We also said that the industry should shift towards setting more specific targets around diversity, based on a robust assessment of where issues may be occurring within an organisation. These targets should address issues related to inclusive culture, looking at retention, turnover and promotion rates by gender and ethnicity within different levels or business functions, for example. We intend to continue to engage with the Biopharma Sustainability Roundtable in 2022.

Private Markets

Our Private Debt teams may collaborate with other lenders to influence borrowers as part of the engagement process, as well as to collectively finance the loan. As described under Principle 9, we would typically do this at a point at which we have leverage. In particular, as our Direct Lending team has a co-lending programme with four major European banks, we often work with the relevant co-lending bank to influence the borrower. For example, during 2021, we worked with the co-lending bank to negotiate the terms of a loan with a manufacturing company whereby the interest rate of the loan will decrease as the company reaches targets for carbon footprint reduction, reduction in water usage or increased amount of recycled inputs into the manufacturing process.

We work with the other investors within our real estate joint ventures at both the ownership and asset-management levels. The boards of our joint ventures have representatives from both investors. We work together with investors within the decision-making framework of the Partnership Agreement. Each vehicle has an appointment with a Federated Hermes company (including MEPC, a fully owned subsidiary) for the investment management and/or development management of the asset. The appointed team reports to the board and is responsible for the day-to-day running of the asset, engaging with both owners within the joint venture to suggest and progress initiatives. It is at this level that our ESG approach strongly influences the delivery of the asset and property management services.

More information on our advocacy and collaborative engagement on thematic issues and public policy through industry initiatives is available under Principle 4.

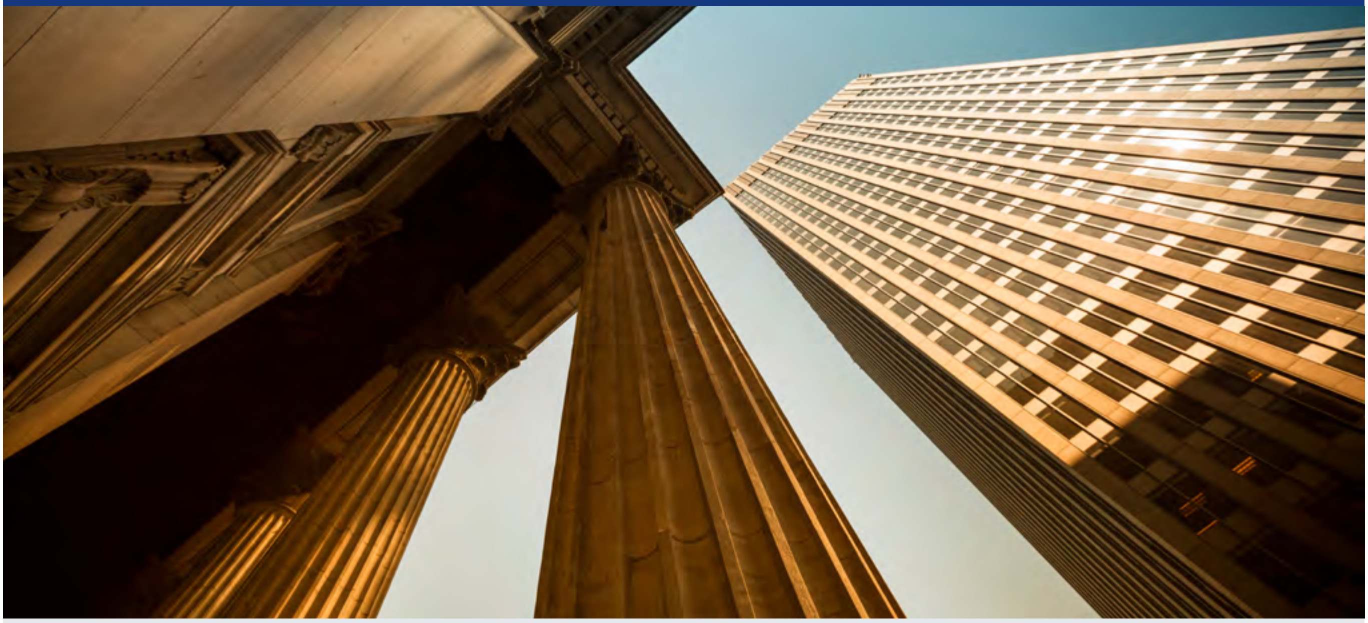
The outcomes of our collaborative engagement

We monitor the progress of our collaborative engagements with specific issuers in the same way we monitor our direct engagements. We do not categorise our engagements with specific issuers into either collaborative or individual/staff engagements. The outcomes of our collaborative engagements are therefore included in our reporting under Principle 9 of our broader engagement outcomes. However, here we provide some case studies as an example of how we collaborate with others in our engagement with issuers. As noted above, more information on our collaboration on thematic issues and public policy is available under Principle 4.

> **Our Private Debt teams may collaborate with other lenders to influence borrowers as part of the engagement process, as well as to collectively finance the loan.**

CASE STUDY:

Investor expectations for banks



We co-authored a paper setting out investor expectations on the alignment of the banking sector with the goals of the Paris Agreement. The paper focused on three areas: the actions banks should take to align their financing activities with the Paris Agreement goals and the achievement of net-zero emissions; steps to strengthen the governance of their climate strategy; and disclosure to demonstrate implementation. Officially launched by the Institutional Investors Group on Climate Change (IIGCC) in April 2021, the paper was supported by 35 investors and their representatives, collectively representing $11tn in AUM or AUA. Participants sent a courtesy letter to 27 banks, with a copy of the paper. These banks were selected on the basis that they represent the largest fossil fuel financiers and are designated as globally systemically important. Subsequently, the group initiated collaborative engagements with these banks. EOS leads or co-leads the dialogue with seven banks and takes an active participating role with four other banks. The collaborative engagements are in the initial phase, but an assessment tool is being developed which is expected to be finalised by Q2 2022, which will support the engagements moving forward. EOS is co-chairing this work.

On behalf of the IIGCC collaborative engagement initiative with leading banks, we led a collaborative engagement with Deutsche Bank. In early 2021, we sent a letter for the attention of the chair, CEO and lead independent director introducing the IIGCC Net Zero Investor Expectations for Banks. We subsequently followed up with engagement with sustainability executives on its action on climate change. We attended the annual shareholder meeting, advocating for inclusion of links to sustainability and climate ambitions in the company's executive remuneration. Together with other investors, we also wrote to the Bank emphasising the need to set ambitious targets ahead of the COP 26 UN climate conference. Later in the year, we met with the Bank's Head of Group Sustainability function and the Head of Group Enterprise Risk Management to discuss its progress on climate change.

The bank outlined its response to these requests actions taken so far, including becoming a signatory to the German financial sector's 'collective commitment for climate action' in 2020 and the Net Zero Banking Alliance in April 2021, committing to publish its long-term and intermediate decarbonisation targets for its key transition sectors before the end of 2022 covering its lending portfolio emissions. It is also working on a methodology that captures emissions facilitated by capital markets, by participating in the working group of the Partnership for Carbon Accounting Financials (PCAF). The bank has also incorporated climate risk into its group risk appetite statement, using several tools for risk identification (including its proprietary environmental and social framework), and has enhanced risk measurement and monitoring (including scenario analysis and PACTA pathway alignment). The bank is also preparing for the European Central Bank stress test in 2022 and has the ambition of setting a green asset ratio target by the middle of next year. The bank has equally set up a Sustainable Finance target using its proprietary Sustainable Finance Framework. Under this Framework and a broader sustainability strategy, the bank is committed to support clients in transition including client engagement. The bank has been training its client-facing staff to understand the framework and to identify opportunities for clients to transition. The company set out considerable detail of its approach to climate change finance in its 2021 Non-Financial Report and a further white paper on its pathway to net-zero emissions.

CASE STUDY:

AbbVie

AbbVie is a North American biopharmaceutical company.

Issue: Executive compensation

Objective: We have concerns that one metric for the short-term incentive plan is directly linked to the revenue from one drug in the company portfolio. Not only does this incentivise price increases, but it also risks not incentivising investment and a focus on a broader product portfolio as the company becomes overly focused and reliant on one drug that is near the end of its patent.

Details of Engagement:

- During a call with the engagement team in Q1 2019, we encouraged the company to eliminate the Humira revenues as a metric in the executive compensation plan. We expressed concern that this not only incentivises price increases, but also risks not incentivising investment nor a broader product portfolio if management is overly focused and reliant on one drug nearing the end of its current patent. During a collaborative engagement with the Investors for Opioid and Pharmaceutical Accountability (IOPA) in Q4 2019, the company acknowledged IOPA's concern and stated that it had made a decision to eliminate this metric starting in the 2020 performance year.

Outcomes and next steps:

- In a meeting with the director of executive compensation, division counsel, governance and vice president of corporate responsibility in Q1 2021, we expressed our appreciation for it having followed through with this commitment. The AbbVie team explained that the change reflected a shift in strategy towards a more diversified company and investment in the broader product portfolio.
- We were pleased that this change also addressed the concerns raised in collaborative engagement with IOPA. For 2020, the company also adopted return on invested capital in place of return on equity to reflect senior leadership's focus on debt reduction.
- We continue to engage the company on governance matters, including its combined chair/CEO and board independence.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

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

Public markets

The companies identified for the core engagement programme at the beginning of each year are assigned an engagement intensity tier, although this is subject to change throughout the year, as individual company circumstances change.

We escalate the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue. Generally, our engagement activity becomes more active where we believe that engagement will lead to an increase in or prevent/limit a decrease in the value of a company over the long-term.

Engagements on some objectives may involve only a small number of meetings, although others are more complex and will entail multiple meetings with management and board members over several years. Such activity often requires persistence. Our long-term and diverse perspective enables us to persist with the more difficult and time-consuming engagements to bring about changes in either strategy, financial structure, operational or risk management or governance, including in relation to ESG risks. Any change we encourage a board or management team to make will be with the intent of improving a company's long-term performance.

While we can be robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines which could undermine the trust that we believe should otherwise exist between a company and its owners. As a result, we generally prefer to conduct engagement privately, rather than taking a public route when seeking change at companies, although (as described earlier under Principle 7) details of all engagement meetings conducted by our stewardship team are shared across investment teams and third-party clients. In our experience, working constructively with boards and management in private is the most effective way to achieve positive change, as it allows us to build trusted relationships with companies, which results in more open and frank discussions.

We escalate the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue.

However, on the occasion that we should not be able to achieve success by our usual methods of conversations behind closed doors, we may escalate our engagement by choosing to speak publicly at the company's annual general meeting (AGM) to garner additional investor support and add further pressure. When doing so, we would normally notify a company in advance. We may also vote against (or EOS may recommend voting services clients vote against) a resolution or management/the board at a company's AGM – we consider this choice carefully as we only want to use this technique if our usual engagement has consistently stalled, and we are not confident that the company is taking any action to address our concerns. We disclose a number of these instances under Principle 12. Given the assets we represent, such action sends a strong signal to the company and can help progress our dialogue.

Similarly, we have demonstrated a willingness to use the full range of rights that we have at our disposal, including the tabling of resolutions at shareholder meetings when necessary or collaborating with others to co-file shareholder resolutions (as described under Principle 12). We prioritise issues for escalation for the most material issues and companies, typically with our Tier 1 engagement companies, our most intense dialogues. Using the escalation techniques described can be a time consuming, and sometimes costly, process. As mentioned above, through the EOS annual survey, we have seen that a consistent majority of clients say engaging for impact and outcomes is a priority.

EOS uses the following engagement tools to escalate engagement over time. The graphic demonstrates how different tools are selected as the scope or intensity of the engagement increases in tandem with pressure for change at the company.

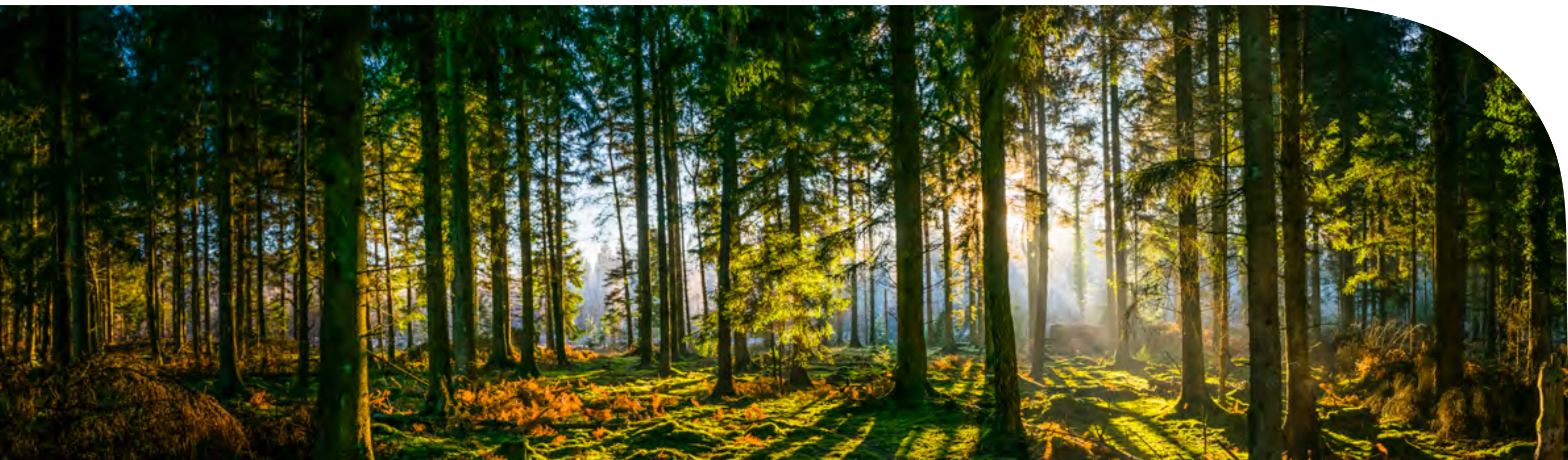
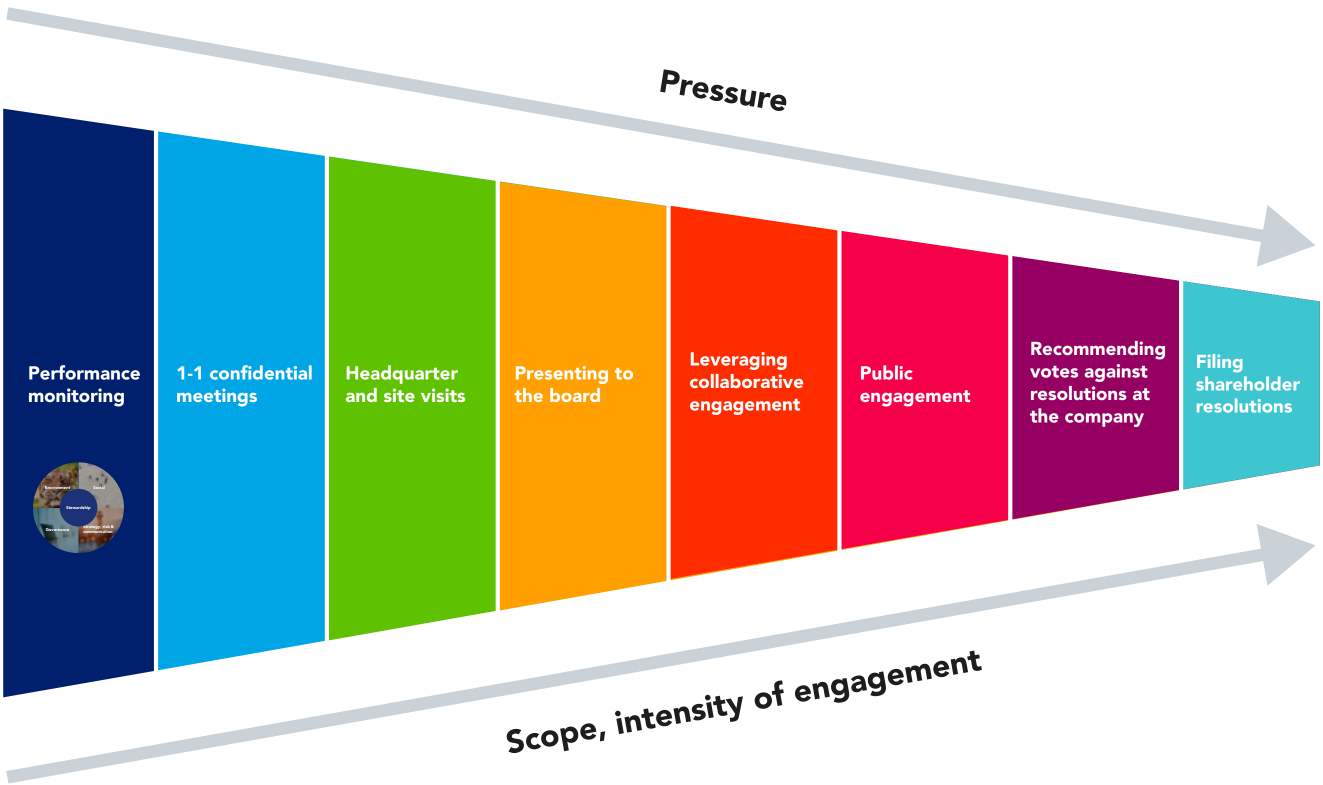


Figure 43. Engagement tools employed by EOS



Source: Federated Hermes Limited, as at 30 April 2022.

If our usual private engagement approach has not been successful, EOS will sometimes escalate an engagement. When this happens, the relevant portfolio managers are notified about it immediately – something that allows them to factor this information into their investment decisions. Companies that consider changing their practices as a result of escalation show a willingness to engage and listen to shareholders. This indicates the potential for positive change, which may enhance the investment case. On the other hand, a red flag is raised when a company is not willing to engage with its investor base or is resistant to change even after an escalation. If a company is unwilling to make changes in relation to material ESG or strategic issues, this may be an indication that it is less likely to create sustainable wealth over the long-term.

Escalating engagement on debt has many similarities to equity, including the use of collaborative engagement, formal letters to the company and public statements. There are, however, some differences. Companies have a recurring presence in the debt capital markets, which gives our public credit teams additional pressure points to influence corporate behaviour. Where a company has been unresponsive to our engagement efforts, we may also contact the banks involved in a new issuance.

For our engagement-focused funds, we may also withdraw our capital where we deem the engagement has failed, for example, where the company's actions contradict the outcome our engagement has been seeking. However, this is a last resort and only used after allowing sufficient time for the situation to improve.

CASE STUDY

EOS escalation tactics

Since the Paris Agreement was finalised, EOS has engaged with companies around the globe, urging them to put in place strategies that are consistent with goals and targets aligned to a 1.5°C pathway.

We believe that escalation of engagement will be increasingly important to ensure that companies make the necessary changes at the pace required. Collaborating with other investors is also critical to driving change. EOS is a significant supporter of the collaborative initiative Climate Action 100+ (CA100+), leading or co-leading engagement at over 25 companies across all regions. Several examples of our engagements linked to Climate Action 100+ are included in this report.

EOS have been at the forefront in using escalated engagement techniques, including:

- Helping to lead the drafting of, and co-filing, the first and only CA100+ resolution in Europe at BP's annual shareholder meeting[43] in 2019, which resulted in a significant shift in strategy towards becoming a net-zero company.
- Co-filing a resolution at Berkshire Hathaway[44] in 2021 demanding improved climate reporting, which gained support from a near 60% majority of the independent vote. More information on this is available under Principle 12.
- Recommending a vote against the election of the responsible director for climate change at over 100 laggard companies in this year's voting season, including The TJX Companies Inc and Umicore.[45] This also included not supporting four 'Say on Climate' votes at major companies, due to material misalignment with the Paris goals.
- Making statements at nine annual shareholder meetings in 2021 and asking live questions at six. In our role as CA100+ co-lead and lead, this included making a collective statement at Total's meeting and leading a delegation of eight institutional investors at LyondellBasell's meeting, which involved the use of a legal mechanism under Dutch law to require a discussion on climate change at the chemicals company's shareholder meeting.

These examples relate to EOS' entire AUA, which includes third-party assets, as well as Federated Hermes Limited's assets. In previous years, engagement has mainly focused on the biggest emitting sectors, such as oil and gas, utilities and steel. In 2022, we will widen this to include vital sectors such as food and agriculture, the apparel industry and its supply chain, and banks, which need to align their lending portfolios to 1.5°C, in step with investors.

Our case studies provide detailed insights into how our engagement escalates over time and can lead to change and completion of our objectives. In addition to the case studies below, there are further examples of how we have used voting and shareholder resolutions as an escalation technique under Principle 12.

[43] BP was not a Federated Hermes Limited holding at the time of the meeting.
[44] Berkshire Hathaway was a Federated Hermes Limited holding at the time of the meeting.
[45] The TJX Companies Inc and Umicore were Federated Hermes Limited holdings at the time of the meeting.

CASE STUDY

Pemex

Pemex is a Mexican state-owned oil and gas company. Mounting ESG concerns and the lack of response to engagement led to divestment from our credit strategies as we viewed the ESG risks as too high. However, our stewardship efforts via EOS continue.

Aim: Our engagement efforts focused on labour safety, environmental and sustainability objectives and disclosure.

Engagement overview:

- Our engagement efforts with Pemex began in 2017, when the management team in place at the time made it clear that it understood and was committed to improving the company's ESG practices. With the change of administration in Mexico and a newly appointed management team at Pemex, our efforts to engage with the company on crucial ESG factors proved to be more difficult. We engaged with the company on behalf of Federated Hermes Limited and as part of the Climate Action 100+ initiative (CA100+).
- In October 2020, we had a call with Pemex's environmental, planning and investor relations teams to introduce CA100+ and emphasised the importance of long-term sustainability issues to bondholders, including governance and board oversight of climate change, action and targets to reduce carbon emissions in line with the Paris Agreement and implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and, fully embedding climate change considerations into the strategy. Disappointingly, a letter we wrote introducing the CA100+ initiative was not delivered to the chair and the other board members. We reiterated that we expect to engage directly with the board to provide our input and assess the board oversight of climate change.
- This was followed by a call in January 2021 with the CFO, where we highlighted that Pemex lagged its peers in climate change strategy and asked for ambitious carbon emissions reduction targets.
- The company acknowledged that progress in the climate change strategy has been slow due to the political environment in Mexico. However, the CFO sought to assure us that the company was aware of the importance of climate change and that the new business plan will bring more clarity, including carbon emissions reduction targets. When the company published its highly anticipated business plan in March 2021, it was published in Spanish only, despite the fact that the company relies on English-speaking investors to fund $98bn of its debt. More importantly, the business plan contained very little about the company's efforts to position itself for a lower carbon world and its carbon emission reduction targets were, in our view, minimal and disconnected from a wider climate change strategy.

Investment ESG scoring: We downgraded Pemex to an ESG score of 5 and exited the position in H1 2021 for our credit funds, due to multiple ESG problems. These included a lack of climate-related planning or strategy, poor health and safety performance, fuel theft risks, and top-down political influence on the business's ability to change in the short- and medium-term.

Next Steps: Given our aim to drive Sustainable Wealth Creation, we continue engagement with the company through EOS, as we believe in the positive impact of stewardship long-term. In July 2021, we had a call with a senior official in the Mexican Ministry of Finance. We discussed the lack of progress in our engagement with Pemex and agreed on a plan of action. We explained how ESG factors are being integrated into investment processes, which limits the ability of many investors to hold Pemex's bonds, given the company's poor track record on climate change strategy and action, labour safety and compliance. We also outlined how we had been trying to engage with Pemex's senior management and board without success. The Ministry of Finance official offered to organise a call with Pemex's CFO and asked to be involved in the engagement. We were encouraged by the positive response.

CASE STUDY

Marathon Petroleum Corp.

Marathon Petroleum Corp. is a US petroleum company.

Objective: Disclose risks related to the company's social license to operate, and in particular the impacts on earnings and long-term share value if the Dakota Access Pipeline (DAPL) is shut down.

Details of engagement:

- We asked Marathon Petroleum to disclose risks related to the social licence to operate, including the impacts on earnings and long-term share value if the Dakota Access Pipeline (DAPL) were shutdown.
- In February 2021, we expressed concerns that despite the company's 9.19% indirect interest in the joint venture that operates DAPL, no disclosure on risks of community opposition appeared in any of its annual reports. We cited research estimating the losses of the DAPL controversy at no less than $7.5bn to Energy Transfer Partners and other owners of the joint venture that operates DAPL.

In April 2021, we sent our voting recommendations to the company and urged the board to address labour relations issues and human rights concerns related to the Dakota Access Pipeline.

Outcomes and next steps:

- In May 2021, the company published its 2021 annual report with disclosure of risks related to the social licence to operate (categorized as 'climate change litigation'), including the legal challenges to DAPL from Native American tribes. In a temporary shutdown, the company would contribute its 9.19% pro rata share of funds required to pay interest accruing on the notes and any portion of the principal that matures during the shutdown and remediate any deficiencies to reinstate the permit. In a permanent shutdown, the company would contribute its 9.19% pro rata share of the cost to redeem the bonds, and any accrued and unpaid interest.
- As of December 2020, maximum potential undiscounted payments were $230mn and total investment was $465mn. Additionally, the disclosure mentioned fourteen climate change lawsuits filed by cities and states since 2017, against Marathon Petroleum and other energy companies.
- We continue to engage with the company on executive compensation, diversity disclosures and climate change issues.

CASE STUDY

Toronto-Dominion Bank

Toronto-Dominion Bank is a Canadian multinational banking and financial services company.

Objective: Company to report in line with all of the recommendations of the TCFD, using this as a foundation for the creation of a climate change risk and opportunity management framework, within a two-year timeframe.

Details of engagement:

- We initiated engagement with Toronto-Dominion Bank on leveraging the recommendations of the TCFD as the foundation for its climate change strategy in Q4 2018, building on a year of previous engagement, which included meetings with the chair, corporate secretary and outgoing chief environmental officer. The bank released its first TCFD report the following year, covering 2018, but in our opinion, substantial gaps in its strategy were evident.
- In a Q4 2020 meeting with the corporate secretary, investor relations and ESG teams, we reviewed its 2019 TCFD report, but remained discouraged by the lack of robust scenario analysis. By request, we sent a formal letter following the meeting, that outlined our feedback and expectations for its 2020 TCFD report. Our feedback was well received and consistent with the Bank's strategic direction.

Outcomes and next steps:

- In Q1 2021, we met with the company again after the release of its new climate action plan and 2020 TCFD report, which reflected a number of our recommendations including a target of net zero by 2050, joining the Partnership for Carbon Accounting Financials (PCAF), and a commitment to engage with and support its clients through the climate transition, substantively addressing the recommendations of the TCFD framework.
- We are encouraged by the bank's leadership and will continue to engage on financing restriction policies and criteria for the withdrawal of financing (for activities that are misaligned with the goals of the Paris Agreement).

CASE STUDY

Abbott Laboratories

Abbot Laboratories is a North American health care equipment and services company. Our engagement with this company is an example of the long-term horizons over which the results of engagement can be seen.

Objective: Appointment of truly independent directors, initially two such appointments.

Details of engagement:

- We initiated engagement with Abbott Laboratories regarding increasing the number of independent directors on its board in Q2 2013, following the demerger of its pharmaceuticals business. We discussed the need for board refreshment with the corporate secretary, investor relations and human resources in a meeting in Q2 2015. We were pleased that the company acknowledged the points that we made about the lack of recent refreshment and the dominance of greater Chicago area directors, but it did not commit to change at that time.
- When we wrote to the company explaining our vote recommendations ahead of its 2016 annual meeting, we reiterated the need for properly independent directors to be appointed to the board. In a meeting with the assistant secretary and investor relations in Q3 2016, we noted the numerous, persisting interlocking boards and other positions among its directors and the lack of recent refreshment.

Outcomes and next steps:

- The company confirmed that it was searching for director candidates. We were pleased to see the company act on this, evidenced by the appointment of independent directors, as defined by ISS and EOS, in 2017, 2018, 2019, and 2021. As of the company's 2021 annual meeting, the board was comprised of 77% independent directors, with the remainder being two executive directors and one former employee of an acquired company.
- We applauded this substantial refreshment but continue to engage the company regarding interlocking board relationships and requested disclosure on the potential competitive overlap with the AbbVie board, which raises concerns over independence.

Private markets

For most of our private markets teams, a lack of liquidity means that it is not easy to divest or decrease exposure to investments. As a result, investments in this space are considered to be long-term relationships, and it is for the investment team to conduct appropriate due diligence prior to investing to ensure that the firm is willing to work with us to drive positive change. At this point, positive behavioural changes in relation to ESG risks can be included as a requirement in the documentation. However, it is not always possible to envisage all ESG risks that could arise during the life of the investment. In these situations, our private debt and real estate teams would engage with the appropriate stakeholders such as the borrower or the tenant, often with the help of EOS, to escalate and resolve any issues through dialogue. Our Direct Lending team may also involve the private equity shareholder. There can be additional points at which we have an ability to influence the company's behaviours, primarily when the borrower seeks to alter the loan terms – for example, because the company wishes to make an acquisition, or where there is a lease event, such as a lease break or end.

As described under Principle 12, while we have enforcement rights when a borrower defaults on a loan and breaches the agreed terms, we use these rights only as a last resort. In the first instance, we seek to negotiate a positive outcome for all parties involved, although we will always act in our investors' interests in line with our fiduciary duty.

Principle 12

Signatories actively exercise their rights and responsibilities.

Our rights and responsibilities as an investor

As we set out under Principle 1, we believe that the purpose of investment is to create wealth sustainably over the long-term, and that investors must behave in a way that is consistent with solving the world's problems rather than compounding them. Intertwined with this is the belief that, consistent with client objectives and applicable requirements, investors must be responsible stewards of capital in order to contribute to positive outcomes for our clients and beneficiaries, as well as society and the environment. Throughout this report, we have sought to demonstrate how we have responded through active stewardship across all of our products and asset classes. Investor rights are themselves an asset, and we view the exercise of these rights as part of our fiduciary duty and a responsibility of effective stewardship.

> **EOS engagement professionals go through a training and onboarding process which involves shadowing more experienced colleagues to ensure they sufficiently understand the voting policies and how shareholder rights differ according to the markets involved.**

For listed equities, our voting and engagement are co-integrated as part of our overarching approach to stewardship. As such, our voting decisions – as well as EOS' recommendations to third-party clients on voting decisions – are informed by the insights and experience of engagement with the investee company. We may attend the AGMs of investee companies or arrange for representation at the AGMs by the EOS team. This can include asking questions or making statements to the board. We may also file or co-file shareholder resolutions. The exercise of all such rights is based on an evaluation of materiality and an analysis of costs and value. EOS engagement professionals go through a training and onboarding process which involves shadowing more experienced colleagues to ensure they sufficiently understand the voting policies and how shareholder rights differ according to the markets involved. Senior engagement professionals dedicate time to handling escalated votes and discuss market developments. We set out in more detail how we have exercised our shareholder rights for listed equities, including voting rights, in the following section.

For our fixed income products, the rights we have vary between the type of assets we invest in and even between individual investments. We seek to achieve mutually beneficial outcomes while protecting our clients' interests, in line with our fiduciary duty. For our Credit team, documentation is a governance factor, and the quality of the documentation can be used to determine how a company's management thinks about its stakeholders. As part of the investment process, we therefore see both the covenants and the quality of bond and loan documentation as indicators of governance strength or weakness.

As investment agents, we use the rights granted to us by our real estate client mandates to improve the value of the assets in our portfolios in line with our fiduciary duty. The rights and responsibilities we have vary between mandates and depend on the level of client involvement in the decision-making process. Our investment strategies reflect market conditions and consider ESG factors. Our asset management activities seek to improve the assets – by improving their ESG profiles and through tenant engagement – and thereby deliver positive social and environmental outcomes, which benefit our clients and their end beneficiaries.

Listed equities: voting approach

We, as shareholders, are granted a wide range of rights which both offer us a level of protection and enable us to fulfil our stewardship responsibilities effectively. In particular, we consider the vote as part of the asset and accept that we have a responsibility to exercise this right in a considered fashion.

Our voting policies

EOS' Global Voting Guidelines act as a policy to inform EOS' voting recommendations to our investment teams, as well as to EOS clients who request to receive voting recommendations. Federated Hermes Limited's Global Voting Policy and Guidelines, which are aligned with EOS' Global Voting Guidelines, inform the voting decisions made by our investment teams. Our Guidelines are informed by a hierarchy of external and internally developed global and regional best practice guidelines. The most important of these are our EOS-developed regional Corporate Governance Principles, which are available on our website. We have 22 of these guidelines, which set out our fundamental expectations of the companies our clients invest in with the aim of creating a common understanding between boards, managers and owners, of the proper goals of a public company. We have also taken into account the Organisation for Economic Co-operation and Development (OECD)'s Principles of Corporate Governance and the International Corporate Governance Network's Global Corporate Governance Guidelines, as well as our own Responsible Ownership Principles, which we developed by drawing on our extensive experience as an active and engaged shareholder.

EOS has developed very detailed country-specific customised voting recommendation policies for over **50** key markets.

The policy development cycle for our voting guidelines runs annually, in conjunction with the policy review process at ISS, which informs its benchmark research. EOS considers changes made at ISS in view of resolution-level data for past voting seasons in order to consider what additional changes are warranted. This includes integrating feedback from clients and evolving best practice in each market. Our Engagement Plan provides further input and identifies thematic priorities for engagement. This can often be boosted by enhanced vigilance and, potentially, escalation through our voting recommendations. EOS completes its major policy changes before the main voting season in each market. Once changes are applied, the policy is monitored to ensure it is having the desired effect and is adjusted further, where appropriate.

In addition, EOS has developed very detailed country-specific customised voting recommendation policies for over 50 key markets. Voting guidelines differ by country to reflect the differing regulatory, legal and corporate governance codes, as well as best practice.

Voting decisions

Voting rights are exercised with a view to achieving best practice standards of corporate governance and equity stewardship and with the aim to support the delivery of long-term value in our funds. Ultimately our investment teams make all voting decisions, based on EOS recommendations. EOS engagers, who are well versed in the voting policies, make recommendations to our investment teams based on our voting guidelines, as well as any further information that they receive through their research, engagement and specialist knowledge of the company.

While it is difficult to provide a general description, EOS will typically recommend a vote against management when it considers that a vote with management would not serve the best long-term interests of shareholders. For example, this may be either with respect to a proposed remuneration policy or when EOS believes the board does not have the skills to govern the company effectively. There may also be specific instances when a vote in favour of management would be actively detrimental to the company – for example, in the case of a proposed merger or acquisition that does not look to be in the long-term interests of the firm.

EOS uses ISS to provide research on all the companies for which it provides voting recommendations, which comes to over 13,000 meetings a year. The recommendations that our investment teams and EOS third-party clients receive are, in the first instance, based on ISS's research using our voting guidelines. This is then overlaid with our intelligent voting approach.

EOS has a value-add and cost-effective mix of automated and manual voting recommendations, which focuses resources on key topics and companies with significant holdings and/or contentious issues or ongoing engagement objectives. Engagers add insight and value to a specific subset of these meetings – those on EOS' watchlist – by considering the voting recommendation approach in light of the specific company context and the engagement. Our equity holdings are added to the EOS watchlist at the beginning of the year, which means that the majority of voting recommendations made to our investment teams are manual. EOS endeavours to engage around the vote with all companies on the watchlist for which it is considering recommending a vote against – this comprises around 1,000 companies, including over 300 in the core engagement programme. EOS will also discuss such cases with the relevant portfolio manager. We receive research from ISS, but also have access to our own information on our electronic platform, which captures meeting notes and documentation relevant to the company's engagement history and objectives.

EOS will also engage to identify any further relevant information that might inform the voting recommendation and has regular conversations with our investment teams about the reasons for their views on particular votes. We will vote 'for, by exception' to our voting policy when we judge that we will further the engagement and likely achieve beneficial change by doing so.

Votes are escalated when especially important for the company/complex, or when a disagreement or potential conflict of interest arises with the recommendation received from EOS. For our investment teams, the voting recommendation provided by EOS will inform their assessment, but they will make their final judgement independently. On the rare occasion that there are disagreements between investment teams and/or EOS on the appropriate voting commendation or decision, the matter is logged and escalated for consensus to be reached at the director level. We expect votes cast by our investment teams to be consistent with the voting recommendations we provide to our stewardship clients, who request to receive voting recommendations. In such cases, the rationale for divergence will be documented. As described under Principle 3, we have escalation processes in place when there are different views between EOS and our investment teams, or when conflicts of interest arise in the course of fulfilling our commitment to acting as good stewards of those companies in which we invest.

Clients with segregated mandates have the option to carry out the voting themselves, or to benefit from the voting recommendations and decisions of the relevant investment team, based on EOS' recommendations. Underlying clients of our pooled funds are not able to override the investment team's vote or to vote their share separately.

Securities lending

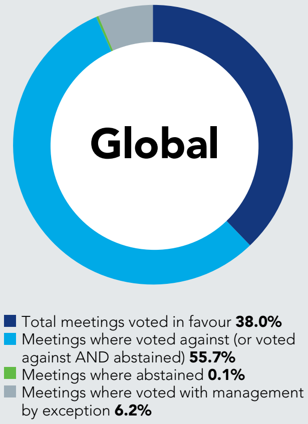
We do not as, a matter of course, participate in securities lending transactions. We endorse best-practice principles, such as the Securities Lending Code of Best Practice issued by the ICGN.

Listed equities: 2021 Voting

Our 2021 voting records and rationale

Our voting records are published online in arrears. This ensures that we are transparently accountable, but that our dialogue with companies around voting issues is not compromised. The records include all voting decisions of Federated Hermes Limited. These records relate to the voting decisions of the Federated Hermes Limited investment teams on behalf of Federated Hermes Limited funds and clients. Information on the voting recommendations made by EOS to EOS voting service clients can be found in the EOS Stewardship Report. Company meetings where we have recommended voting in line with management on all resolutions are condensed. In 2021, we cast votes at 826 meetings involving 8,703 resolutions.

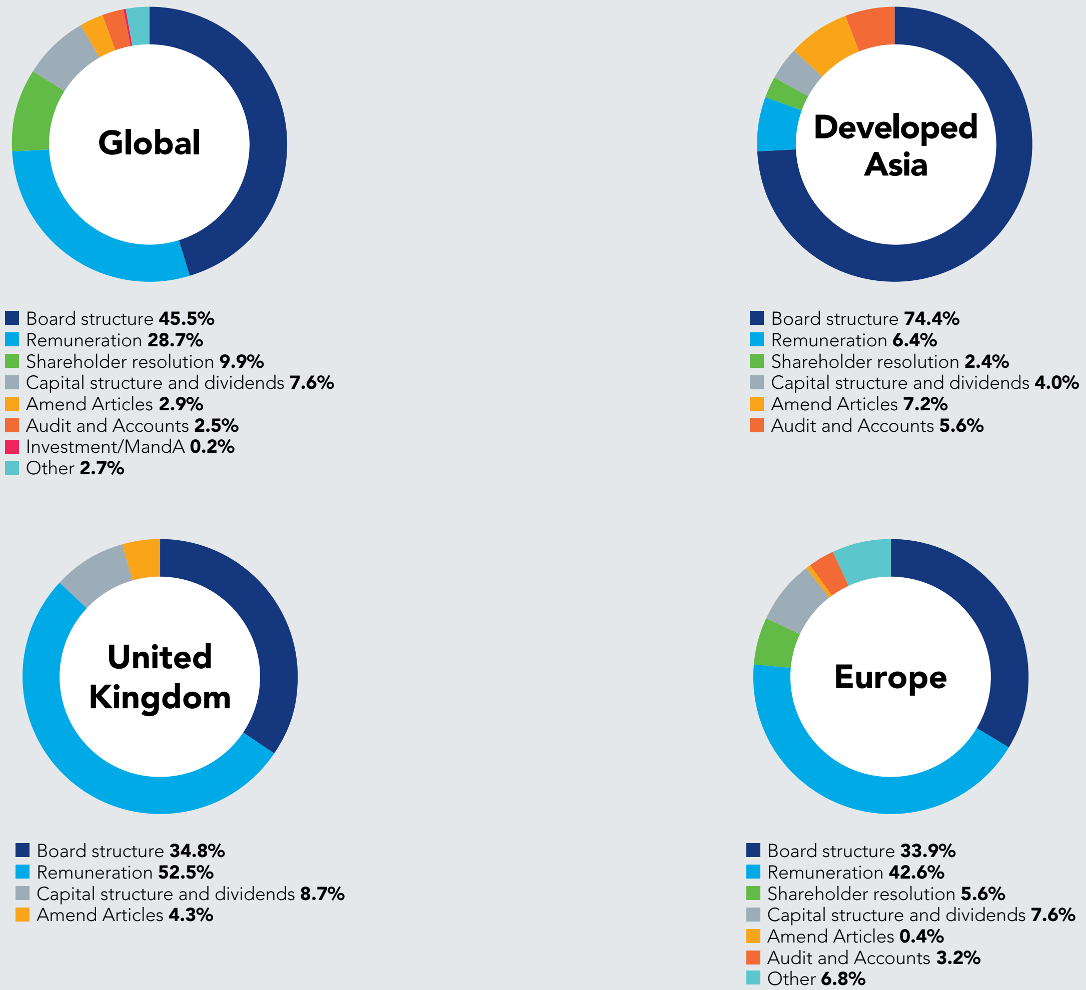
Figure 44. Global 2021 voting statistics



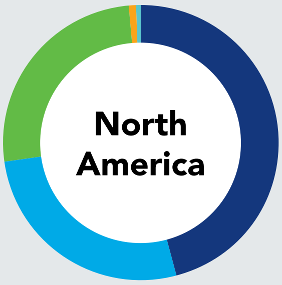
Source: Federated Hermes Limited, as at 31 December 2021.

Votes against the board: We provide the rationale behind our decision when we have voted against management on one or more resolutions. We seek to be supportive of boards and to recommend votes in favour of proposals unless there is a good reason not to do so. This is in accordance with our voting policies and global or regional governance standards. We will vote against management if, by doing so, we are striving to protect long-term shareholder interests.

Figure 45. Breakdown of votes against by region



- Board structure **52.0%**
- Remuneration **14.0%**
- Shareholder resolution **3.2%**
- Capital structure and dividends **17.4%**
- Amend Articles **5.3%**
- Audit and Accounts **3.7%**
- Investment/MandA **0.5%**
- Other **4.0%**



- Board structure **45.9%**
- Remuneration **27.1%**
- Shareholder resolution **26.2%**
- Amend Articles **0.6%**
- Other **0.3%**

- Board structure **23.7%**
- Remuneration **64.0%**
- Shareholder resolution **5.0%**
- Capital structure and dividends **2.2%**
- Amend Articles **2.9%**
- Audit and Accounts **1.4%**
- Other **0.7%**

Source: Federated Hermes Limited, as at 31 December 2021.

Companies continued to hold shareholder meetings virtually or in hybrid formats, with 2021 being a key year to establish new practice norms.

Votes not in line with our policy: We retain the ability to go against our high-level policy when warranted. This is on the basis of particular company circumstances or engagement insights, to best serve the interests of long-term shareholders, like us. If EOS engagers are considering whether to recommend a vote that is not in line with our policy – and there is not a clear and understood reason for this (see below on voting by exception) – then they will escalate this to a more senior team member. In these cases, engagers record in our Engagement Management System that they have consulted a senior engager. When a potential conflict is identified, the matter is escalated in line with our Conflicts of Interest policy, following the process outlined earlier under Principle 3.

On occasions, our policy may suggest a vote against management, but engagement insight suggests otherwise – for example, a company may have committed to making a change, with a view to implementing said change the following year. We may, here, vote by exception to our policy. These instances are highlighted in our voting disclosures and are within the scope of our overall voting policy.

- 2021 can be seen as a tipping point for investor engagement and voting on climate change, with the emergence of 18 'vote on transition' proposals at companies spanning oil and gas, construction, aviation, and consumer goods. EOS has had a formal climate change voting policy in place since 2019, targeting climate change laggards, and we strengthened this again in 2021. We continued to use the Transition Pathway Initiative (TPI) assessment, setting a threshold of Level 4 for all European companies, coal mining companies or oil and gas companies, or Level 3 for all other companies. We also identified several other areas where we believed a company's actions were materially misaligned with the goals of the Paris Agreement, including companies contributing to coal expansion and deforestation. To date, EOS have recommended opposing the election of the responsible director for climate change (usually the chair) at over 100 companies, including The TJX Companies Inc. and Umicore, where Federated Hermes Limited voted against the election of the responsible director. We supported directors by exception to our policy (or on proposals related to financial statements where no directors appear on the ballot) at companies where we noted progress or gained assurance that positive changes would be made, including at Itochu and PetroChina Company Limited. All resolutions in this example were passed, with 94.3%, 84.5%, 95.7% and 99.9% respectively.
- The 2021 voting season took place in the shadow of the coronavirus pandemic, with its impacts still being felt. Companies continued to hold shareholder meetings virtually or in hybrid formats, with 2021 being a key year to establish new practice norms. Some countries, such as Denmark and Japan, introduced legislation to allow virtual-only meetings, leading companies to propose changes to their Articles of Association. We selectively supported these, for example at Novo Nordisk, where we were able to gain assurances that companies would conduct the meetings in ways that protect all shareholder rights and that they would return to in-person or hybrid meetings as soon as practicable. The resolution passed with 100% support.

Shareholder resolutions: We support the selective use of shareholder resolutions, as they can be a useful tool for communicating investor concerns and priorities, asserting shareholder rights or supplementing or escalating direct engagement with companies. We consider such resolutions on a case-by-case basis and encourage boards to engage with serious, committed long-term shareholders like ourselves. When considering whether or not to support resolutions, we consider factors which help to ensure that the proposal promotes the interests of long-term shareholders. These include what the company is already doing or has committed to do, the nature and motivations of the filers (if known) and what potential impacts – positive and negative – the proposal could have on the company if implemented. When boards interact in an active and engaged way with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions.

In our experience, shareholder proposals can facilitate a dialogue with issuers, and we welcome these opportunities, where appropriate, whether we vote in favour of the resolution itself or not. We expect boards to address the issues raised by shareholder proposals, which receive significant support, or where they are material to the company. In addition, we view any failure to implement a shareholder proposal that has received majority support as a clear indication that the board of directors is not fulfilling its obligations to the owners of the company.

When we vote in favour of a shareholder resolution and there is no management recommendation, this is classed as a vote against management in our disclosures. This is to ensure that we do not under-report conflicts, although in some instances it may not be voting against what management would have wanted.

We also initiate shareholder proposals in markets where it is relevant to do so, typically in Germany and the US, either as lead filer or as co-filer alongside other investors. Consistent with our intelligent voting approach, this typically forms part of a wider engagement with the company and is used as a tool for leverage in EOS' dialogue with management.

We support the selective use of shareholder resolutions, as they can be a useful tool for communicating investor concerns and priorities, asserting shareholder rights or supplementing or escalating direct engagement with companies.

Examples from 2021 include:

- Investor focus on racial equity continued. Our tightening vote policies led EOS to recommend opposing FTSE 100 chairs in the UK at five meetings for failing to meet minimum expectations for racial diversity on boards. Meanwhile, shareholder proposals filed with several US companies urged each board to oversee a racial equity audit analysing the company's impacts on non-white stakeholders and communities of colour. This year, we also saw a significant number of racial equity audit shareholder proposals, including at US bank, J.P. Morgan Chase. Resolutions requesting enhanced disclosure on the effectiveness of diversity and inclusion programmes were also filed at companies including Berkshire Hathaway. Although we did not always agree with every aspect of the supporting statements, we broadly agreed with their substance, believing that racial equity audits would add substantial value beyond the actions the companies were already taking. During engagement, we explained that audits can provide additional insight into the root causes of complex problems, which companies must address to develop enduring solutions. They also enable more rigorous performance evaluation against underlying challenges and increase a board's capacity to provide effective oversight. We subsequently supported racial equity audit shareholder proposals at Bank of America, Citigroup, and J.P. Morgan Chase (which did not pass but received 26.5%, 37.8% and 39.8% support respectively), to accelerate momentum for closing racial equity gaps in society.

- In conjunction with California Public Employees' Retirement System (CalPERS) and Caisse de dépôt et placement du Québec ("CDPQ"), we filed a shareholder proposal at Berkshire Hathaway, hoping to trigger a dialogue with the company on climate change. We co-lead on Berkshire Hathaway for CA100+. The proposal asked Berkshire Hathaway's board to publish an annual assessment addressing how the company manages physical and transitional climate-related risks and opportunities. Tim Youmans, the EOS lead for North America, spoke at the 2021 shareholder meeting on behalf of the proposal. While the company has performed well historically, simply asking shareholders to 'trust' the company on its capital deployment decisions without climate risk being adequately disclosed is concerning. For example, Berkshire Hathaway Energy is now the largest US power company without a net zero goal. Berkshire Hathaway insiders, including the chair and CEO, Warren Buffett, control 35% of the company's voting power. With Berkshire Hathaway opposing the shareholder proposal, it was defeated, but when adjusted for non-insiders, the vote results were close to 60% in favour of the proposal.

Other notable votes: There are other instances when votes are notable due to the outcome of the resolution, or the level of dissent. The shareholder resolutions described above are examples of this, as are the following examples of voting against management with high shareholder dissent:

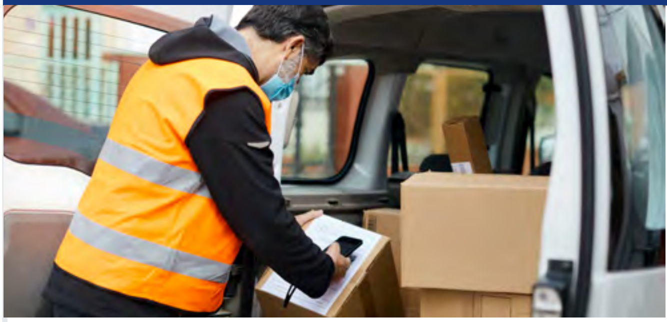
- Alibaba (China): We voted against the deputy chair due to concerns related to inappropriate membership of committees. As an executive director, he chairs the nomination and governance committees and is a member of the compensation committee. Although the item passed, there was a high level of shareholder dissent on this vote, with 26.4% voting against management.

In conjunction with California Public Employees' Retirement System (CalPERS) and Caisse de dépôt et placement du Québec ("CDPQ"), we filed a shareholder proposal at Berkshire Hathaway, hoping to trigger a dialogue with the company on climate change.

- Prosus (Netherlands): We voted against the re-election of the incumbent directors due to the lack of engagement, and concerns about their performance and independence in the oversight and approval of the tender offer for Naspers' shares by Prosus (overall dissent was under 4% for all four directors). We were concerned that this transaction would create a complex cross holding structure and is aimed at reducing the discount between the company's market value and net asset value but has no compelling rationale. We voted against the remuneration report and policy, as long-standing concerns about quantum and structure had not been substantially addressed. Both passed, but there was notable dissent, with 15% and 16% of votes against management in relation to the remuneration report and policy respectively.

CASE STUDY

FedEx (US)



We may use a combination of voting approaches for the same company, depending on the ballot item. FedEx is an American multinational corporation focused on transportation and e-commerce. We voted in favour of the chair of the FedEx nominating committee, by exception to our policy. The company has a succession plan in place for the chair/CEO, but this is not well communicated, a point acknowledged by the company. With only 4% of dissent, the item was passed. The overall diversity of the board is at 54.5%. We opposed executive compensation and the compensation committee chair, due to concerns about the approach to the short-term incentive performance plan this year, particularly regarding pay-outs to the chair/CEO. We have also previously raised concerns about the material pledging by the CEO, the lack of a robust pledging policy that excludes the current waiver, the quantum of perquisites, and the low chair/CEO shareholding period, which we would like to see increased above the current minimum of six times. Both items were passed, though whilst there was only 5.9% dissent in relation to the compensation committee chair, there was a notable level of dissent in relation to executive compensation with 23.6% votes against management.

We supported all five shareholder proposals, including the proposal requesting a report on racism in corporate culture. Such an assessment by the board would promote transparency, and appropriate accountability and incentivisation regarding this sensitive issue. Two of the five shareholder proposals – one on a report on lobbying payments and policy, the other on shareholder votes – were passed with 62.5% and 58.7% votes respectively. The other proposals received a notable level of support but did not pass.

CASE STUDY

Wolters Kluwer (Netherlands)

Our engagement activities are a useful input into our voting decisions. Wolters Kluwer is a Dutch information services company. We voted in favour of the remuneration resolutions proposed at the annual shareholder meeting. Following an extensive consultation with the board on the executive remuneration framework, we have seen positive change to the remuneration policy in terms of its design and additional disclosures. The company has included a return on capital metric in the long-term incentive plan and increased the weighting of key ESG metrics within the short-term incentive plan.

We voted in favour of the remuneration resolutions proposed at the annual shareholder meeting.

Also important for us was the introduction of share ownership requirements for executives – including a two-year holding period post-vesting, and a reduction of the target. We have also seen a substantial improvement in overall disclosures, with the retrospective disclosure of variable remuneration outcomes and a clear commitment to disclose the long-term incentive plan targets on a prospective basis. Both the remuneration items passed, with 97.1% and 96% support.

Both the remuneration items passed, with

97.1% and **96%**

support.

The proportion of shares voted and votes withheld

We aim to vote either in favour or against a resolution and only to abstain in exceptional circumstances, such as when our vote is conflicted, a resolution is to be withdrawn or there is insufficient information upon which to base a decision. We voted 99.7% of all votable shares.[46] There are a very small minority of meetings where we may not successfully execute votes. In 2021, this included meetings where Powers of Attorney were missing or late, as well as instances of share-blocking, where we chose not to vote in order to avoid the risk to trading. There was also an operational oversight leading to a no vote instruction being placed on ballots.

Monitoring our shares and voting rights

As highlighted previously, EOS' approach is to focus engagement resource on the meetings of greatest interest and materiality to our investment teams and third-party stewardship clients. Each year we compile a list of the highest-priority companies where we want to ensure that our engagers are manually reviewing each agenda item for any vote that comes up. These are known as watchlist companies and are comprised of our engagement programme firms, companies of particular interest/sensitivity or those where our investment teams or EOS third-party clients represent significant holdings (in absolute terms or as a percentage of the company's voting rights). The voting watchlist represents a majority of EOS' AUA by value. EOS uses ISS to identify the meetings for which we have voting rights. EOS ensures that accounts are suitably set up for voting.

Monitoring service providers

We use the services of ISS to provide research on all companies for which EOS makes voting recommendations. EOS leverages and builds on ISS research and infrastructure (including the ISS ProxyExchange platform) and seeks to add value primarily by selectively escalating the most important or difficult voting recommendations (based on the materiality of holdings and the nature of the issues under consideration), engaging with companies and operating voting policies and approaches that more closely align to our views than ISS's benchmark policy.

The recommendations that our investment teams and EOS third-party clients receive are, in the first instance, based on ISS' research using our voting guidelines. This is then overlaid with our intelligent voting approach. Engagers are deployed to add insight and value to a specific subset of these meetings – those on EOS' watchlist – by considering the voting recommendations approach in light of the specific company context and the engagement. As described earlier, our equity holdings are added to the EOS watchlist at the beginning of each year. As a result, the majority of the voting recommendations made to our investment teams are manual.

Fixed income: how we use our investor rights

Our Real Estate Debt team does not habitually buy into deals that have already been structured. As a result, we have the opportunity to negotiate transaction documents ourselves. We seek to find mutually beneficial outcomes, while protecting the interests of our clients. Our approach to seeking amendments differs case-by-case, depending on the nature of the amendment. We aim to embody the values captured in the Federated Hermes Pledge in all of our dealings.

Meanwhile, our direct lending loan agreements are bespoke, and negotiated between the lender and the borrower after we have conducted our due diligence. We construct the loan documentation to align it to the specific borrower and their behaviours, including issues identified in our ESG due diligence. Each loan contract is different, and we may require the borrower to change certain behaviours (including in relation to ESG risks) as part of the conditions. The key point at which we can seek to influence the company's behaviour after the contract has been agreed is when the borrower seeks to alter the loan terms – for example, because the company wishes to make an acquisition. Otherwise, we will engage with management or the private equity shareholder to influence behaviours via the resources we have internally. However, we are not able to amend the conditions of the loan.

[46] Individual shares may be double counted where there were multiple meetings during 2021.

For credit and structured credit markets, the chance to influence such documentation comes at the time of primary issuance. If the documentation is unfavourable to the interests of creditors, this is a risk factor and we will engage with the company to improve it. If we are unable to achieve these changes, they will become a factor in our investment decision and will influence how we choose to allocate our risk. For example, we may reduce our planned exposure, invest in the security with the lowest risk (in the case of structured credit, this would involve a security further up the capital structure) or avoid the investment altogether. Governance concerns meant that we decided not to invest in a bond issuance of an elevator company; even after the terms were revised and became closer to a typical sponsor deal, we believed the aggressiveness of the entire deal process raised concerns about the firm's corporate governance.

Within structured credit, an essential part of the due diligence process is to review the prospectus and transaction documents. These govern the noteholders' relationship to the special purpose vehicle (SPV), the assets within and the related counterparties. We pay particular attention to the ability of the SPV to pay interest and the principal on notes under multiple stress scenarios, which includes an assessment of the triggers and covenants in the deal and our enforcement rights over the assets in the collateral pool. We also ensure the transaction complies with all relevant regulation and any appropriate safeguards for future changes to regulations. Once the prospectus and transaction documents have been thoroughly reviewed, we work alongside the issuers, originators, sponsors and/or arranging banks to secure any amendments in the documentation that we feel are necessary to protect our position as a noteholder in the capital structure.

We seek access to information provided in all documentation through engagement with the company. The more information we have, the less uncertainty there is. This, in turn, may increase our willingness to take on more risk.

Impairment and enforcement rights

The relevant rights for real estate debt are enforcement rights, which are available when there is a breach of documentation. We only use enforcement as a last resort – in the first instance, we seek to engage and agree an alternate approach with the party in breach. As we are often the sole lender, we are able to hold these bilateral conversations directly with the recipient of the loan. We continued to be lenient in 2021, when the Covid-19 crisis resulted in breaches of agreed terms. For example, some of our loans have conditions that rental income must remain a specified percentage higher than the interest cost – we did not seek enforcement action when rental income dropped. due to poor rental-market conditions during the early lockdown of 2021. Income has now recovered to the levels expected. Our actions must ultimately be in the best (long-term) interest of our clients, meaning that Covid-19-related issues could potentially lead to enforcement in future, if the recovery of the loan is at risk.

> **We only use enforcement as a last resort – in the first instance, we seek to engage and agree an alternate approach with the party in breach.**

As each of our direct lending loan agreements is bespoke, our specific rights can vary. If a borrower defaults on a loan – for example, if an interest payment is missed or the borrower fails a covenant test – our Direct Lending team will enter into a negotiation with both the shareholder and the management team of the borrower. We will seek a positive outcome for all parties involved in the negotiation, although we will always act in our investors' interests in line with our fiduciary duty and applicable requirements. We have a right to take security over the shares of the borrower in such circumstances but will always seek to find other solutions before taking this action.

In a distressed situation, value is impaired and will be redistributed among financial stakeholders. When we invest, we seek to understand the recovery risks associated with the impairment of assets. If a company is in distress, an organised group of bondholders can decide whether to enforce their rights or not, although this is very rare. We want the appropriate right to recovery of a failed business. In some cases, bond documentation is written so that there is a carveout or 'trap door', meaning that the assets that support the bond we are buying can be transferred outside of the restricted group. This would be a disincentive to invest, and we would communicate this to the bank or company. Under certain situations we would not invest, as we would not have what we deem to be appropriate rights under a distressed scenario.

> **In a distressed situation, value is impaired and will be redistributed among financial stakeholders.**

Sustainability and investment glossary

Active ownership
Actively exercising shareholder rights by voting at meetings and engaging with companies to encourage responsible corporate behaviour.

Carbon footprint
A measure of a group, individual or a company's total greenhouse gas emissions.

Carbon pricing
The economic cost of emitting CO2 into the atmosphere, either in the form of a fee per unit of emissions or an incentive for reducing emissions.

COP
An annually held UN conference. The Paris Agreement was negotiated at the 21st conference in 2015.

Corporate governance
The system of rules, practices and processes by which a company is managed, directed and controlled.

Corporate responsibility
A company's duty to operate in a manner that does not harm the environment or society, and to take responsibility for its actions and their impact on employees, stakeholders and communities.

Divestment
A form of negative screening through the process of selling investments that are not aligned with ESG objectives.

Engagement
A purposeful, long-term dialogue between a company and its shareholders that aims to change or influence the way in which a company is run, in order to enhance the value of the firm and generate positive environmental and social outcomes.

ESG
Environmental, social and governance issues, which constitute the three pillars of responsible investing.

ESG integration
An investment approach that integrates sustainability and ESG related factors into the investment decision making process.

Exclusion
The process of excluding sectors or companies from a portfolio if they do not meet specific ESG-related criteria.

Fiduciary duty
Fiduciary duties ensure that those who manage other people's money act in the interests of beneficiaries, rather than serve their own interests.

Green bond
Debt securities which are used to fund projects with environmental benefits.

Greenwashing
The act of making a product, service or organisation seem more environmentally friendly than it actually is.

Impact investing
Investing in order to achieve a measurable, positive impact on the environment or society, in addition to generating financial returns.

Integrated reporting
Company reporting that integrates both sustainability and financial information in one source.

Negative screening
An investment approach that excludes some companies or sectors from the investment universe due to their policies, actions, products or services.

Paris Agreement
An international accord, agreed at COP 21 in Paris in 2015, that aims to keep the rise in global average temperatures below 2°C compared to pre-industrial levels, while pursuing efforts to limit the increase to 1.5°C.

Principles for Responsible Investment
Developed by investors, the six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a set of possible actions for incorporating ESG issues into investment practices.

Positive screening
An investment approach that seeks to include companies from the investment universe due to their policies, actions, products or services.

Proxy voting
A ballot cast by one person on behalf of the others. As many shareholders cannot attend annual and special meetings, companies allow shareholders to cast proxy votes.

Responsible investing

An investment approach that considers ESG related factors and incorporates engagement and stewardship activities to better manage risk, create positive societal impacts and generate sustainable, long-term financial returns.

Shareholder activism

A form of public engagement by which investors use their shareholdings to promote change at a company and achieve certain goals.

Shareholder Rights Directive II

A directive from the European Union that aims to strengthen the position of shareholders and to ensure that decisions are made for the long-term stability of a company.

Social bond

Debt instruments that raise funds for projects with positive social outcomes.

Stewardship

A dialogue between shareholders and boards that aims to ensure that the company's management and strategy are effective and aligned with shareholders' interests. A focus on ESG issues helps to mitigate risk and produces positive outcomes for society and the environment.

Sustainable investing

A long-term, active approach to investing that is efficient and intergenerationally fair to all beneficiaries and stakeholders, combining an analysis of ESG factors and active ownership.

Stewardship codes

Codes that offer guidance on investor engagement and transparency about how investors should exercise their ownership and governance responsibilities. The first stewardship code was introduced in the UK in 2010 and almost all OECD jurisdictions now have national codes or principles.

Sustainable Development Goals

Published by the UN in 2015, the Sustainable Development Goals are a set of 17 objectives that aim to improve human society, ecological sustainability and quality of life.

UN Global Compact

A global corporate sustainability initiative that calls on companies, investors and other participants to align their strategies and operations with universal principles on human rights, labour, the environment and anti-corruption.

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Federated Hermes
Limited

Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes Investment Management are now undertaken by Federated Hermes Limited (or one of its subsidiaries). We still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important strategies from the entire group.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

For more information, visit **www.hermes-investment.com** or connect with us on social media: