Federated Hermes Limited
(Formerly Hermes Fund Managers Limited)
31 December 2021

Federated Hermes Limited

www.hermes-investment.com
Registered No: 01661776

Intention of this report

For over five years, Federated Hermes Limited (FHL), formerly Hermes Fund Managers Limited (HFML), has produced a comprehensive annual report going far beyond the disclosure requirements for a privately held UK incorporated company. In doing so, we sought to emulate best practice of publicly listed companies both in the level of disclosure and in particular in the integrated nature of the report by discussing at length FHL's performance relative to all its key stakeholders. This is in line with what we encourage our investee companies to produce through our investor stewardship activities.

In 2021 and Q1 2022, Federated Hermes, Inc. purchased the remaining stake in FHL held by the BT Pension Scheme and the Employee Benefit Trust/employees, respectively. As such, we decided that the accounts of the wholly owned subsidiary which FHL now is, should be limited to the statutory requirement.

Nevertheless, we wanted to continue to deliver a report which our stakeholders could hold us to account on. This 'front end' of an 'integrated' annual report has been produced to do that and describes in detail FHL's performance in 2021 for each of its stakeholders and furnishes board committee reports which describe FHL's governance and the rationale for its activities and decisions.

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Our purpose

Ever since our 1983 origin, our purpose has been to deliver Sustainable Wealth Creation: generating wealth through investments that enrich investors, society and the environment over the long term.

From day one to the present day, this purpose drives everything we do. We aim to deliver sustainable outcomes for investors through our unique investment approach. Sustainable Wealth Creation is achieved through four core actions.

- First, high-active-share investment: we invest actively and with conviction over long time periods;
- Second, best-in-class environmental, social and governance ("ESG") integration in public and private markets, from equities and credit to private debt and real estate;
- Third, stewardship: harnessing investor capital to change companies for good, from within; and
- Fourth, our Responsibility Office: independent of investment teams, it ensures that we integrate ESG and stewardship insights with integrity and continue to innovate.

The delivery of Sustainable Wealth Creation is driven by all employees at our firm and is overseen by our Chief Executive Officer (CEO), Investment Office and Responsibility Office.

Seeking to fulfil this purpose, we have aligned companies' strategies and behaviours with the long-term holistic interests of investors, and will strive to continue doing so.

Important information

This Annual Report discusses the business, financial results and risk factors of Federated Hermes Limited (FHL), formerly Hermes Fund Managers Limited (HFML), and not the consolidated business, financial results and risk factors of FHL's ultimate parent company, Federated Hermes, Inc. (FHI).

Accordingly, unless the context clearly requires otherwise, or unless specifically specified otherwise, references in this Annual Integrated Report to "our", "the Board," "SMT", "CEO", Board committees, directors, officers, employees, service providers, agents, performance, plans, or similar expressions should be construed as referring to "FHL", "FHL's Board", "FHL's SMT", "FHL's CEO" and Board committees, directors, officers, employees, service providers, agents, plans, etc. of FHL (rather than FHL's ultimate parent company, FHI). For the purposes of this report, any reference to "headcount", "employees" or "staff" are measured by full-time equivalents rather than individual persons. For information regarding FHI's consolidated business, financial results, and risk factors, as well as other information, please see FHI's most recent Annual Report on Form 10-K for the year ended 31 December 2021 which is available under "Annual Report" under the "Investor Relations" tab at www.FederatedHermes.com.

For the purposes of this report, Hermes GPE LLP will be referred to as "HGPE", and MEPC Limited referred to as "MEPC". The performance and activities of HGPE and MEPC are included in this report.

Forward-looking statement

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, levels of activity, performance or achievements of FHL and its subsidiaries (collectively the FHL Group or the Group), or industry results, to be materially different from any forecast results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are typically identified by words or phrases such as "trend", "potential", "opportunity", "believe", "expect", "anticipate", "current", "intention", "estimate", "position", "projection", "assume", "continue", "remain", "maintain", "sustain", "seek", "achieve", and similar expressions, or future or conditional verbs such as "will", "would", "should", "could", "may" and similar expressions.

FHL's business and financial results are subject to business, operational and financial risks. Past performance is not a guarantee of future results. Both risks and mitigants are discussed on pages 52 to 58. As a result, no assurance can be given as to future results, levels of activity, performance or achievements, and neither FHL nor any other person assumes responsibility for the accuracy,completeness and/or updating of such statements in the future.

Our business

The Federated Hermes group consists of two specialist investment managers operating under one global brand, leveraging each other's expertise and commitment to sustainability to strive to outperform for clients and, where possible, create positive social and environmental outcomes in the wider world.

Federated Hermes, Inc.	Federated Hermes Limited
Established 1955 Headquartered in Pittsburgh Listed on the NYSE as FHI	Active investment and stewardship since 1983 Headquartered in London Wholly owned by Federated Hermes, Inc.

As a global leader in active investment and sustainability, FHI offers specialised investment capabilities and pioneering stewardship services to investors around the world. At 31 December 2021, with total assets under management (AUM) of £502.6bn ($668.9bn), this included:

Liquidity Markets	**£336.6bn** ($447.9bn)*	Top-tier liquidity management business
Active Equity	**£72.7bn** ($96.7bn)*	Diverse range of high-active-share strategies
Fixed Income	**£73.3bn** ($97.6bn)*	Dynamic security selection across the credit spectrum
Alternatives	**£17.2bn** ($22.9bn)*	Multiple access routes to world-class assets
Multi-Asset	**£2.9bn** ($3.8bn)*	
Stewardship	**£1.2tn** ($1.6tn)*	Investor stewardship delivering sustainable outcomes for investors

* GBP USD as at 31 December 2021 (USD:£ = 1.3308).

Federated Hermes Limited

FHL is a wholly owned subsidiary of FHI.

By pioneering global stewardship, developing innovative ESG strategies and advocating for a financial system that works for all, FHL has been at the forefront of investment and sustainability since 1983.

With industry-leading investment, stewardship and advocacy experts, we aim to deliver Sustainable Wealth Creation that enriches investors while achieving their financial goals and where possible benefits society and preserves the environment – for current generations and those to come. Our ground-breaking work in integrating stewardship and ESG across asset classes illustrates our commitment to delivering this for our clients and their end investors. We are also proud to report that in public markets, stewardship assets under advice (AUA) reached £1.2tn by 31 December 2021, a record high (at a year-end) for the Group.

Investment and stewardship services

We manage investment funds, segregated mandates, co-investment partnerships and sub-advisory accounts for a range of clients, including pension funds, discretionary wealth managers, private banks, official institutions and distribution platforms.

Our global stewardship capability covers public equity and fixed-income markets, providing corporate engagement, proxy voting recommendations, policy advocacy, portfolio screening and advisory services. Our private markets team also engages intensively with the assets it invests in to meet interests of clients and broader stakeholders.

Our Investment Office oversees the quality and client focus of our investment activities and manages portfolio management teams. Of equal influence, the Responsibility Office ensures integrity in stewardship and ESG integration in our investment strategies. Both entities report directly to our CEO.

Federated Hermes Limited: our investment and stewardship services

Public Markets Equity AUM:
£24.4bn

Private Markets Private Equity AUM:
£3.9bn

Public Markets Fixed Income AUM:
£6.7bn

Private Markets Infrastructure AUM:
£3.0bn

Private Markets Real Estate AUM:
£6.5bn

Total AUM:
£44.5bn

Responsibility Stewardship AUA: **£1.2tn**

All figures as at 31 December 2021.

This combined offering is delivered by **544** investment and stewardship professionals working at **10** locations worldwide.

Operational infrastructure

Underpinning our investment and stewardship propositions are the critical services provided by the following teams: Information Technology, Operations, Finance, Risk, Business Change, Human Resources, Compliance, Legal, Internal Audit and Tax.

Governance

Our vision, objectives and policies are set by the Board, which oversees our Senior Management Team Committee in developing and executing strategies to fulfil them.

To read the Strategic Report from our CEO, see page 10.
To read Committee Reports delivered by our Board, see page 64.

Our year in brief

2021 Financial and Business highlights

Our mission is to deliver Sustainable Wealth Creation that enriches investors, society and the environment over the long term. We understand that how we invest and engage affects the real value of the savings and future incomes of our clients, their customers and beneficiaries – and the world in which they live, will retire into and pass on to future generations.

Objectives	Measure	2021	2020	Variance
Delivering Sustainable Wealth Creation	Percentage of investment strategies with a one, three and five-year track record to beat their benchmark[1]	Five year: 54.2%	Five year: 45.0%	↑
		Three year: 60.0%	Three year: 55.6%	↑
		One year: 48.6%	One year: 54.3%	↓
	Assets under Advice[2]	£1.2tn	£0.9tn	↑
	Number of companies engaged	1,202	1,245	↓
	Number of engagement objectives or issues	4,133	3,965	↑
Employee alignment	Employee turnover	11%	7%	↑
	Female employees (firm-wide)	41%	44%	↓
Delivering a sustainable and profitable firm	Assets under management and advice[3]	£44.5bn	£39.5bn	↑
	Statutory revenue[4]	£222.9m	£188.1m	↑
	Statutory pre-tax profit[5]	£17.8m	£32.6m	↓
	Underlying profit[6]	£30.3m	£33.2m	↓

[1] Performance is calculated using published benchmarks for strategies. If a strategy does not have an official benchmark a performance target is used. A representative portfolio for each strategy has been used where appropriate. Performance figures provided do not include HGPE strategies.
[2] Assets under advice relate to EOS at Federated Hermes ("EOS"). All figures as of 31 December 2021.
[3] The movement in assets under management (AUM) and advice is explained in more detail on pages 30-31. All figures as at December.
[4] Statutory revenue represents the result as calculated in accordance with United Kingdom Generally Accepted Accounting Principles. Statutory revenue throughout the report relates to net Group revenue as shown in the profit and loss account.
[5] Statutory pre-tax profit in 2021 is presented after deducting non-controlling interest.
[6] Underlying profit represents the result regularly provided to the Board as this is considered the most useful basis on which to manage the activities of the Group. This result excluded several items that are not fully within the control of management; material items include bonus deferrals, long-term incentive plans, goodwill and intangible asset amortisation. A reconciliation of underlying to statutory profit can be found in the note on page 15 of this report.

Chair's Statement

After a gruelling 2020, the Covid-19 pandemic continued to dominate 2021, providing the global economy with its greatest challenge since the Second World War and demonstrating how interconnected and fragile the world is. Still, adversity can often bring out the best in humanity; 2021 was the year of the roll-out of vaccines in many parts of the world, which have saved countless lives and allowed economies to begin to recover. At the same time, the vaccines drew attention to the unsustainable inequality in the world as many countries were unable to afford, or lacked the infrastructure to effectively distribute, a vaccine to their populations.

Against this backdrop, the 26th United Nations Climate Change Conference (COP26) took place in Glasgow. It was arguably the most successful COP ever, with trillions of dollars committed to delivering a net-zero world and one which addresses the severe and accelerating biodiversity loss. At COP26, we were delighted to host a two-day fringe conference, which attracted some of the leading and most informed scientists, policymakers, companies and investors. And, we were privileged for Saker Nusseibeh CBE, our CEO, to address the World Leaders Summit Action on Forests and Land-Use alongside world leaders. While the conference bred optimism that government and industry actors alike at long last recognise the climate emergency, thoughts turned to the need for impactful and accelerated action on a short timescale to remain within striking distance of climate change goals.

In this vein, as a business, we have pledged to deliver Sustainable Wealth Creation that enriches investors, 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.

Ownership of Federated Hermes Limited

In August 2021, FHI purchased BTPS' remaining interest in FHL, following its acquisition of a majority stake in 2018. This is an important and exciting milestone in our history. Over the past three years, our shared values and mutually beneficial strengths have allowed us to grow and have demonstrated the significant value and growth that can be achieved through a combined and integrated entity.

The employee benefit trust, which as at 31 December 2021 held approximately 10% of FHL for the benefit of certain members of FHL's management and key employees, in early 2022, has been converted to an equivalent award amount of restricted stock in FHI and forms part of FHI's long-term share programme. This serves to incentivise and align FHL's senior colleagues with the sustainable performance and values of FHI.

This transaction does not alter the way we manage our firm or how we serve our clients. However, it is potentially of great benefit to clients as it gives us the platform to invest and build upon our strong foundation as a responsible investor across public and private markets.

Client focus

In the context of the global market crisis and sharp economic recession of 2020, investment performance for clients has been mixed. We have continued to drive positive change through industry-leading stewardship and policy advocacy dialogue with regulators. In 2021, our strategies with a three-year track record outperforming their benchmarks increased to 60%, and those with a five-year track record outperforming their benchmarks increased to 54%. Outperformance on a one year track record, however, fell from 54% to 49%. The number of companies engaged remains very high at over 1,200 on over 4,000 engagement issues and objectives.

We continued to innovate in integrating ESG data and engagement insights into investment decisions across all asset classes and regions. We deepened existing client relationships and forged new ones, maintained operational excellence and ensured our knowledge and perspectives were shared through intelligent marketing and press outreach activities.

Responding to investor appetite for thematic, values-based and impact strategies, the Product team led the scoping and development of a range of equity and credit capabilities aiming to strengthen our Sustainable offering. The team also intensively researched the labelling regimes for Sustainable investment products in many jurisdictions to ensure our strategies are visible in target markets. In 2021, we launched our first Sustainable funds and converted our existing European equity funds to incorporate and enhance their sustainability features.

Throughout 2021, we continued to enhance our Private Markets investment capabilities and client offering with the goal of delivering Sustainable Wealth Creation across the investment spectrum. Our flagship pooled fund, Federated Hermes Property Unit Trust (FHPUT), won the MSCI Award as top pooled property fund over 10 years. We acquired the Argent Birmingham business in 2021 and integrated the platform into our MEPC team, putting us at the forefront of placemaking in the UK and creating a model that can be replicated in the US and elsewhere over time.

Colleagues

We learned much in the pandemic about effective working practices, including about the balance between value generated by meeting colleagues and clients face to face and the flexible working benefits and potential increased productivity of working from home. Trialled at different times in 2021 when Covid-19 restrictions allowed, we will move, in 2022, to at least three days a week in the office as a hybrid solution.

Regrettably, in 2021 we have seen a fall in female representation particularly at the senior levels. Firm-wide it has dipped to 41% and at senior management levels to 29%. While we were actively recruiting during the period our submission covers, we were not able to achieve a satisfactory balance of men and women. The proportion of women leaving is of great concern and something we are addressing through significant work going into changing our systems and processes, as well as our culture, to drive a far more inclusive and equal workforce.

Financial performance

In a challenging environment, we remained focused on clients' objectives and grew net revenues by 19% to £222.9m and increased AUM by 13% to reach £44.5bn as at 31 December 2021. Following 42% growth in 2020, AUA grew by a further 33% in the year and now stand at £1.2tn as at 31 December 2021.

£1.2tn
in assets under advice

£44.5bn
in assets under management

Due to significant investments in Real Estate, Responsibility Office, EOS, Client Relations and Sales, our underlying profit fell 10% to £30.3m and statutory profit fell from £32.6m in 2020 to £17.8m. Our capital position remains strong with Tier 1 regulatory capital of £152.6m which was £94.8m above the Financial Conduct Authority's capital requirement for the Group of £57.8m as at 31 December 2021.

External Assurance

In 2021, for the first time, we appointed an external assurer in Prime Advocates to externally assure our stewardship and integration activity for each of our investment offerings across each asset class. We believe this is one of (if not) the most comprehensive external assurance reports of stewardship and integration activities carried out by an investment manager.

Looking forward to 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 significant opportunity to achieve this.

David Stewart
Chair

Strategic Report

Strategy and year in review

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

In August, FHI purchased the remaining 29.5% interest in FHL – held by the BT Pension Scheme (BTPS). FHI had acquired a 60% majority interest in FHL from BTPS in 2018.

When FHI acquired a majority interest in FHL in 2018, the firm had in place the option to purchase from BTPS – and BTPS had the option to sell to FHI – BTPS' remaining shares of FHL three to six years after the original agreement. BTPS and FHI agreed to an independent fair valuation of FHL of £394.9m, (approximately $547.4m). Consequently, FHI paid £116.5m, (approximately $161.5m) to BTPS for its remaining shares in FHL.

Over the last three years FHI, which has a history of backing and investing in talent and the businesses it acquires, has made substantial investments in FHL – including that in MEPC and the development team from Argent Birmingham, in the build-out of our business in Asia-Pacific, and the investment and build-out of the EOS team in the US.

FHI's commitment could not be better demonstrated than by its decision to change its name to include Hermes, a decisive step and a powerful illustration of the high regard they have for FHL's talent, expertise and client proposition.

Although BTPS will no longer have an ownership interest in FHL, it will remain a significant client, with $12.0bn in AUM invested in several FHL sponsored or managed investment products, as at 31 July, 2021.

On 14 March 2022, those employees awarded restricted stock units in FHL, under the Group's long-term incentive plan, an equity-settled share-based payment, exchanged these awards for FHI Class B Common Stock under FHI's Stock Incentive Plan. Following this exchange, FHL became a 100% owned subsidiary of FHI.

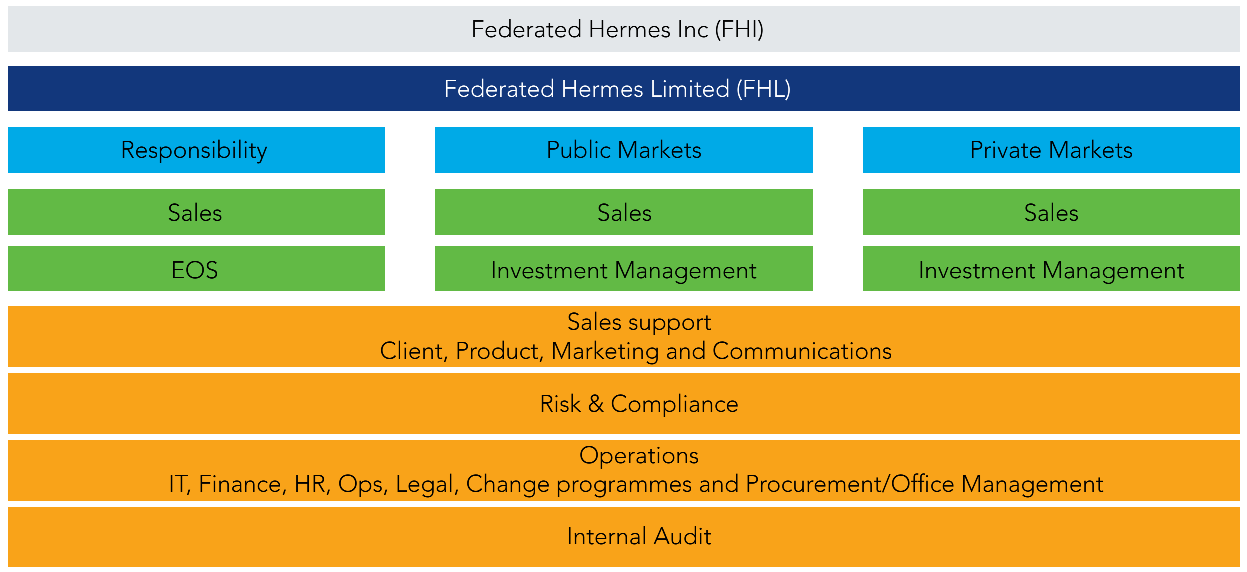
Creation of three platforms

In order 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, the FHL Board has resolved to establish three distinct platforms.

The three platforms are:

- **Public Markets platform** – incorporating our Equities, Fixed Income and Multi Asset products and solutions.
- The **Private Markets platform** – incorporating Private Equity, Private Debt, Real Estate and Infrastructure.
- 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.



Our growth framework is therefore focused on areas where:

There is enduring appeal from long-term investors.

We have a differentiated approach to the way we manage assets.

We can offer access to co-investment, segregated mandates, joint-venture and pooled opportunities in private markets alongside leading institutional investors.

We enhance performance by integrating ESG factors and stewardship into our public and private markets strategies. Going further, to fulfil mandates or product objectives, we invest in and engage with assets so they generate growth by addressing enduring social and environmental needs.

In 2022, we will put in place a plan for the sustainable development and growth of these three-platform franchises, placing clients firmly at the heart of what we do.

Business Strategy

Our strategy is driven by an intense 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 we invest in and engage with, and the societies in which they operate.

The year the market turned to sustainability

2021 may be seen as a turning point for responsible investing and stewardship – both areas which FHL has long been at the forefront of pioneering and developing. In the wake of the Covid-19 pandemic, the investment community is putting vital social and environmental themes front and centre.

Once again, in the second year of the Covid-19 pandemic, we saw people around the world react compassionately to the ongoing challenge: sacrificing individual freedoms and economic growth to prioritise life and preserve our finite healthcare services so that they would continue to be there for us in our hour of need.

The year also brought mass vaccine roll-outs across the developed world, providing hope to billions. Covid has been a people story, where a diverse range of characters have come together purposefully and innovatively to protect our healthcare services and economies: from scientists creating vaccines, to governments providing help and stimulus, to the healthcare workers, and to many of us simply working from home.

As the Covid-19 pandemic has driven a greater focus on people, human themes such as employee welfare, sustainable jobs and incomes, access to medicine, and the valuing of human life and mental wellbeing have come to the fore.

And it is encouraging that, at a time of such unforeseen disruption, the world did not lose sight of perhaps the greatest challenge ahead for humanity: climate change. Rather, climate change and biodiversity awareness and commitments have only deepened during the pandemic. Perhaps it could be said that the pandemic has alerted more people to the inherent fragility of our species.

We argue that, rather than feeling daunted by the challenges of climate change in the context of the recovery from Covid-19, and putting off the problem yet further, we should take strength from how we have all come together during the pandemic – our ability as communities, cities and nations to collectively focus on achieving a common goal.

Spurred on by COP26

In the days leading up to the twenty-sixth United Nations Climate Change Conference (COP 26), more than 75% of countries updated their national climate plans. At the conference itself, India's Prime Minister, Narendra Modi, made a surprise announcement on the first day of the World Leaders' Summit, announcing that India would aim for net-zero emissions by 2070. Taken together, these enhanced pledges improved the global heating projection from an estimated 2.6°C outcome in 2020 to 2.1°C after COP26.[9]

Some 450 financial institutions, representing US$130tn of assets, formed the Glasgow Financial Alliance for Net Zero (GFANZ). The alliance pledged to mobilise finance at scale to achieve net-zero emissions by 2050 or sooner, with a focus on near-term actions to achieve 50% decarbonisation by 2030.

[9] Analysis by Climate Action Tracker.

On the second day of the COP26 World Leaders Summit, a pivotal pledge was announced to save and restore our planet's forests. With the deal came a long list of commitments from the public and private sectors to combat climate change, halt biodiversity destruction and hunger, and to protect the rights of indigenous peoples.

COP26 then closed, somewhat unexpectedly, with the Glasgow Climate Pact. In this, almost 200 countries agreed to make further pledges in 2022 at COP27 in Egypt to seek alignment with 1.5°C, to phase down unabated coal power and to phase out inefficient fossil-fuel subsidies.

As a result of the Conference, for the first time, projections indicated that warming might be halted below 2°C. However, to achieve this, not a single target or pledge can go unfulfilled. Immediate, accelerated and sustained action, therefore, is essential.

Remembering Peter Butler

We were saddened to lose Peter Butler who contributed hugely to the development of investor stewardship at FHL from 1996-2004 when he was CEO of Hermes Focus Asset Management. Peter built our corporate governance function in 1996, before launching several Focus Funds in 1999 through 2003. At the foundation of both initiatives was a sharp focus on the long-term interests of investors, the active pursuit of corporate governance best practice and optimal capital allocation. In 2004, EOS was launched under Peter, pioneering a stewardship service for third-party institutional investors.

As a visionary and an entrepreneur, he brought extensive corporate and board experience to the investment management industry, which followed 20 years in a wide range of industries around the world. With a deep appreciation of the drivers of effective stewardship, he built a diverse, multi-national team. He was forthright in his views, true to his values, possessing a strong sense of fair play, and was highly tenacious in the quest for effective share ownership and good corporate governance.

Performance in 2021

There is much to be proud of in what we achieved for clients in 2021. Highlights include:

Investment

£44.5bn in AUM

48.6%, 60.0% and **54.2%**

of our investment strategies outperformed the benchmark over one, three and five years, respectively

42.3%, 60.9% and **68.4%**

of our investment strategies outperformed the median manager over one, three and five years, respectively

85.1% average active share[7] for equity strategies over three years

Advocacy

Members of over **100** investment and sustainability industry groups and associations

Clients

1,006 clients in **39** countries

Stewardship

Successful signatory to the revised UK Stewardship Code, announced September 2021

£1.2tn

in assets under advice

1,207

companies engaged

128,858

voting resolutions at

13,412

meetings

31 consultation responses on sustainable investment policy

c.270 investment research and thought leadership publications

Brand recognition

Ranked **1st** among over 500 asset managers globally for commitment to sustainable investment by RIBITM[8]

[7] Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark and index.

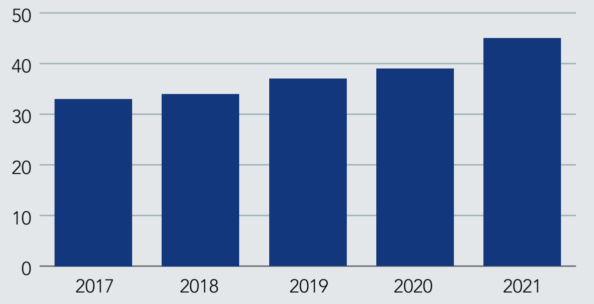
[8] Source: FHL. The Hirschel and Kramer Responsible Investment Brand Index (RIBI™) is an annual index ranking a firm's ability to translate its commitment to sustainable development into its brand.

Five-year views: charts illustrating our progress

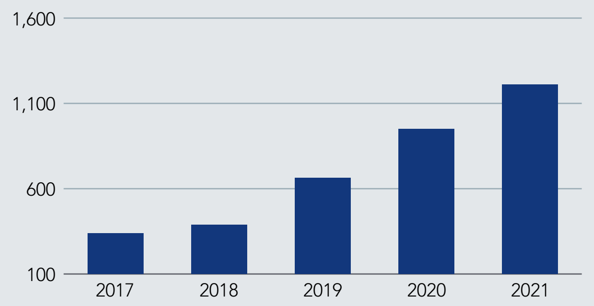
Our continued growth is conveyed by our AUM and AUA. Also shown here are underlying profit, and statutory profit and loss before tax and excluding non-controlling interest[10].

Each measure is disclosed as at 31 December 2021.

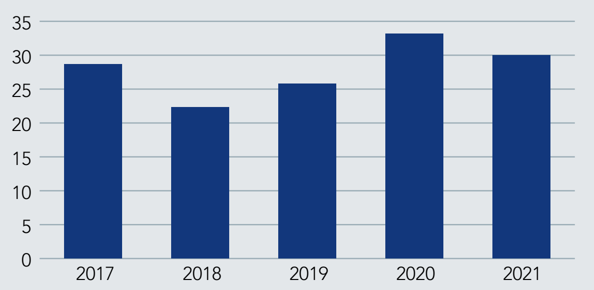
AUM



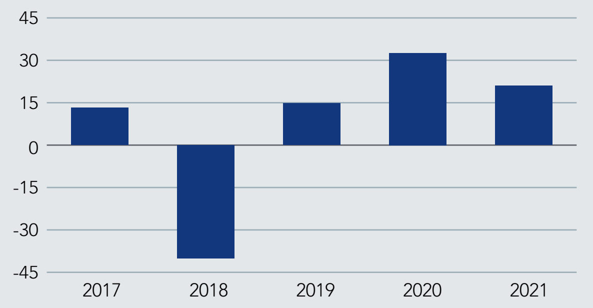
AUA



Underlying pre-tax profit £m



Statutory profit and loss before tax £m



Underlying to Statutory profit reconciliation for the year ended 31 December 2021

Underlying profit before tax for the year 2021	**30,297,265**
Long-term incentive plan including national insurance contributions	(9,149,254)
Fair value gains on CoInvestment deferred bonuses	(2,211,662)
Fair value gains on CoInvestment hedging assets	1,961,374
Bonus deferrals including national insurance contributions	1,064,074
Stock awards including national insurance contributions	(602,852)
Deferred consideration for MEPC Limited	(10,328)
Intangible and goodwill amortisation	(3,684,398)
Non controlling interest – 'HCL's share of intangible amortisation'	415,403
Foreign exchange on translation of non-sterling denominated subsidiaries	(258,270)
Statutory profit before tax for the year 2021	**17,821,352**

[10] Information provided to the Board is prepared on an underlying basis as this is the most useful basis on which to manage the activities of the FHL Group. This result excludes several items that are not fully within the control of management, including: goodwill and intangible asset amortisation, bonus deferral adjustments, the accounting impact of long-term incentive plans and foreign exchange retranslation of non-sterling denominated subsidiaries. 2021 also included the final deferred consideration due as a result of the acquisition of MEPC Limited on 1 January 2020.

Sustainable Wealth Creation

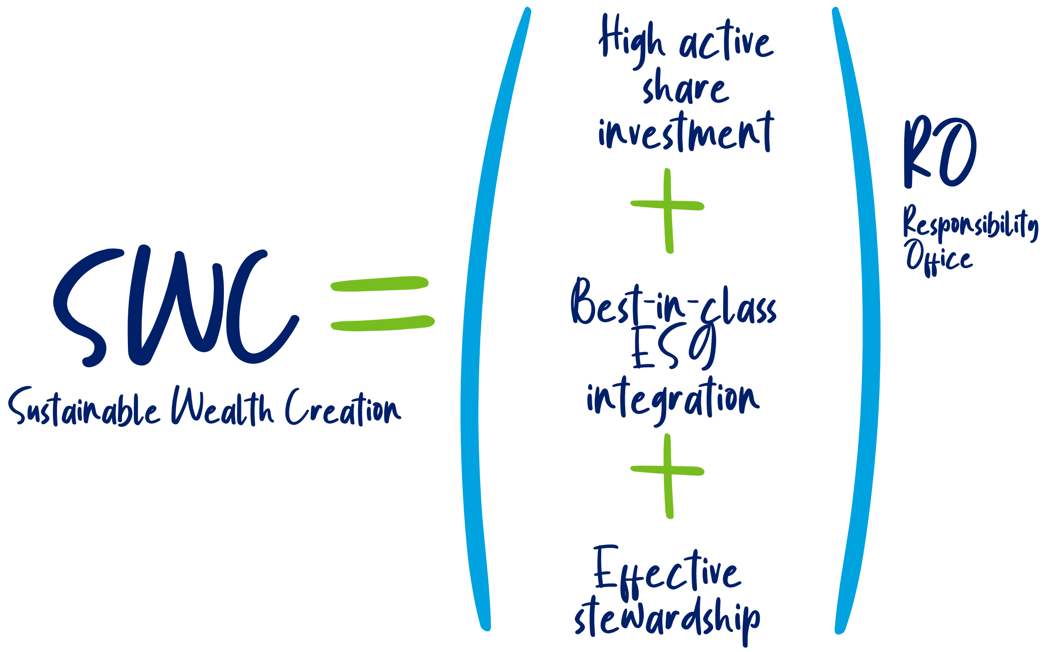
Since our business began in 1983, we have advocated and sought to embody a way of investing that enriches investors, society and the environment. Sustainable Wealth Creation is our way of ensuring the capital we invest generates financial outperformance and environmental and social outcomes not only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

We view the 'how' of Sustainable Wealth Creation through three lenses. Acting as a:

- **Responsible Investor** – how we integrate ESG considerations including the delivery of sustainable outcomes into our investment decisions.
- **Responsible Steward** – our ownership activities: engagement, proxy voting recommendations, public policy and screening.
- **Responsible Firm** – ensuring we lead by example as a firm, be that our commitment to net zero as a firm, our approach to diversity, equity and inclusion among colleagues and other stakeholders and our charity initiatives and schemes.

In this section, we will cover aspects of our performance as a responsible investor and steward.



Investment

Investment performance in 2021 and since inception

With active management, strengthened by best-in-class stewardship and ESG integration in public and private markets, we aim to deliver superior, risk-adjusted long-term performance and, where possible, positive social and environmental outcomes in the long-term interests of our clients and their investors.

2021 was a mixed to positive year for performance. The significant outliers in Asia and GEMS should be considered in context with their 2020 returns with the market having experienced large moves for stylistic reasons, and it should be noted that Impact Opportunities remains highly benchmark agnostic. The rest of the investment floor across equities, credit and private markets performed broadly in line with (+/- 1%) or above their benchmarks.

The majority of our strategies have continued to outperform their benchmarks over the longer term since inception:

Strategy	Outperformance vs Benchmark 1 year	Outperformance vs Benchmark Since inception
Equity		
Asia ex-Japan	8.9%	4.7%
Asia Pacific ex-Japan	10.3%	4.4%
Global Emerging Markets	-3.7%	2.3%
Global Emerging Markets SMID	-8.1%	1.3%
Global Emerging Markets ESG	-4.3%	3.3%
Global Equity ESG	1.1%	1.2%
Global Equity Low Carbon	-0.3%	0.2%
Global Equity	0.2%	0.3%
Global Equity Screened ESG	0.8%	0.6%
Global Equity Australia Balanced	1.4%	0.4%
Global Equity Developed ex NA	0.1%	3.0%
Global Equity Ethical	0.7%	0.8%
Sustainable Global Equity[3]	N/A	-0.9%
Sustainable European Equities	2.9%	1.7%
Europe ex-UK	-0.0%	2.9%
Sustainable Europe	-1.4%	2.9%
Sustainable Europe ex UK[4]	N/A	-1.7%
US SMID	3.5%	0.1%
SDG Engagement Equity	1.4%	-1.0%
Global Small Cap	1.6%	0.4%
World ex US	1.0%	-0.4%
Impact Opportunities	-13.1%	1.1%

Strategy	Outperformance vs Benchmark 1 year	Outperformance vs Benchmark Since inception
Fixed Income		
Global High Yield	0.1%	0.3%
Multi Strategy[1]	1.5%	4.9%
Absolute Return[1]	0.4%	2.7%
Unconstrained[1]	2.1%	8.5%
Short Duration	-1.6%	-0.1%
High Yield ESG	0.2%	-0.0%
SDG Engagement High Yield	-0.8%	0.4%
Climate Change High Yield[5]	N/A	-0.0%
UK Direct Lending[2]	4.3%	3.8%
European Direct Lending[2]	3.6%	3.0%
Real Estate Debt[2]	3.9%	3.2%
Real Estate		
UK Core Real Estate	-1.5%	-0.3%
International Real Estate	-2.9%	-1.3%
Hermes Property Unit Trust	-0.3%	1.6%

[1] Net absolute returns
[2] IRR net absolute returns
[3] Strategy in existence less than 1 year (inception 1st July 2021)
[4] Strategy in existence less than 1 year (inception 1st November 2021)
[5] Strategy in existence less than 1 year (inception 1st October 2021)
Past performance is no guarantee of future results.

Public markets

Integration of stewardship and ESG

The following tables show each investment team's ESG performance and the level and progress in the engagement being carried out. It is the change in ESG performance (rather than the starting point) which benefits clients and their investors and which we seek through our engagement activity.

Public Equity

	ESG Scores and Engagement				
Strategy	QESG score relative to BM	MSCI ESG score relative to benchmark	SA ESG score relative to the benchmark	AUM Engaged	Engagement progress
Asia Ex-Japan	101%	92%	97%	78%	39%
Emerging Asia	80%	89%	93%	57%	32%
Global Emerging Markets	102%	103%	100%	88%	43%
Global Emerging Markets SMID	101%	100%	96%	34%	50%
Global Equity	104%	103%	102%	82%	53%
Global Equity ESG	106%	106%	103%	85%	40%
Sustainable European Equity	104%	107%	101%	79%	63%
Sustainable Europe Ex-UK	101%	106%	98%	77%	67%
Impact Opportunities	103%	114%	104%	68%	61%
Sustainable Global Equity	113%	115%	108%	93%	54%
US SMID	119%	102%	99%	75%	59%
Global Small cap	114%	101%	100%	77%	61%
SDG Engagement Equity	114%	102%	99%	100%	61%

Source: FHL, MSCI, Sustainalytics.

Public Credit

	ESG Scores and Engagement				
Strategy	QESG score relative to BM	MSCI ESG score relative to benchmark	SA ESG score relative to the benchmark	AUM Engaged	Engagement progress
Global High Yield	118%	105%	107%	87%	48%
Multi-Strategy Credit	101%	95%	99%	88%	47%
Absolute return Credit	105%	99%	102%	87%	46%
Unconstrained Credit	100%	97%	101%	85%	50%
SDG Engagement High Yield Credit	123%	108%	111%	96%	51%
Climate change High Yield Credit	123%	112%	113%	82%	48%
US High Yield	N/A	N/A	N/A	37%	43%
Emerging Markets Debt	N/A	N/A	N/A	10%	20%

Source: FHL, MSCI, Sustainalytics.

Impact on investment decisions – case studies

For each investment strategy, stewardship and ESG insights are considered in investment decisions. The following shows four examples for our Sustainable European Equities strategy.

Integrating ESG and engagement into the investment process

Purchased	Held	Sold	Rejected
Schneider Electric	**Soitec**	**ASOS**	**Ryanair**
Environmental	**Environmental & Social**	**Governance & Social**	**Governance & Social**
• Transitioned its business towards energy management and industrial automation • Focus on energy efficiency across a variety of industries • Transition to cleaner, greener world increasing addressable markets • ESG leader – particularly on environmental metrics given clean technology focus	• Wafer manufacturer that reduces power consumption & extends range of EV's • Adoption of science-based targets for Scope 1, 2 & 3 emissions • Intends to reduce water intensity of its operations • Favourable comparison to peers on gender diversity • Plans to increase female representation at senior levels	• ESG rating agencies like it, suggesting it adequately manages its ESG risks • However operational issues give cause for concern over lack of relevant skills and international experience on the board. • Cultural issues also identified by new Chair • Fast fashion industry is beset with various sustainability issues	• Operating in a challenged industry and lags on management of ESG risks • Poor governance structures with company dominated by founder • Poor record on workers rights • Disclosures also require improvement given its environmental and social impacts

Private Markets

Throughout 2021, we have continued to enhance our Private Markets investment capabilities and client offerings with the goal of delivering Sustainable Wealth Creation across the investment spectrum.

Real Estate

Our Real Estate platform has four pillars of growth that each seek to capitalise upon both our long-term performance track record and successful ESG integration:

- Our flagship pooled fund, FHPUT, recently won the MSCI Award as top pooled property fund over 10 years. We will look to restructure to attract non-UK investors.
- Our placemaking programme across major UK cities continues with our most recent project at St Mary le Port Bristol. The project has received planning consent and is being developed using our specialist operating platform, MEPC.
- Our thematic investments at Milton, Oxford and Silverstone have benefitted from continued demand for life science and high-performance technology within the Oxford-Cambridge 'Technology Arc'.
- We continue to build out our Hestia platform, a Build-to-Rent (BTR) business which seeks to create purpose-built homes at scale across the UK.

Emboldened by our success at King's Cross, Europe's foremost transformative urban regeneration project, in 2021, we acquired the Argent Birmingham development business and successfully integrated this platform into the existing MEPC team, which we acquired in 2019. Paradise Birmingham, alongside Wellington Place-Leeds, NOMA-Manchester and now Bristol, puts MEPC at the forefront of placemaking in the UK and creates a model that can be replicated in the US and elsewhere over time. Our approach to community engaged placemaking is arguably the clearest and most tangible manifestation of what we mean by Sustainable Wealth Creation. At a time when our clients strive for authenticity in ESG investing, these transformative projects deliver outstanding financial returns as well as measurable societal and environmental outcomes.

Private Equity

It was another very active year for our Private Equity team (Hermes GPE), both across fundraising, product and investments. During the fourth quarter, we launched the fifth vintage of our co-investment flagship offering, capturing client commitments of approximately £260m. This combined with further client commitments to our Innovation product, and the completion of a significant product restructure, showed the depth of our active client engagement during the year. With strong and historic high investment performance and high levels of deal flow, we believe this provided strong validation for our strategy of offering thematic access solutions to Private Equity.

Infrastructure

Within our Infrastructure team, we continued to focus on strong portfolio-company asset management and engagement across our investment assets. This level of asset engagement was particularly important as the world dealt with the second year of Covid-19 and its impact on infrastructure assets. The team continues to engage with investors on new product ideas to leverage the investment experience within the team.

Sustainable Financial Disclosure Regulation launches

In March 2021, the new Sustainable Finance Disclosure Regulation (SFDR) came into effect. This European Union (EU) framework requires asset management firms to classify their funds into one of three categories, depending on each product's sustainability objective. By the end of September, Article 8 and 9 funds[11] (those with the highest ESG credentials) accounted for almost 37% of EU assets, with AUM of €3.32tn.[12] Today, 95% of FHL's EU domiciled UCITS and Private Markets funds meet the requirements for Article 8 and 9, which accounts for around £15.8bn in AUM.

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[11] Article 8 funds are those that purport to "promote environmental and/or social characteristics", and Article 9 funds are those that claim to have a "sustainable objective".

[12] Source: Morningstar, https://www.morningstar.co.uk/uk/news/216818/the-great-reclassification-how-sfdr-is-changing-funds.aspx.

Stewardship

Advocacy

In 2021, we joined 12 new initiatives, including:

- Net Zero Asset Managers initiative
- Glasgow Financial Alliance for Net Zero
- Partnership for Biodiversity Accounting Financials (PBAF)
- One Planet Asset Managers initiative

There were 33 consultation responses in 2021.

Climate change

We believe that policymakers have a key role to play in determining the investment risks and opportunities created by climate change. FHL has a long track record in engaging with public policy makers and sector organisations, nationally and internationally, to encourage policy or best practice which facilitates the transition to a net zero carbon economy.

Our active involvement in climate change initiatives includes, among others:

- Members of the Institutional Investors Group on Climate Change (IIGCC) – including the Net Zero Investment Framework Working Group.
- Members of UN Environment Programme FI Portfolio Decarbonisation Coalition.
- Members of the Carbon Disclosure Project.
- Members of the Climate Action 100+ initiative.
- Co-chairs of the Investment Association Climate Change Working Group.
- Members of the Financial Conduct Authority (FCA)-Prudential Regulation Authority (PRA) Climate Financial Risk Forum – and we chair the Disclosures Working Group which published an industry-led guide to state-of-the-art climate-related financial risk management[13]. This Group is also influencing the UK regulatory agenda relating to how mandatory Task Force on Climate Related Disclosures (TCFD) disclosures should be designed.

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**

[13] https://www.fca.org.uk/transparency/climate-financial-risk-forum

- We sat on the UK Committee on Climate Change Net Zero Private Finance Advisory Group.
- We founded and now chair the UK chapter of the Partnership for Carbon Accounting Financials (PCAF). PCAF is an industry-led partnership to standardise carbon accounting in the financial sector, enabling firms to measure the level of financed emissions and to work collaboratively in enacting genuine change.
- Members of the Financing the Just Transition Alliance, which was established with the goal of translating the growing commitment across the financial sector into real world impact.
- We co-chair the UN Positive Impact Initiative, which seeks to co-create commercially viable, impact-based solutions to the Sustainable Development Goals (SDGs).

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 integrate a focus on stimulating investment to deliver a low carbon and resilient economy.

UN Global Compact

We have been a signatory of the UN Global Compact (UNGC) since 2017. This report demonstrates our continued commitment to the UNGC Ten Principles, both in our own operations and in the way we challenge our investees to play their part in meeting the targets of the UN Sustainable Development Goals (SDGs).

Saker Nusseibeh CBE, CEO, FHL

Biodiversity

Forests, peatlands, and coastal ecosystems are critical carbon sinks. When they are destroyed, it not only means less carbon sequestration but also creates more emissions. Halting deforestation, protecting and restoring nature is critical for reaching net-zero globally.

Our advocacy work on biodiversity includes:

- We responded to the UN High Level Champions' Call to Action, alongside 30 investors representing US$8.7tn, committing to strengthen our efforts to tackle deforestation in our 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 proxy vote policy.
- We have joined the Natural Capital Investment Alliance (NCIA) and will actively contribute towards the US$10bn overall target to help ensure some of the world's most critical and biodiverse landscapes are protected and restored.
- We are also signatories to the Finance for Biodiversity Pledge, alongside 84 signatories that represent over US$14tn, and we co-chair the Engagement and Public Policy Advocacy working groups.
- Throughout 2021, we advocated for better public policy frameworks through our work with the Finance for Biodiversity Foundation and other collaborative initiatives.

We were pleased that our proposal received support from the EU on behalf of its

27 member states.

- Saker Nusseibeh CBE, our CEO, addressed the World Leaders Summit Action on Forests and Land-Use alongside world leaders at COP26 in Glasgow.
- We have advocated for an ambitious Global Biodiversity Framework (GBF) – that explicitly references the role of the financial sector in halting and reversing biodiversity loss – to be agreed at COP15 in Kunming in 2022.

We also 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 made an intervention in the session, and we encouraged greater ambition and urgency, given the significant and systemic risk that biodiversity loss poses to society and the global economy. We also stressed that the framework should require the alignment of public and private financial flows with the goals and targets of the GBF. Finally, we 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.

UK and EU sustainable finance

In 2021, we engaged on the EU sustainable finance agenda including:

- Circulated a briefing paper to key stakeholders linked to the European Commission and regulator. A number of recipients initiated further engagement with us.
- Issued a series of blog posts setting out the sustainable finance journey so far – what worked, where the gaps are (especially around stewardship), and what potential solutions there are.
- Following significant engagement from ourselves and like-minded peers, the Renewed Sustainable Finance Strategy, published in July 2021, has a much greater focus on investor stewardship.
- Met with AMF (the French Regulator) ahead of their Presidency of the European Commission next year.
- In the UK, there was a big focus on sustainable finance in the run up to COP26. We were invited by the Treasury and the Green Finance Institute to provide input into the Roadmap for Sustainable Investing, and were then given a preview before its publication – a lot of our suggestions were reflected.
- Joined UKSIF's Green Taxonomy Working Group. UK Sustainable Investment and Finance Association (UKSIF) is a formal member of the Green Technical Advisory Group (GTAG) which advises the UK Government on the formation of the UK Green Taxonomy.

Our inaugural Stewardship Report, published in March 2021, earned us a place on the FRC's first list of approved signatories to the new UK Stewardship Code, announced in September.

UK Stewardship Code submission

Crunch time for UK market participants came on 31 March 2021. Following a public consultation, to which we contributed, the Financial Reporting Council (FRC) revised the UK Stewardship Code, and the first would-be signatories submitted their applications to determine who makes the grade. The aim was to more clearly differentiate between those who demonstrate excellence in stewardship and those who do not, by setting a more testing standard. The first signatories were announced in September.

Our inaugural Stewardship Report, published in March 2021, earned us a place on the FRC's first list of approved signatories to the new UK Stewardship Code, announced in September. One third of applicants were unsuccessful.

Public Markets (EOS at Federated Hermes)

Our approach

EOS at Federated Hermes is a leading stewardship service provider. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on ESG issues. We believe this is essential to build a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.

In 2021, we achieved £1.21tn in AUA by year end. We have now completed our recruitment drive in the US, having established a 12-person US team in addition to our London-based team. Today, the EOS team consists of 48 people, including three senior advisors. During 2021, we engaged with 1,202 companies (2020: 1,245), covering 4,133 identified objectives or issues (2020: 3,965).

Our Engagement Plan is client-led and we undertake a formal consultation process with multiple client touchpoints each year to ensure it is based on their long-term objectives, covering their highest priority topics.

Our services

Engagement

We engage with companies that form part of the public equity and corporate fixed income holdings of our clients to seek positive change for our clients, the companies and the societies in which they operate.

Public policy

Engaging with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and investors can operate more sustainably.

Proxy Voting Recommendations

We make recommendations that are, where practicable, engagement-led and involve communicating with company management and boards around a proxy vote. This ensures that our rationale is understood by the company and that the recommendations are well-informed and lead to change where necessary.

Screening

We help our clients to fulfil their stewardship obligations by monitoring their portfolios to regularly identify companies that are in breach of, or near to breaching, international norms and conventions.

Advisory

We work with our clients to develop their responsible ownership policies, drawing on our extensive experience and expertise to advance their stewardship strategies.

Engagement progress

	No. of engaged companies	Objectives or issues covered	No. of objectives advanced by at least one milestone	No. of public policy consultation responses or proactive equivalent
2021	1,208	4,154	808	64
2020	1,245	3,965	738	52

Our focus of engagement for 2022

Over the next year, we will continue our focus on the most material drivers of long-term value, with a focus on four priority themes:

- **Climate change action:** 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:** As we continue to engage on this enduring priority theme, we will seek to ensure increased vigilance in the protection of human and labour rights during and following the coronavirus pandemic, which is exacerbating inequalities, increasing the risks of unacceptable working conditions such as modern slavery and low pay and limiting access to fundamental needs such as food and medicine, including effective coronavirus vaccines.
- **Human capital:** The coronavirus pandemic has shone a light on employers' treatment and engagement of their workforce. In 2022, we will focus our engagement with companies on providing fair wages and benefits so all can afford a decent living standard, as well as development and implementation of a human capital management strategy to promote best practice physical (including health and safety) and mental workplace wellbeing.
- **Board effectiveness and ethical culture:** In 2022, to enhance the quality of board performance and corporate decision-making, we will focus on ensuring that boards make improvements to ethnic diversity that at least match the recent progress on gender diversity, with the goal to achieve representation reflective of the diversity of the stakeholders they aspire to serve.

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

- **Biodiversity:** In 2022, we will focus engagement on halting and reversing biodiversity loss at companies that are involved in the production and retailing of food.
- **Fast fashion:** In 2022, we will engage with apparel companies on their environmental and social impacts.
- **Digital rights:** EOS will 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.

Our engagement is focused on ensuring companies are responsibly governed and well managed to deliver sustainable long-term value as well as improving the lives of employees, promoting diversity and supporting communities.

For more detailed information about our approach to engagement, please see the EOS Engagement Plan 2022-2024.

Market Review

The global economic recovery gained momentum throughout much of 2021. Advanced economies enjoyed superior growth and rising employment, supported by loose monetary and fiscal policies. However, the spectre of Covid-19 was never far away, while inflation became a growing concern in the second half of the year.

Financial markets reflected these changing fortunes, reacting positively to the advancing recovery narrative in most developed economies. Notably, equities trended higher, despite inflationary pressures and Covid-19 variants dampening investors' 'risk-on' mood in the last two quarters of the year. Meanwhile, government bond yields increased but remained well contained by historical standards.

The year began with a positive global growth estimate of

6% from the International Monetary Fund (IMF), following the

3.1% contraction experienced in 2020.

The year began with a positive global growth estimate of 6% from the International Monetary Fund (IMF), following the 3.1% contraction experienced in 2020. In fact, growth in the US had reached pre-pandemic levels by the end of the second quarter. It has not, however, been smooth sailing as Covid-19 worries either lingered in the background or took centre stage in the form of new variants or significant waves of infections in different parts of the world. This has exacerbated the gap between many developing and emerging markets, as areas with low vaccination rates were more likely to experience higher cases and lower growth rates.

In China, growth suffered as a result of several issues, including stricter regulation, particularly focused on the technology sector, turmoil among property developers and a zero-tolerance Covid-19 policy, which has intensified supply-chain disruptions. Fiscal and monetary stimulus measures were also withdrawn early, following what looked like a V-shaped recovery in the second half of 2020. In the end, the recovery did not pan out as expected and China's slowdown weighed on emerging economies across Asia. Meanwhile, other emerging markets particularly in Latin America, started to aggressively increase interest rates early in 2021 in response to high inflation.

We engaged with

1,202

companies in 2021 identifying

4,133

objectives/issues

For much of the year, the withdrawal of stimulus was not as pressing an issue in the developed world. But the attitude to stimulus and low interest rates changed as it became clear rising inflation – due in part to supply-demand disruptions, stimulus measures and rising energy prices – would not be transitory. This hit risk markets in the third quarter, alongside the spread of the Covid-19 Delta variant and China growth concerns. The US Federal Reserve began to taper its asset purchases in November and accelerated the pace of purchase reduction in December, with a view to ending quantitative easing by March 2022 and starting its interest-rate hiking cycle near the end of the first quarter 2022. Meanwhile, the European Central Bank announced its Pandemic Emergency Purchase Programme (PEPP) would expire at the end of March 2022.

The volatility of the summer gave way to more positive signs that the economic recovery was regaining some lost momentum in the fourth quarter. But the arrival of the Omicron variant at the end of November appeared to signal a new stage in the Covid-19 pandemic. This variant contained many mutations that may make it more transmissible and make vaccines less effective. With signs the variant may prove less dangerous, however, investors ended the year unsure of the effect Omicron might have on growth in 2022.

2022 outlook

In our baseline macro scenario for 2022, the economic recovery from the Covid-19-induced recession will continue, although at a significantly slower pace and with even more pronounced regional difference compared to 2021.

For a start, the slowdown will likely reflect a physiological normalisation in growth rates, as the initial impact from the re-opening of the economies and the sugar rush from fiscal and monetary stimulus starts to fade. In addition, the Russian invasion of Ukraine in the first quarter of 2022 has acted as an exogenous negative supply shock on the global economy via its impact on energy prices. Demand will face downward pressures from fiscal and monetary policy tightening, and a squeeze to real incomes from cost-push inflation. However, generally healthy balance sheets should help households and corporates withstand those hits. At the same time, the persistence of China's zero-Covid policy and the war in Ukraine will result in more extended supply constraints and supply chain disruptions. Accordingly, it will take longer for supply-demand imbalances to adjust, and inflation will remain higher than previously expected, for longer. Inflation is now expected to peak at around mid-year at close to double-digit figures across developed economies, and it should start a gradual descent in the second half of the year.

The impact from the conflict in Ukraine will likely vary significantly across regions, which will determine the policy response. Europe stands out as highly vulnerable, mainly due to its reliance on Russian energy commodities, while the US looks more insulated from the crisis in light of its energy independence. Accordingly, European countries will likely resort to some fiscal easing. As for monetary policy, all central banks have faced an exogenous stagflationary shock that will complicate their decisions. Against the backdrop of a tight labour market – potentially favouring the emergence of second-round effects – the US Federal Reserve will likely focus on inflationary risks and will likely hike rates over the year, although the pace will depend on the evolving inflation-growth trade-off. European central banks will be more cautious, resorting to two-way optionality and flexibility as they approach policy normalisation. Meanwhile, amid the challenges of a structurally slowing economy, Chinese policymakers will likely provide ample fiscal stimulus to support short-term growth and to foster stability going into the 20th National Party Congress in the fall – when President Xi Jinping will seek an unprecedented third term.

Overall, 2022 looks like a challenging year. Covid-19-related distortions still muddle the picture and make it hard to read the underlying trends for economic activity, labour markets and inflation. Geopolitical and policy risks have compounded the uncertainty that was already surrounding the unusual recovery from the pandemic. Furthermore, there is the risk of losing sight of the existential threat from the ongoing ecological crisis and the need to rewire our economic and policy frameworks to give prominence to environmental and social considerations.

Equity outlook

The economic backdrop remains supportive of positive equity market returns in 2022, albeit perhaps at a more modest level than those enjoyed over the last couple of years.

Earnings growth remains strong. However, we are seeing signs of fatigue in equity markets, and momentum has started to slow. Equity valuations are at peak levels with measures such as the Gross Domestic Product (GDP) to market cap ratio at an all-time high. Supply constraints are also playing their part – although this is likely to mean that growth is being delayed rather than declining and is reflected in robust earnings growth estimates for 2022.

Inflation expectations will remain a key influence on markets, and these expectations are elevated, especially in the US. Despite this, inflation-hedged bonds are still showing negative real yields – the bond market is therefore indicating that inflation should moderate and that interest rate rises are likely to be modest. Meanwhile, a change to expectations about the persistence of inflation could result in interest rates rising faster than expected, creating a real risk for the global economy and global equity markets. The sensitivity of markets towards inflationary expectations and interest rates could lead to some significant, short-term factor swings and keep volatility at an elevated level.

This provides opportunities for active investors with diverse portfolios to generate alpha by taking advantage of short-term price swings to build exposure to sustainable companies with structural tailwinds that should grow regardless of the market environment. In a transitional inflationary environment, equity markets should do well.

Fixed Income outlook

In 2021, several risks to markets emerged as a result of Covid-19 aftershocks – renewed infection waves, supply chain disruptions, inflationary spikes and steepening rate curves – but the market moves one might expect as a result did not. So will 2022 be the same, full of potential pitfalls but incredulously benign in performance?

We view some of the disruptions listed above either as temporary or reflective of the successful conclusion of government remedies. However, with regards to the inflationary pressures and associated rates moves, we are more concerned that there might be a more substantial reaction in 2022. The possibility that inflation may be more persistent, and the reaction to that, is enough to be a major risk in our view. In addition, the focus on the global healthcare emergency has detracted from geopolitical rumblings over the last couple of years, which are now front and centre with Russia's invasion of Ukraine. We would also not be too surprised to see more destabilisation from headlines around Taiwan – and emerging market debt could be an interesting area for us.

With all of this in mind, we will start the year with a slightly more cautious beta approach to credit risk but with a higher inclination to extract alpha from fundamental credit work. 2022 will be a year that will reward diligence and discipline. We believe that anomalous pockets of illiquidity and complexity premia still remain available, and we will maintain overweight exposures to those assets, such as Collateral Loan Obligations (CLOs).

Business Development review

Having revised our annual revenue targets during the first year of the Covid-19 pandemic (2020) and, given the challenge of raising and retaining assets without frequent business travel, we outperformed our sales target in 2021.

Due to the commitment and ingenuity of our business development, investment and stewardship teams, and operational support from the broader business, we surpassed our budgeted gross- and net-sales targets.

At a Group level, this resulted in £8.0m of net new revenues (2020: -£2.3m) representing £2.0bn in net AUM (2020: -£0.3bn).

Throughout 2021, we attracted allocations from 221 new investors, including major pension schemes, prominent global financial institutions and intermediaries/wealth managers. We retained 897 existing clients, from which we generated £1.0bn in net new sales. We also won and funded 10 new segregated mandates/segregated managed accounts (SMAs) on behalf of clients.

Our relationships with strategic clients deepened. Worldwide, our top selling strategies were SDG High Yield Credit, Unconstrained Credit and Global Equity ESG. In our home market, the UK, Absolute Return Credit, Unconstrained Credit and Asia ex-Japan were favoured, particularly in the wholesale channel.

Delivering on the wider Group's five-year global growth plan – in which we lead Europe, Middle East and Africa (EMEA) and Asia Pacific (APAC) distribution – we opened a new international office in Tokyo, Japan, and, in partnership with our parent company in the US, expanded distribution coverage across Canada, Latin America and US Offshore channels.

The Marketing team continued to embrace virtual working, producing collateral such as presentations, sales literature, website content, podcasts and videos remotely. In addition, and alongside thought leaders from across the firm, the team continued to support strategic clients and campaign activity with a strong pipeline of content. Our award-winning 'Sustainability. We Mean It' campaign[14] was a standout achievement, as was our 'Further, Faster' fringe event at COP26. Both marked us out as leaders in sustainable investing.

By year-end 2021, EOS reached £1.21tn in AUA after gaining 10 new clients.

Responding to investor appetite for thematic, values-based and impact strategies, the Product team led the scoping and development of a range of equity and credit capabilities aiming to strengthen our Sustainable offering. The team also intensively researched the labelling regimes for Sustainable investment products in many jurisdictions to ensure our existing strategies are visible in target markets. In 2021, we launched our first Sustainable funds and converted our existing European equity funds to incorporate and enhance their sustainability features.

By year-end 2021, EOS reached

£1.21tn

in AUA after gaining **10** new clients.

These results are a testament to the efforts of all teams across business development. As our Sales and Client Relations teams created new relationships and developed existing ones through virtual means, they were supported by 426 Request for Proposals (RFPs), Due Diligence Questionnaires (DDQs) and Request for Information (RFIs) distributed to prospects – an 8% year-on-year increase.

Awards and recognition

We continue to increase the strength of our brand in the UK, Europe and Asia, winning awards for our business achievements, investment strategies, marketing and brand strength, as well as the individual excellence of our people. In alignment with our growth plan, we continue to extend our marketing and communications campaigns deeper into Europe and Asia, using media in innovative ways to ensure our unique perspectives reach targeted audiences. On the next page you will find a selection of the awards we were honoured to receive in 2021.

[14] FHL was awarded 'Best ESG Strategy' at the Marketing Effectiveness Awards run by the Financial Services Forum in 2021.

Type	Award	Issuer
Corporate	'A+' for Climate Change Engagements	InfluenceMap
Corporate	Best ESG Marketing Campaign award	Financial Services ForumMarketing Effectiveness Awards 2021
Corporate	Trading Desk of the Year	The Trade
Corporate	Ranked 1st among over 500 global asset managers	Responsible Investment Brand
	Achieved Avant-Gardist status for the fourth consecutive year	Index (RIBI™)
Impact Opportunities Equity Fund	Towards Sustainability label	Febelfin
Global Emerging Markets	Emerging Markets Manager of the Year	Pensions Age
SDG Engagement High Yield Credit's annual report	Best sustainability reporting by an asset or fund manager, medium and small (fixed income)	Environmental Finance
SDG Engagement High Yield Credit fund	Best fund provider ESG/Sustainable Bond	APB Asset Management Awards 2022
Karen Sands, COO and CFO HGPE	COO of the year	Drawdown Awards

COP26 – our 'Further, Faster' conference

On 4-5 November 2021, we presented the 'Further, Faster' conference at COP26, hosted by Saker Nusseibeh CBE, CEO of FHL. We had a diverse set of excellent and informed speakers ranging from climate scientists to human rights lawyers – each experts and leaders in their field.

We believe the 1.5°C narrative does still hold, but only just: it is imperative for companies and investors to focus on the short and medium-term to 2030 just to have a chance of achieving below 2°C in global heating by 2100. If we miss the window for 1.5°C, the pressure and urgency to act only increases alongside the financial and human costs.

Speakers argued that government policy is not the only lever – investors and companies can also make a difference. Investors' engagements must focus on emissions reduction and the protection and regeneration of nature. Ambitions and announcements must be translated into detailed plans and actions.

At our 'Further, Faster' conference, scientists highlighted:

- The dangers of Arctic melting causing change effects;
- The need to prioritise ocean health, including the risks of acidification destroying much of the life in our seas;
- That positive tipping points will occur in society (e.g. switch to electric vehicles); and
- That a range of innovations are forthcoming (e.g. net-zero aviation, green steel, carbon capture and storage).

Other key areas:

- Social considerations must be at the heart of decarbonisation – without a just transition there will be no transition at all;
- Sustainability within fixed income and the role of finance overall;
- Biodiversity, and many natural resources on which humanity depends, is in severe decline around the world;
- Fast fashion is a major contributor to climate change, producing up to 10% of global emissions; and
- Chemical pollution and other waste are causing significant damage to human health and the natural world.

Saker Nusseibeh CBE, FHL's CEO, , speaking at the 'Further, Faster' conference at COP26, Glasgow, 4-5 November 2021

Financial Review

FHL's operating profits increased by £4.4m to £16.9m in 2021 as total revenue increased by 19% / £34.8m, from £188.1m in 2020 to £222.9m in 2021, while administrative expenses rose by 17% / £30.5m, from £175.5m to £206.0m. Part of the year-on-year variance, in both revenue and costs, is due to the consolidation of HGPE. HGPE was consolidated into the Group on 22 April 2020 and prior to this date it was accounted for as an equity investment, with HFML's share of profits recognised in non-operating activity.

FHL generated a profit before tax of £17.8m in 2021 (2020: £32.6m), a year on year decrease of £14.8m. The reduction in profits in the year was primarily due to non-operating activity in the prior year. In 2020, FHL recognised a negative goodwill credit of £14.4m through the profit and loss account, arising from the consolidation of HGPE into the Group.

With the exclusion of the HGPE consolidation timing as noted above, management fee revenue rose by £41.1m in the year due to positive net sales and favourable market movements; as assets under management increased by £5.0bn from £39.5bn as at 31 December 2020 to £44.5bn as at 31 December 2021. The largest increase in management fee revenue in the year was generated from our established Global Emerging Markets strategies, accounting for £18.5m. With the exception of three of our smaller strategies (combined AUM of £1.9bn), all other strategies recognised an increase in management fee revenues in the year. The increase in management fee revenues was offset in part by an increase in fee and commission expenses (£1.9m); a reduction in carried interest (£2.5m) and a reduction in performance fee revenues (£10.8m). Performance fee revenues in 2020 included two non-recurring real estate performance fees of £7.5m and £5.2m respectively.

FHL's cost base rose by 17% / £30.5m in the year; similar to the increase in revenues, part of this increase is due to the timing of the consolidation of HGPE. With the exclusion of the HGPE consolidation timing differences, the largest increase in the Group's cost base was staff costs, which rose by £7.6m in the year. The increase was driven by headcount as average headcount grew by 6.2% from 511 to 543 in 2021. Another notable increase in the Group's cost base was property and office costs, which rose by £4.7m in 2021. The prior year rent included the acceleration of a £3.7m lease incentive, resulting in a lower rental charge. The Group also leased additional space at its head office at 150 Cheapside, London, which has been reflected in the 2021 cost. Overall, the Group's cost base has increased in line with the planned organic and inorganic expansion of the Group.

On 4 January 2021 (effective 1 January 2021), FHL completed the acquisition of Federated Investors Australia Services Limited ("FIAS") for AUD

$0.4m

Corporate Acquisitions

On 4 January 2021 (effective 1 January 2021), FHL completed the acquisition of Federated Investors Australia Services Limited ("FIAS") for AUD $0.4m. The entity was acquired from Federated Investors Asia Pacific Pty Limited Services, a fellow entity within the FHI group. Following this acquisition, FHL established a Sydney-based distribution hub to distribute FHL products.

Effective 1 July 2021, MEPC Limited, a subsidiary of FHL, acquired the Birmingham development and asset management team, comprising eight employees, from Argent (Property Development) Services LLP. The addition of the Argent team will further bolster MEPC's market-leading UK placemaking business.

Acquisitions in the prior year included the acquisition of MEPC, a UK commercial real estate developer and asset manager; and the consolidation of HGPE, following Federated Hermes, Inc.'s acquisition of HGPE Capital Limited, FHL's joint venture partner in HGPE.

Financial position

Management believes the Group has both the financial strength and capital resources to support and execute its strategic plans. The Board and executive leadership remain focused on growing and developing our core business and continuing to increase assets and revenues.

As at 31 December 2021, consolidated net assets were £190.3m (31 December 2020: £166.2m). The increase was mainly due to the underlying profit for the year. There were no new significant additions to the Group's assets in the year. While the acquisition of the Argent business was treated as a business combination, no intangible assets or goodwill were recognised. The Group continued to seed investment into new funds in the year with a £5.0m seed investment into the Federated Hermes Sustainable Global Equity Fund and a €0.1m initial seed investment into the European Direct Lending II Fund.

As at 31 December 2021, cash balances increased to £143.8m (2020: £114.1m), reflecting the receipt of revenues over the course of the year, while the 2021 discretionary bonus liability was cash settled in February 2022.

Regulatory capital

The Group has Tier 1 regulatory capital of £152.6m (2020: £130.6m), which was £94.8m (2020: £80.2m) above the FCA's capital requirement for the Group as at 31 December 2021 of £57.8m (2020: £50.4m). The regulatory capital surplus fell to £69.8m following the payment of a dividend on 4 February 2022. Further details of the Group's approach to capital adequacy can be found on the website: https://www.hermes-investment.com/uk/en/institutions/policies-and-disclosures/

On 1 January 2022, the new Investment Firms Prudential Regime ('IFPR') came into force. The new rules pertaining to the capital requirement have not materially impacted the FHL Group. The FHL Group forms part of a wider FCA regulatory consolidation group, headed by Federated Holdings (UK) II Limited. This regulatory consolidation group remains both adequately capitalised and liquid.

Tax governance

The Group strives to act as a responsible global corporate taxpayer in compliance with applicable tax law and regulations, and seeks to minimise the risk of uncertainty or disputes in tax matters. The Group aims to comply with its tax filing, tax reporting and tax payment obligations in line with statutory timelines. Where appropriate, external advisers are engaged prior to the initiation of new activities or operations, or in areas of complexity or uncertainty, in an effort to ensure that applicable tax rules are identified and followed. An important part of the governance process is the maintenance of a constructive and transparent relationship with Her Majesty's Revenue and Customs (HMRC).

The Group strives to act as a responsible global corporate taxpayer in compliance with applicable tax law and regulations, and seeks to minimise the risk of uncertainty or disputes in tax matters

The tax risk of the Group entities is managed by their executives and the Board of FHL. Review of the key tax risks is performed on an ongoing basis and, where there is a material issue, matters are escalated to the Risk and Compliance Committee and/or Board.

The Group does not tolerate tax evasion, nor does the Group tolerate the facilitation of tax evasion by any person(s) acting on the Group's behalf.

Assets Under Management and Sub-Advice (in £bn)

At 1 January 2021	**39.5**
Inflows	13.4
Outflows	(11.4)
Net flow	**2.0**
Market movement	**3.0**
At 31 December 2021	**44.5**

Section 172 Statement – stakeholder engagement

Section 172 of the Companies Act 2006 requires Directors to promote the success of the Company for the benefit of all the members as a whole and in doing so have regard to the interests of all of our key stakeholders.

The Directors have considered each of the requirements under Section 172 and believe them to be consistent with our commitment to treat all stakeholders fairly. FHL's goal is to deliver sustainable wealth creation: investments that enrich investors, society and the environment for the long term. Among the Board's responsibilities is the formulation of our business purpose, namely to help individuals invest and retire better through Sustainable Wealth Creation. This includes helping clients achieve better risk-adjusted returns and, where possible, contributing to positive societal and environmental outcomes in the wider world.

Naturally this includes consideration of how the decisions we make as a business impact all of our stakeholders.

As Government restrictions are removed and we transition to living with Covid-19, how we engage with our different stakeholders matters more than ever. The crisis has highlighted the critical interdependence between companies, their stakeholders and governments. We strive to meet the commitments expected of a responsible firm, including treating clients, colleagues and all other stakeholders with dignity and respect. Furthermore, each of our employees are encouraged to sign the Federated Hermes Pledge, which aligns employee behaviours to FHL's mission and objectives. The pledge underpins our Group-wide commitment to always put clients first, and to act responsibly and transparently.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2021
Clients and beneficiaries	As a responsible firm, we have a responsibility to lead the field in demonstrating that we provide clients with value for money by acting with integrity as skilled investors and good stewards of capital. We aim to create sustainable wealth for investors. This requires us to understand and put the needs of our clients and their beneficiaries first. It informs our investment processes, stewardship activities and public-policy work. To do this we build close relationships with clients to better understand their financial needs and broader objectives and concerns. Fair treatment of clients is central to our approach, and a key consideration for our governance bodies, including the oversight of the creation and lifecycle of our investment products. A robust policy framework supports this work, including a conflicts of interest policy and product development and review procedures.	We completed a project to provide clients and prospective clients with enhanced factsheets and dedicated client reports. These incorporated best practice carbon, ESG and stewardship data on our funds. We published multiple thought pieces on investment and sustainability; including UK sustainable finance regulation, the continuing impact of the pandemic on companies, the impact of climate change on particular sectors and market trends. We held regular webinars for our clients across all 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 the EOS at Federated Hermes biannual Client Advisory Council. Clients were invited to attend our Further, Faster conference at COP26 virtually or in person.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2021
		We developed a sustainability hub on our website. We established the Federated Hermes Academy, an education hub developed by our experts for our clients and prospective clients seeking to understand responsible investing and how the integration of environmental, social and governance and stewardship can help create long-term wealth sustainably. We ran five CPD accredited seminars throughout the year as part of our Academy.
Suppliers	Like many businesses, we use external service providers and suppliers to supplement our own infrastructure and operations. This enables us to provide a higher quality of service to our clients and meet regulatory requirements. The Group retains responsibility for the performance of our third-party suppliers. We are committed to observance of all laws and regulations, including the Modern Slavery Act, and to the pursuit of honest and fair corporate activities that conform to the norms accepted by society. It is essential for all product and service providers to adhere to our Supplier Code of Conduct so that we can live up to this commitment.	We have continued to maintain high standards of due diligence for our suppliers. While the impact of the pandemic on many of our services-based suppliers has been manageable, it has been a very challenging period for some of our suppliers. We have sought to avoid creating any additional unnecessary pressure on our suppliers. We have also continued to work closely with a number of IT suppliers to enhance our remote working environment. Our suppliers are now tiered into four categories. The four categories are: (1) material outsourcing, (2) key and critical providers, (3) business essential and (4) one-off and non-critical suppliers. This enables us to prioritise resources for the management of our category 1 and 2 suppliers. These suppliers are managed and overseen by a subgroup of the Risk and Compliance function that includes Procurement, Risk and Legal that provide a proactive approach to supplier management. As at 31 December 2021, HFML took an average of 22 days to pay our suppliers, with our standard payment terms being 30 days from the date of invoice. This compares favourably with many of our peers.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2021
People	Our people's wellbeing and development are central to the ongoing success of our business. Staff are aligned to our mission of delivering sustainable wealth creation for clients and beneficiaries in a number of ways, including: being encouraged to sign the Federated Hermes Pledge, receiving market-aligned remuneration and benefits, receiving ongoing training and development support, and being encouraged to be collaborative and innovative through behavioural criteria in our performance management framework. We recognise that diversity, equity and inclusion are key to developing a wide-ranging outlook to meet client needs. Diversity, equity and inclusion initiatives are promoted through the staff Employee Resource Group (UNITY) and supported by the seven Employee Networks and the Inclusion Committee which reports into ExCo. Moreover, we have talent development initiatives such as mentoring; coaching; unconscious bias training; mindfulness and financial wellbeing education.	Throughout the pandemic we have provided additional support and resources that focus on employee wellbeing. Development of the agenda for diversity, equity and inclusion is a key priority of the CEO's Office in order to enhance its profile; with a new Head of Inclusion joining the firm in 2021. New initiatives in 2021 included: **Employee engagement survey** In October 2021, with the assistance of Workday Peakon Employee Voice, we launched an employee engagement survey, which 74% of our colleagues have completed. With the initiatives we have put in place both historically and specifically in 2021, it is heartening to see that 83% of participants have ranked HFML as seven or above (out of 10) for health and well-being. And, given our focus on sustainability and the wider community, it is encouraging that 73% of our colleagues also scored the organisation seven or above for how inspired they were by the Group's purpose and mission. While the survey results are quite positive, the Board and the ExCo, acknowledge that further work is necessary. In particular, with respect to diversity equity and inclusion ("DEI"). A DEI audit is underway and the results will underpin our DEI Strategy and Action Plan for 2022. **Hybrid Wellbeing Programme** The aim of this programme was to remind employees of best practice and etiquette for hybrid meetings as well as highlighting how managers can support their teams through this transition. We also worked with our IT department to create a technology guide for Microsoft Teams to improve our people's experience while working remotely.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2021
		Investment trainee programme In 2020, we created and launched a programme that encourages school and college leavers from socially disadvantaged backgrounds to explore employment opportunities within the asset management industry. The trainee programme involves a rotation across three or four of our investment and engagement teams and risk & compliance over a year. We took three trainees in February and five in September 2021. After 12 months rotating around the teams, the successful February trainees will be given 18-month apprenticeship roles. The September intake will be starting their Investment Operations Certificate in 2022. **Winter Wellness Programme** We once again provided further training and advice to support mental health awareness, physical health and mindfulness recognising the additional challenges presented by the change in seasons and ongoing remote and hybrid working. **Mental Wellness and Health Support** To support our staff we held a number of Mental Wellness webinars and events organised by our Mental Wellness Employee Network and we have a number of Mental Health First Aiders who are trained to be points of contact for any employee who is experiencing a mental health issue or emotional distress. **UNITY** We relaunched UNITY as a formal Employee Resource Group with seven Employee Networks – Gender, Disability, Mental Wellness, Race and Ethnicity, Families, LGBTQ and Returners. All Networks have two co-chairs, one Executive Committee and two Management Committee sponsors. Events have been held throughout the year.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2021
		Industry mentoring scheme As one of the lead sponsors for the City Hive Cross-Company Mentoring Scheme, which collaborated this year with #TalkAboutBlack, we provided four mentees with four mentors in 2021. We've also recently taken steps to help improve diversity within the industry by supporting a similar programme run by Girls Are INvestors ("GAIN"), which facilitates internship placements for female students who aspire to careers in investment management. **Racial Equity Report** 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.
Society and the environment	As a Group, we strive to make a difference by delivering Sustainable Wealth Creation enriching investors, society and the environment. We aim to achieve this through our unique approach: a fusion of high-active-share investment, best-in-class ESG analysis and effective stewardship, with integration overseen by the Responsibility Office. Focusing on our own actions as a business, we seek to minimise the environmental impact of our operations, positively impact the communities in which we are based and benefit wider society. Pursuing these aims, we work with several environmental and community organisations and charities.	We have continued our stewardship and ESG integration across asset classes, and policy advocacy to promote responsible investment practices and business conduct on a range of environmental and social issues this year. In 2021 we planted 1,324 trees through our relationship with Trees for Cities. This offset our operational emissions and business travel (by air and rail) emissions, totalling 349.02 tonnes of CO_2 (2020: 627.41 tonnes of CO_2). Our emissions were low due to the continued travel restrictions resulting in below historic levels of business travel and office usage. Our annual energy consumption rose by 20,954 kWh from 906,288 kWh in 2020; however this was due to an increase in office space leased at both the Group headquarters in London, and internationally, specifically: Sydney and Tokyo. Please see the SECR statement on page 60 for further details.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2021
		We partnered with Giki Zero Pro. This initiative allows staff members to calculate, track and reduce their environmental footprint. Between 15 September and 9 December 2021, colleagues committed to 54,748kg carbon emission reduction and 1,400,842 litres water saving. Highlights of our community engagement activities and charitable donations included: • During our two year partnership with The Brain Tumour Charity we have donated over £70,000. This is equivalent to 280 days of essential research into brain tumours. • For our longer-term response to the Covid-19 challenges, we are supporting and committing to a three-year partnership with the East End Community Life Chances Campaign. The Life Chances Campaign aims to create a £5m Life Chances Fund for grassroots organisations supporting the most vulnerable to recover from the pandemic crisis and create lasting change. Our involvement started in October 2021. • In response to the Black Lives Matter movement, we have continued with a second-year donation to Urban Synergy, an early intervention mentoring charity that helps hundreds of young people between 11-18 years of age reach their full potential. With HFML's support, Urban Synergy has reached a record high of over 6,500 young people this year and offered more than 3,200 hours of work experience to them. • We also donated to 'Treedom' for the second year. With this donation, Treedom has assigned 1,680 trees to be planted across the world on our behalf. • Staff members took part in volunteering days; we increased the frequency of the employability workshops for young adults, technology sessions for the elderly and gardening and tree planting projects.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2021
Regulators and policy makers	Regulators have a legitimate interest in how we treat our clients and run our business. We believe that our clients' interests are best served when we engage constructively with regulators. Proactive engagement on regulation and policy governing responsible approaches to investment is also key to delivering Sustainable Wealth Creation. Our Head of Policy & Advocacy works with staff across the firm to ensure these engagements are well informed, relevant and impactful. Using the skills and experience within our business to work constructively with policymakers, we aim to lead rather than follow policy debates. We engage with regulators and policymakers through a variety of means – bilaterally, alongside fellow investors and through collective initiatives. Day-to-day regulatory and legal activities are managed by our Compliance and Legal teams.	We have engaged with a wide range of regulators and policy makers this year, including: the Financial Conduct Authority ("FCA") regarding our involvement in the UK sustainable finance regulation and our involvement in the UK Climate Financial Risk Forum; the European Supervisory Authorities regarding elements of the EU sustainable finance legislation; the UK Department for Business, Energy and Industrial Strategy ("BEIS") on ongoing audit and accounting reform; and the Autorité des Marchés Financiers regarding sustainable finance topics including corporate disclosure. We seek to be constructive in our engagement to help policymakers achieve outcomes that best serve the interests of clients and their beneficiaries. For example, we have seen many elements we have been advocating for – including a recognition of the important role of stewardship and mandatory disclosure of transition plans – reflected in the UK's various proposals on sustainable finance regulation and climate-related disclosure. We were pleased to see the work of the Disclosures Working Group ("DWG") – which we chair – of the UK Climate Financial Risk Forum is referenced as useful guidance on voluntary additional disclosure in the FCA's Policy Statement on mandatory climate-related disclosures for FCA-regulated firms including asset managers.
Shareholders	We rely on the support and engagement of our shareholders in order to deliver Sustainable Wealth Creation for clients and beneficiaries, and to achieve our strategic objectives and growth plans. Our parent firm has representation on the Company's Board of Directors as well as all the various Committees. As such, our majority shareholder is actively involved in all strategic decision-making.	On 31 August 2021, Federated Hermes, Inc. agreed to the acquisition of BTPS' remaining 29.5% interest in HFML. Federated Hermes, Inc. previously acquired a 60% majority interest in HFML from BTPS in 2018. The approximate 10% of HFML that was held by senior staff members of HFML was exchanged for Federated Hermes Class B Common Stock in March 2022. Our majority shareholder Federated Hermes, Inc. is represented on our Board. Our CEO, Saker Nusseibeh CBE, is a member of the Federated Hermes, Inc. Executive Staff. Saker attended 19 out of 21 committee meetings in 2021.

Employee alignment

The Federated Hermes Pledge

Each of our employees is asked to sign the Federated Hermes Pledge which aligns employee behaviours to the Company's mission and objectives.

Our Pledge

The Federated Hermes Pledge underpins our Group-wide commitment to always put clients first, and to act responsibly and transparently.

I pledge to fulfil, to the best of my ability and judgment 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 and 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; and
- I will manage conflicts of interest fairly between all parties.

Attracting and developing talent

Our success and growth continue to be driven by the values, behaviours and performance of our people. From recruitment to development, we focus on building a firm populated by talented and collaborative people motivated by our purpose, and giving them opportunities to excel.

Year	Employees	Employee turnover
2021	544	10.6%
2020	533	7.1%
2019	415	12%

As a business, we recognise that our people are our biggest asset and the strength and market differentiator behind our products and services. From investment to operations and business development, people make the difference. Therefore, attracting talent and investing in the progression of our people is crucial to our continued success. It is the responsibility of every leader throughout our business to create an environment where all our people can improve their knowledge and skills, feel valued and perform at the highest level.

Our success and growth continue to be driven by the values, behaviours and performance of our people.

Nurturing our talent

To develop our future talent, we provide a suite of management programmes that cover induction, business and professional skills, technical development, management development and professional studies. And to support our employees outside work, the team also arranges frequent educational sessions about pensions and financial planning, as well as training to support our employees' mental health and well-being, including mindfulness sessions.

New initiatives in 2021 included our Hybrid Wellbeing Programme, which was launched during the summer. The aim of this was to remind employees of best practice and etiquette for hybrid meetings as well as highlighting how managers can support their teams through this transition. We also worked with our IT department to create a technology guide for Microsoft Teams to improve our people's experience while working remotely.

And we've had exceptional feedback for our Winter Wellness Programme, which has been helping employees across topics such as sleep and nutrition, physical wellbeing, mental wellbeing, motivation and reconnecting teams. The programme was launched at the height of the Covid-19 pandemic to provide holistic support from a mindset, movement and mindfulness perspective and has become a permanent addition to our employee wellbeing programme.

In October, with the assistance of Workday Peakon Employee Voice, we launched an employee engagement survey, which 74% of our colleagues have completed. With the initiatives we have put in place, it is heartening to see that 83% of our colleagues have ranked Federated Hermes as seven or above (on a scale of 10) for health and well-being. And, given our focus on sustainability and the wider community, it's great to discover that 73% of our colleagues scored the organisation seven or above for how inspired they were by Federated Hermes' purpose and mission.

Investment trainee programmes

In 2020, we created a programme that encourages school and college leavers from socially disadvantaged backgrounds to explore employment opportunities within the asset management industry. The trainee programme involves a 12-month rotation across some of our investment teams and Risk and Compliance, followed by an opportunity to embark on a 12-18-month apprenticeship. We are keen to provide training and development for those talented individuals who may not ordinarily be given the opportunity.

We took three trainees in February and five in September 2021. After 12 months rotating around the investment teams, the successful February trainees will be given 18-month apprenticeship roles within our investment and the responsibility offices. During this time, they will be studying Level 4 Investment Operations Apprenticeship, which includes the Investment Management Certificate qualification.

The September intake has already attended over 32 hours of training alongside the trainees' work responsibilities, and they will be starting their Investment Operations Certificate in 2022. Their managers have attended 12.5 hours of training specifically to support the development of school leavers and give trainees the best possible start to their careers.

Part of our role in encouraging new faces and new voices to consider asset management comes through our support for organisations that are providing a stepping stone for the talent of tomorrow. The #10,000 Black Interns programme, for example, aims to transform the horizons and prospects of young black people. We are offering paid work experience within our Investment Division to individuals introduced via the programme. We hosted two interns on the programme this year and will be hosting another two next year.

We've also recently taken steps to help improve diversity within the industry by supporting a similar programme run by GAIN, which facilitates internship placements for female students who aspire to careers in investment management. Our Investment Division will be providing students introduced through the programme with valuable work experience and industry awareness. From here, we hope to offer permanent roles within our business, or for the interns to go on to secure permanent roles elsewhere in our industry.

UNITY, our employee resource group, the DEI Committee, and our Corporate Social Responsibility and Human Resources team are discovering new ways to support our workforce, especially during this transitional phase as we return to the office three days a week beginning in March 2022.

Diversity, Equity and Inclusion at FHL

Building a diverse and progressive workforce isn't just the right thing to do – it makes sense from a business perspective. A happier and more diverse workforce will better serve the needs of a growing client base.

2021 was another busy year for DEI at FHL. When our Senior Management Team Committee (formerly the Executive Committee) endorsed a DEI policy in 2019, we were given three years to execute the strategy. And, although 2021 signals the end of this implementation stage, it is only the beginning of our commitment to a diverse and inclusive working culture. UNITY, our employee resource group, the DEI Committee, and our Corporate Social Responsibility and Human Resources team are discovering new ways to support our workforce, especially during this transitional phase as we return to the office three days a week beginning in March 2022.

This June, we relaunched our UNITY Employee Resource Group with seven Employee Networks – Gender, Disability, Mental Wellness, Race and Ethnicity, Families, LGBTQ and Returners. All Networks have two co-chairs, one Senior Management Team Committee and one Management Committee Sponsor. This year, the Employee Networks have held a number of culturally themed webinars and events, including International Women's Week, Mental Health Awareness Week, Pride, National Inclusion Week, Black History Month and International Men's Day.

In these changing times, we are supporting employees through listening circles, where everyone can share their experiences in a safe space, and by embarking on a mental health audit, which began in November 2021. The latter will culminate in a mental-wellbeing action plan that supports colleagues to be as healthy mentally as they may be physically.

Elsewhere, we are building on the progress we have made in recent years, including our role as a lead sponsor for the City Hive Cross-Company Mentoring Scheme. This year the scheme collaborated with #TalkAboutBlack, extending its remit to include more women and ethnic minorities as mentees – FHL provided four mentees and four mentors in 2021. We are looking forward to seeing how this vital programme empowers our existing employees, as well as how it attracts the brightest new talent to the asset management industry.

Following the death of George Floyd in 2020 and the prominence of the Black Lives Matter movement, we enlisted a third-party consultancy to undertake a series of listening and coaching circles with colleagues on ethnic diversity and inclusion. The resulting Insight Report has been shared with the SMT Committee, the DEI Committee, the Race and Ethnicity Network and the Race Steering Committee, the latter of which is responsible for overseeing the implementation of the report's recommendations. The insight report was presented to all colleagues during week four of Black History Month (October 2021).

> **Following the death of George Floyd in 2020 and the prominence of the Black Lives Matter movement, we enlisted a third-party consultancy to undertake a series of listening and coaching circles with colleagues on ethnic diversity and inclusion.**

Meanwhile, as part of National Inclusion week in September, we launched our Disability Awareness Campaign with the support of our Disability Employee Network. We wanted to find new ways of removing barriers and helping our disabled colleagues feel included and empowered. Our new Disability Working Group was tasked with making workplace adjustments and holding Disability Listening Circles for colleagues with and without disabilities. At FHL, we support the social model of disability, which states that the medical model defining disability does not explain disabled individuals' exclusion from mainstream society – experience has shown that most problems are not caused by impairments but by the way society is organised. We want to bring about change for our disabled employees by removing the barriers that exclude them from fully participating in the workforce and society at large.

A recent report by network peers, the Financial Skills Commission and the Fawcett Society has shown that more than 80% of women will experience menopausal symptoms to some extent during their lifetime. Menopause is holding back women from progressing and, in some cases, even remaining in work. Our Gender Employee Network is taking positive steps to support all colleagues experiencing menopausal symptoms by helping co-workers and line managers understand how they can best support these employees. To this end, we held our first listening circle to provide a safe space for discussion of these issues and peer support. We have also signed the Menopause Workplace Pledge, taking positive action to make sure everyone going through menopause is supported.

We have covered just some of the steps taken this past year to make FHL a more inclusive place for our colleagues. And as we come to the end of our three-year implementation, we are undertaking our first DEI audit. The outcome of this audit will form our new DEI Strategy and Action Plan, to be launched in 2022. The Action Plan will include Gender, Race and Disability Action Plans.

> A recent report by network peers, the Financial Skills Commission and the Fawcett Society has shown that more than
> # 80%
> of women will experience menopausal symptoms to some extent during their lifetime.

Women in finance charter

Gender diversity: employed women across FHL's business:

Firm-wide:	Board:	Senior management:
50% 2025 target	50% 2025 target	50% 2025 target
41% 2021	31% 2021	29% 2021
44% 2020	31% 2020	33% 2020
42% 2019	31% 2019	31% 2019

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 with 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 new, stretching targets, which will help the business to focus its efforts on reaching complete gender parity by the end of 2025.

Gender Pay Gap

Whilst the mean gender bonus gap across FHL's business has improved, it remains very high and it is disappointing to see our overall mean pay gap worsening in 2021 from an unacceptably high level.

Gender pay and bonus gaps	2021	2020
Mean pay gap	27.6%	26.5%
Median pay gap	23.6%	26.0%
Mean bonus gap	60.5%	64.4%
Median bonus gap	55.9%	62.5%

Board diversity

Fully aware that a wealth of deep and broad experience and perspectives at the highest level are instrumental in successfully guiding a business, we are committed to diversity in the boardroom. As at 31 December 2021, four of the 13 Directors (31%) on FHL's Board are women (31 December 2020: 31%). Specific criteria govern our appointments to the FHL Board, including appropriate expertise and experience alongside all measures of diversity. We expect that long and short lists of candidates reflect these requirements.

London Living Wage

Since 2012, FHL has been accredited as a Living Wage employer, affirming its commitment to provide all employees and on-site contracted staff with compensation and benefits above the London Living Wage.

Equal opportunities policy

We believe in equal opportunities for all and aim to ensure that no current or prospective employee is treated less favourably on the basis of their gender, race, ethnicity, religion or belief, gender identity or expression, marriage or civil partnership, pregnancy and maternity, age, sexual orientation, or disability.

Our work in the community

Despite the lingering effects of the pandemic, our employees have continued to work in their local communities. Our outreach programmes have always gone beyond charitable donations, and 2021 was no exception. Many employees took part in volunteering days, as we increased the frequency of our employability workshops for young adults, our technology sessions for the elderly, and our gardening and tree-planting projects.

Then there's our longer-term response to Covid-19, which includes a three-year partnership with the East End Community Life Chances Campaign. This exciting initiative is building a £5m Life Chances Fund to help the most vulnerable in our society recover from the pandemic and empower grassroots organisations to generate real change.

We have also made our second annual donation to Urban Synergy, an early intervention mentoring charity that helps hundreds of young people between the ages of 11 and 18 reach their full potential. With our support, Urban Synergy has reached more than 6,500 young people this year – a record high – and provided more than 3,200 hours of work experience.

Sponsored events are another way in which we encourage our people to work together and support worthwhile causes. In 2021, we held a Velodrome cycle challenge fundraiser for our charity of the year, the Brain Tumour Charity. During our relationship, we have donated more than £70,000 – the equivalent of 280 days of essential brain-tumour research.

Lastly, for the second year running, we donated to Treedom. From cocoa and banana trees planted in Cameroon to coffee trees in Madagascar and moringa trees in Haiti, 1,680 trees across the world were planted on FHL's behalf in 2021.

1,680

trees across the world were planted on FHL's behalf in 2021.

Urban Synergy

THE BRAIN TUMOUR CHARITY

treedom® let's green the planet

East End COMMUNITY FOUNDATION

Approach to climate change

Our commitment to net zero

At FHL, we ensure our business upholds the values that drive our sustainable investments and engagements. The biggest impact we can have on the world's climate is through engagement. Therefore, we seek to use this method to encourage, support and challenge companies on their transition journey.

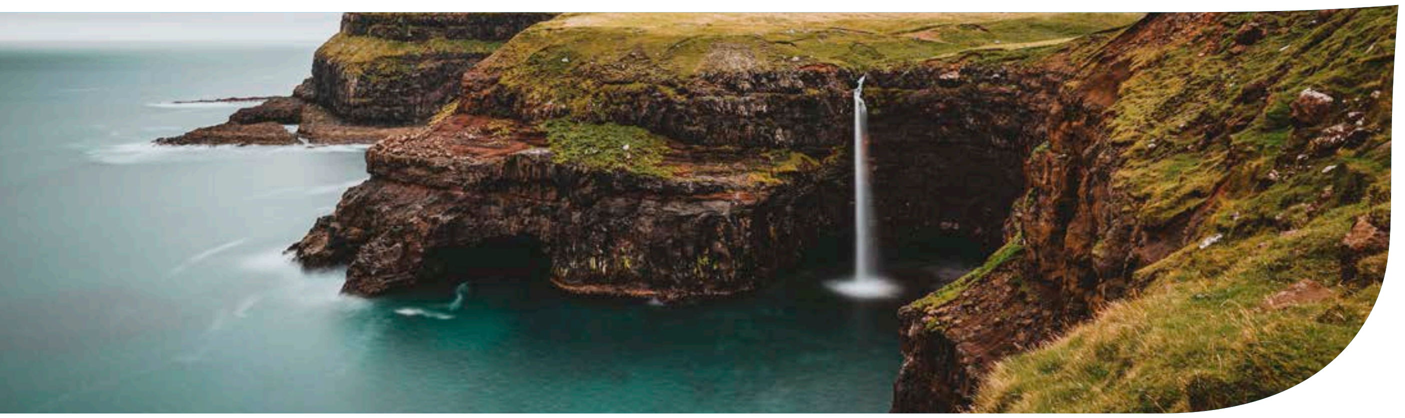
This means we must lead by example. We have committed to net zero emissions by 2050 and are working on our strategy to meet this target. FHL has joined the Net Zero Asset Managers (NZAM) initiative, making a commitment to net zero by 2050 or sooner – this commitment covers 100% of our assets. As part of this, we will be setting interim targets that are consistent with a 50% global reduction in CO_2 emissions by 2030.

We are committed to net zero by

2050 or sooner

Further, on an individual employee-awareness level, we are excited about our relationship with Giki Zero Pro, which provides a tool that allows colleagues to actively calculate, track and reduce their environmental footprint. In our first quarter alone, FHL colleagues committed to 54,748kg of carbon-emission reductions and 1.4 million litres of water savings.

For five years we have produced a report on our activities as a responsible investor, owner and firm on climate change. This year, our TCFD report was shortlisted in the International Climate Reporting Awards. We also published *Blowing smoke and fogging mirrors: why the European auto sector is a long way from Paris*, where we underpinned our advocacy work for phasing out of Internal Combustion Engines (ICE) vehicles.



FHL and the TCFD

TCFD was launched in 2015, and published recommendations for companies in 2017. The recommendations call for companies to outline the climate risks they face – physical (extreme weather events etc) and transition risks (the regulatory and policy responses to climate change) – in four areas – Governance, Strategy, Risk Management, and Metrics and Targets.

Since then, more than 1,500 organisations have expressed their support for the TCFD recommendations, an increase of over 85% since the 2019 TCFD status report. FHL is a founding member of the Climate Financial Risk Forum (CFRF), which was set up "to build capacity and share best practice across financial regulators and industry to advance financial sector responses to the financial risks from climate change".

In terms of our own implementation of TCFD, we have identified many areas in the TCFD recommendations where we are doing well, some where we need to improve and a few where we are still in the process of developing publishable responses. To date, the majority of our efforts have focused on integrating climate change risk and opportunity considerations into our investment management and engagement activities, and report progress on this. In 2021, we increasingly focused on integrating climate change risk and opportunity considerations at the corporate entity level, and this will be a major area of work for our corporate risk management team going forward.

Please see our latest 2020 TCFD Report for further information on our actions on climate-related financial disclosures.

We plan to publish our 2021 TCFD report in the summer of 2022, when we will provide an update on our climate performance as an investor, steward and firm.

Streamlined Energy and Carbon Reporting Statement

Under the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018, large UK companies are mandated to disclose their UK energy use and associated GHG emissions. Specifically, and as a minimum, HFML is required to report those GHG emissions relating to natural gas, electricity, and transport fuel, as well as an intensity ratio, under the SECR Regulations. The emissions disclosed below include activities for which the Group is responsible globally across all our leased properties.

The International Energy Agency ("IEA") and Department for Environment and Rural Affairs (DEFRA) UK Government Conversion Factors for GHG Company Reporting have been used to convert activity data into tCO2e emissions. Actual data was prioritised for reporting, however in instances where this was not available, consumption data was estimated using the following methods: Average daily consumption for any unknown period within the same reporting year, substituting actual consumption for known periods in place of those missing, apportioning building level consumption data based on the Group's leased floor area, or the 2021 Chartered Institute of Building Service Engineers (IBSE) Guide F Benchmarks where no data was available (using the associated asset type's benchmark and multiplying this by the occupied floor area of the assets).

In 2021, HFML was responsible for a total of 927,288 kWh (2020: 906,334 kWh) building energy consumption for all assets leased by HFML globally.

The period covered for the purpose of the SECR section is from 1 January to 31 December 2021 together with 2020. Our calculations are for the following scopes:

Table 1: HFML's global underlying energy consumption

Consumption Source (kWh)	1 January 2021 to 31 December 2021	1 January 2020 to 31 December 2020
Natural Gas	38,757	23,477
Electricity	888,530	882,857
Total Energy	**927,287**	**906,334**

Table 2: HFML's global greenhouse gas emissions

Greenhouse Gas (GHG) Emissions Scopes (tCO_2e)	1 January 2021 to 31 December 2021	1 January 2020 to 31 December 2020
Scope 1 – Direct combustion of fuel from operation of properties (no business travel in company-owned cars)	15	9
Scope 2 – Electricity purchased for landlord shared services and own use	208	234
Scopes 1 + 2 – Mandatory carbon footprint disclosure	**223**	**243**
Scope 3 – Category 4: Fuel and Energy Related Activities (Transmission and Distribution losses only)	17	19
Scope 3 – Category 6: Business Travel	100	360
Scope 3 – Category 8: Upstream Leased Assets (Serviced Offices)	10	6
Scopes 1 + 2 + 3 – Voluntary carbon footprint disclosure	**349**	**627**

In 2021, Scope 1 and 2 emissions have decreased by 8% when compared against 2020 emissions, which is primarily due to efficiency improvements in existing equipment and control schedules. Reductions have also been achieved due to the implementation of energy efficiency recommendations identified from the 2019 Energy Savings Opportunity Scheme ("ESOS") assessment, further details of which can be found in the Energy Efficiency Actions section below. As there was one additional floor occupied in 2020 at the Group's headquarters, 150 Cheapside, this is not a like-for-like comparison between the two reporting years and is in absolute terms.

Intensity Metrics

HFML's chosen intensity ratio of GHG emissions per £million revenue is detailed below:

GHG Emissions Intensity Ratio	1 January 2021 to 31 December 2021	1 January 2020 to 31 December 2020
GHG emissions per £million revenue (tCO_2e/£million revenue)	1.57	3.34

Energy Efficiency Actions carried out in 2021

- In 2021 HFML achieved a successful ISO14001 surveillance audit on its Energy Management System (EMS) at 150 Cheapside, London in order to maintain its ISO14001 certification;
- 150 Cheapside has made efforts to reduce energy intensive equipment (printers), efficient running and control of existing equipment, and significant reduction of travel (implementing a new travel policy in 2021 highlighting the need for employees to choose the most carbon efficient means of travel);
- Target set and achieved to reduce operational electricity consumption by 5% per FTE in 2021 compared to 2019; and
- Target set in 2021 to reduce waste by <400 kg per FTE, which has been achieved during 2021 with only 234kg of waste generated per FTE, surpassing the target by over 41%.

Target set and achieved to reduce operational electricity consumption by

5% per FTE in 2021 compared to 2019

Risk management

FHL recognises that the management of risk as part of our everyday activities is essential to achieving our strategic objectives and safeguarding the interests of our clients and other key stakeholders.

The FHL Board is ultimately responsible for maintaining and reviewing the effectiveness of risk management and internal controls, and for determining the nature and extent of the risks it is willing to accept in achieving FHL's strategic objectives. The strategy is not to eliminate risk entirely, but rather to manage it in accordance with FHL's risk appetite. To help the Board discharge its responsibilities, the Group has a comprehensive Risk Management Framework and Process that aims to provide adequate and continual support to the Board in order for them to understand, identify, measure, manage and mitigate the risks to which FHL is exposed.

Risk Management Framework

Three lines of defence

FHL's Risk Management Framework is based on a three-lines-of-defence model with defined responsibilities for risk management. Business line management is the first line with responsibility for identifying, assessing, managing, mitigating and reporting risks in business processes. Risk and Compliance acts as the second line, monitoring, challenging and advising the first line on risk activities and reporting to senior management. Internal Audit is the third line, providing independent assurance to senior management on the effectiveness of the first and second line.

The Risk Management Framework at FHL sets out our overall approach to managing the internal and external risks to which the firm is currently exposed or may be exposed to in the future. Underpinning this framework are several supporting Risk Policies that describe the principles and approach to risk management and define the content of the risk management process.

The Risk Management Framework is founded on three pillars:

1 Risk Appetite

Our Risk appetite is set by the FHL Board and details the amount of risk it is prepared to accept in conducting its business and in pursuit of its strategic objectives, after consideration of risk-reward trade-offs. Risk appetite and associated tolerances and limits define the framework for the development of corporate strategy and the risk framework.

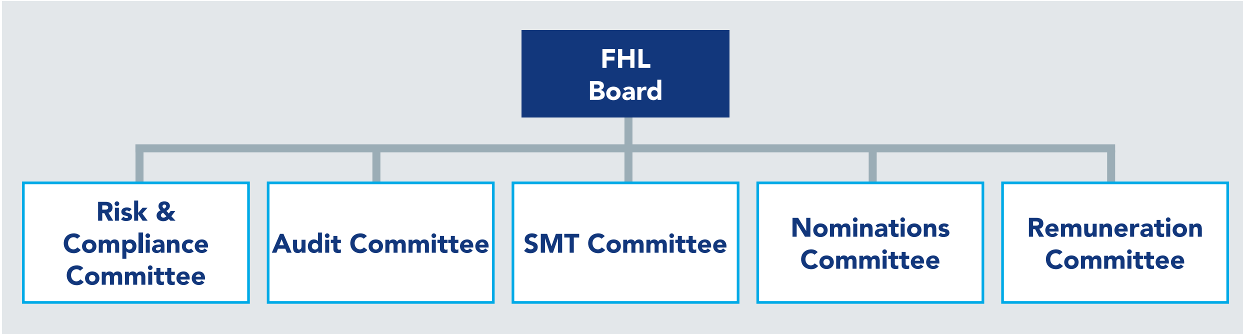
2 Corporate governance

For the Board to fulfil its duties, it has established a governance framework consisting of the following committees. Members include FHL Senior Executives and Non-Executive Directors.

Day-to-day management of the business has been delegated by the FHL Board to the FHL CEO, who has established an SMT Committee, as well as several oversight committees to support the governance framework.

3 Culture

A policy management framework and a set of Group policies support the delivery of the organisation's strategy by establishing operating principles and standards for managing FHL risks across the organisation.



Risk Management Process

In order to implement the Risk Management Framework and help the Board discharge its responsibilities, the Group has comprehensive Risk Management Processes that enable the Board and Senior Management to understand, identify, measure, manage and mitigate the various risks and opportunities to which FHL is exposed.

Identify	Assess	Manage	Monitor	Report
The identification of risk is the responsibility of all FHL staff and is supported by a top-down risk assessment process that is the responsibility of the FHL Board and supervised by the Risk and Compliance Committee	Define the potential impact of each risk.	Controls are used to eliminate or reduce the extent, nature and/or severity of a specific risk-related event	Ongoing or periodic evaluations to be completed to assess FHL's risk exposures over time versus established tolerances/limits	All significant issues are required to be reported to Senior Management and the regulator as appropriate

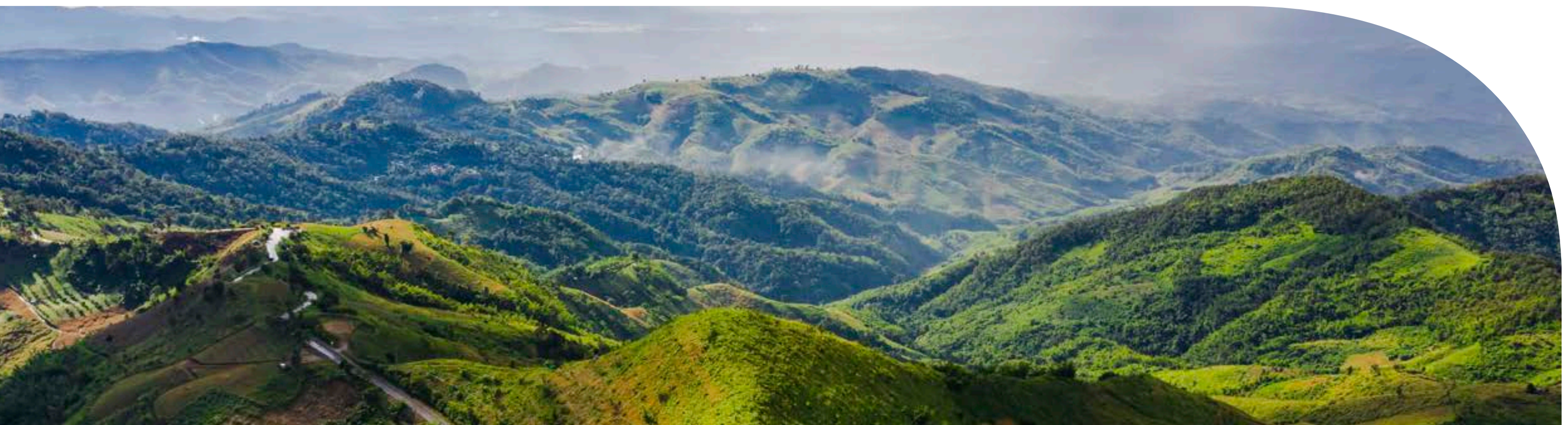
Two key aspects of the Risk Management Process are the Internal Capital Adequacy Assessment Process (ICAAP) – or Internal Capital Adequacy and Risk Assessment (ICARA) – and the identification, assessment, mitigation and monitoring of Principal Risks.

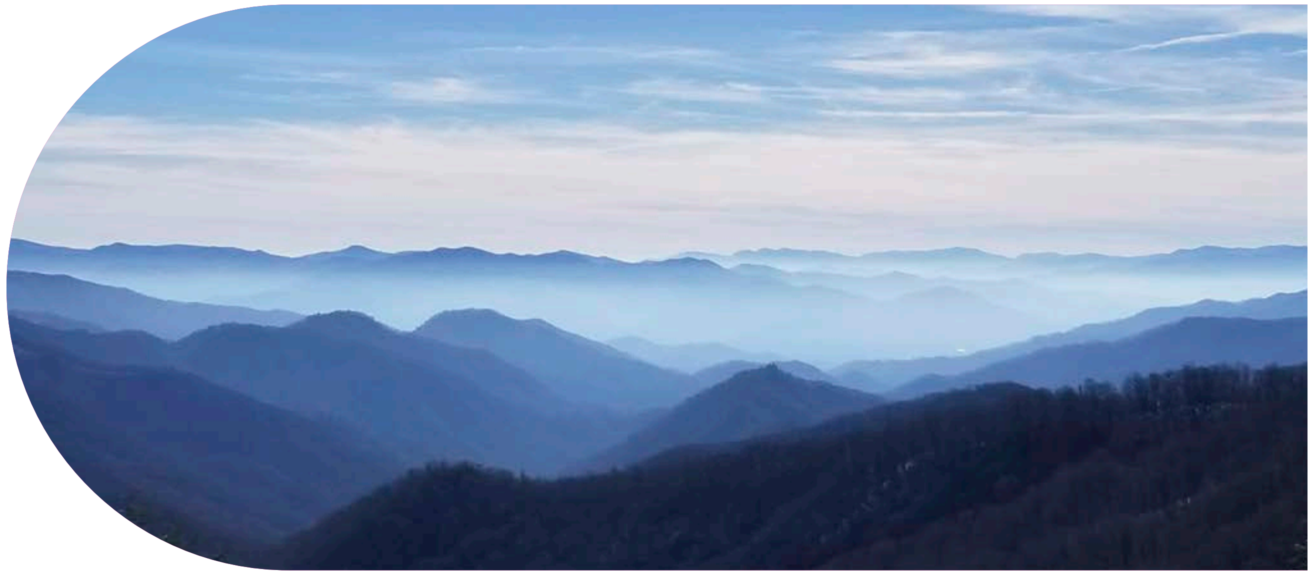
Capital adequacy

The ICAAP, which will be replaced by the ICARA in 2022, forms a key part of the ongoing risk management assessment conducted across the business. Both processes assess the amount, type and distribution of capital that the Group considers adequate to cover the level and nature of risks to which it is, or might be, exposed, and are undertaken at least annually.

Principal risks and mitigants

The following section shows our assessment of the top 16 risks that may potentially affect our operations in a material way: FHL's business, results of operations, financial condition and/or cash flows. The top 16 risks are grouped into Business, Operational Risk and Market and Financial Risks. The list of principal risks, including possible new and emerging risks, is considered and assessed by the FHL Board throughout the year. The Risk Management Framework is currently being revised, which is likely to result in revisions to the Principal Risks the firm faces in the modern world.





Business risk – risk profile 2021 vs 2020

FHL continued to focus on organic growth in 2021, with the Board reconfirming that it agreed with the Group's strategy. Geo-political instability in the wider macroeconomic environment, and the continuing threat of the Covid-19 pandemic highlighted in early 2021, did not translate into any observable increase in the business risk environment. Sales exceeded targets.

Risk	Mitigants
Strategy The risk that FHL does not meet its long-term strategic objectives.	Strategic mitigants for FHL include aligning strategic aims with the business operating model, an assessment of risks, client impact and consideration of Risk Appetite and capital, supported by indicators and financial metrics to monitor progress against strategic objectives.
Investments The risk that portfolios will not meet their investment objectives adversely affecting levels of new business or fee income.	The FHL Investment Office monitors investment and performance risk and seeks to ensure that Investment teams adhere to clearly defined investment processes including pre and post trade compliance. There is also second line oversight of key parts of the portfolio.
Loss of Key Client This risk relates to the loss of a key client or group of clients resulting in a detrimental impact on FHL.	FHL seeks to ensure that we retain clients by understanding and delivering outcomes aligned to evolving client requirements and by actively growing its third-party offerings and launching new products which help to develop and diversify its client base.
Sales Failure to meet sales and revenue targets.	Sales teams develop comprehensive sales strategies by region and channel, in conjunction with the Head of Business Development, and delivery against targets is regularly monitored.

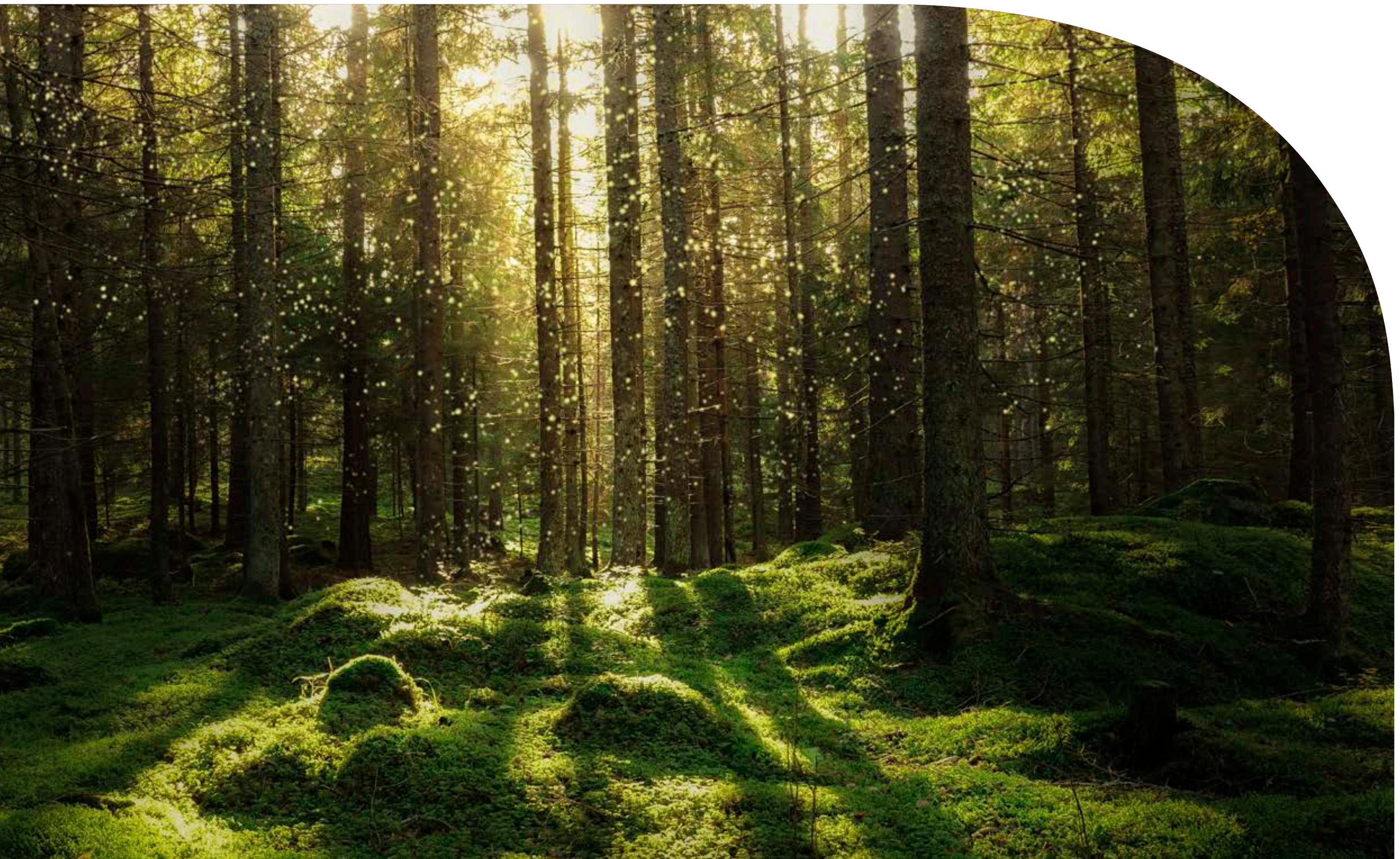
Operational risk – risk profile 2021 vs 2020

While we are cognisant of the new risks that the current hybrid working environment presents for FHL employees and our suppliers and we are mindful of the increased cyber threat landscape, along with the added complexity of our operating model that comes with the growth of third-party client business, development of our distribution strategies and development/diversification of our product range, we have strengthened our operational resilience in key areas, increased our oversight of third-party suppliers and recognise that these risks have not materialised into observable increases in operational events.

Risk	Mitigants
Operating Model The risk that the operating infrastructure is not fit for purpose, is inefficient or not scalable, failing to support strategic plans and resulting in process failures. This risk includes the impact on business continuity.	Operational policies and procedures are in place, and a robust governance structure exists with Board-level committees, including the Risk and Compliance Committee and the Audit Committee, which monitor the effectiveness of risk management activities, review risk events and audit findings, and assess priorities and operational progress against plans. Operational support to the business is based on processes and controls that are either performed in-house or undertaken by third-party service providers and overseen by the Operations Department. The Business Continuity Plan was fully deployed following the Covid-19 outbreak, resulting in a new hybrid working environment and further work on resilience activities for critical processes along with increased oversight of critical third parties.
Change The risk that FHL fails to deliver a major change initiative in a controlled and timely manner, or the initiative does not deliver expected benefits.	A comprehensive change governance process is in place, including a dedicated Change Committee responsible for approving and monitoring all change initiatives – through which Risk and Compliance provide advice and oversight.
Employee The risk that key staff leave without an identified successor or that significant numbers of staff resign due to other factors within our 'control'. The risk includes the Health and Safety of the firm's employees.	FHL has competitive remuneration and retention policies, with appropriate deferred benefits targeted at key employees, and seeks to put in place sustainable succession and development plans. The wellbeing of staff is of utmost importance to FHL. Several new initiatives have been put in place to support staff during the Covid-19 pandemic.

Risk	Mitigants
Regulatory/Legislative The risk of regulatory or legal action arising from the failure to identify or meet regulatory and/or legislative requirements. The risk includes financial crime and tax regulation.	The Compliance, Risk, Finance and Legal functions identify and monitor legal and regulatory changes and support front line staff to achieve and maintain compliance within the requirements.
Third party management The risk that critical third-party suppliers are not aligned to the wider strategy or that third parties fail to deliver the expected benefits.	Before entering into material third-party arrangements, FHL undertakes due diligence on providers. A programme of regular oversight and assessment against agreed service levels is in place, overseen by the Outsourcing Review Group.
Fraud The risk of internal and external fraud.	An extensive system of internal controls is in place, including segregation of duties between roles, payment controls including authorised signatories and limits, independent approval by separate functions, and oversight by senior management. Pre and post trade checks are automatically and manually carried out. Control processes and oversight are in place to manage and mitigate internal and external financial crime.
Technology & Information Security The risk that technology systems and support are inadequate, fail to adapt to changing requirements, are vulnerable to penetration or insider risk, or are not resilient and cannot continue to operate to an acceptable standard in the event of adversity/disaster.	FHL relies on technology and qualified professionals to maintain its infrastructure and invests in IT accordingly. Disaster recovery plans are maintained and back-up plans are tested regularly. Service level agreements are in place with all third-party service providers in an effort to ensure the required level of information security is maintained. Since the outbreak of Covid-19, all staff were provided with remote access capabilities. The second line oversight is being enhanced with the creation of a comprehensive IT Risk Framework.
Conduct & Culture The risk of misconduct/market abuse potentially causing loss to FHL and/or compromising FHL's reputation.	Responsibility, appropriate conduct and a principled approach to treating investors fairly are integral to FHL's culture. This culture is set via 'tone from the top' and is underpinned by FHL's core values as expressed in the Federated Hermes Pledge. The Senior Managers and Certification Regime (SMCR) makes individuals more accountable for their conduct.

Risk	Mitigants
Reputation/Brand Reputational risk is the risk that our activities, behaviours and/or communications, do not align with stakeholder expectations in ways which adversely impact trust or our reputation.	Given FHL's position as an ESG leader, authenticity and reputation is a material driver of the firm's long-term value. Both the Responsibility Office and Risk function play important roles in safeguarding FHL's reputation and brand. The Responsibility Office holds the business to account for ensuring we act as a responsible firm and that we keep the interests of clients and their beneficiaries at the centre of what we do. And in 2021, the Risk function established a dedicated Reputational and Sustainability Risk team, which is developing a robust and future-facing reputational risk framework and embedding reputational risk considerations into key business decisions.
Products Risk that products either do not meet their performance objectives or are inappropriate for certain clients.	FHL's Product Development team carefully considers the products offered are matched against client needs and that performance objectives are being met.



Financial risks – risk profile 2021 vs 2020 (no-change)

FHL understands that, within financial risk, many geo-political/market risk events are outside of the control of the organisation, and that a downturn in economic conditions could impact performance through lower demand for its investment management products and lower investor risk appetite as a result of financial-market instability. Increasing global inflation and interest rates risks may begin to emerge and impact the financial risk profile in the future. FHL maintains a strong capital position and further increased its regulatory capital in 2021 through its profitability. See page 31 for FHL's regulatory capital.

Risk	Mitigants
Market Risks associated with political matters which could impact the governmental system and damage the economy, and could, therefore, impact FHL negatively. Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of AUM.	**Balance sheet investments and Foreign Exchange ("FX") exposures:** HFML only holds proprietary investments for hedging purposes and seeding of new products. Non-sterling cash and cash equivalents in excess of what is required for working capital and/or hedged through forward contracts is converted into sterling to minimise the FX exposure. **Investment products:** FHL's wide product range serves to diversify individual market dependencies. Scenario analysis is used to assess the performance of portfolios under a stressed environment. **Climate change:** FHL has committed to integrating ESG factors across all strategies to deliver long-term sustainable investment outcomes for our clients. In August 2021, FHL published its climate-related financial disclosures report for 2020; this describes our approach to identifying and managing climate risks and how we ensure that the weight of the climate crisis is front and centre of everything that we do. In addition, FHL is developing second-line oversight of climate change risks and sustainability risk more broadly. A sustainability risk framework is being developed to provide additional focus on the risk management activities required for ESG-related and climate change initiatives. The management and monitoring of sustainability risks, including climate change risk, will also align to our climate change and ESG risk appetite statements, which are currently under development to support our sustainability targets and commitments as well as our ambition to meet the expectations of our stakeholders and society. FHL engages with public policy makers and sector organisations globally to promote policy and best practice. FHL is an active member of, among others, the Client Financial Risk Forum, the Institutional Investors Group on Climate Change, Climate Action 100+ and the Carbon Disclosure Project.
Financial Soundness Risk of financial failure arising from lack of capital, liquidity or counterparty (credit) failure for FHL. This risk relates to FHL's own balance sheet and not its investment products.	**Counterparty (credit) risk:** Finance oversees regular monitoring of market counterparties for FHL's corporate exposure and outstanding fees receivable. Risk oversees regular monitoring of the firm's approved counterparties. **Liquidity risk:** Monthly cash forecasts are prepared to ensure sufficient liquidity is available at all times. Cash held on deposit is used as a liquidity source. As at 31 December 2021, current assets significantly exceeded current liabilities, with liquid cash reserves comprising approximately 66% of total current assets. FHL maintains a high level of liquidity to ensure that the regulatory solvency requirements are continuously met. **Capital risk:** The FHL Board maintains a level of solvency capital that meets the requirements of local regulators, including an acceptable margin of comfort above the local statutory requirements and holds a surplus over minimum regulatory capital requirement of 121% at year end 2021.

2021 was overshadowed by the unique challenges and risks of the ongoing Covid-19 pandemic. Our robust risk management and governance framework allowed the risk function to support the firm in adapting, understanding and responding quickly to these risks. Reporting and processes were developed to monitor operational resilience as the firm 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.

ESG (including climate risk), responsibility and sustainability have also been a key focus for the industry in 2021. Our stakeholders expect us to meet the needs of the present without compromising the ability of future generations to meet their own needs. Responding proactively to these material risks, the Risk function has evolved and expanded and now includes a dedicated Reputational and Sustainability Risk team.

ESG (including climate risk), responsibility and sustainability have also been a key focus for the industry in

2021

Directors

Directors

The FHL Board comprises the following Directors as at 31 December 2021:

D Stewart* (Chair)

David is currently a Director of IMM Associates and Chair of Caledonia Investment Trust. He was appointed as a Director of Marathon Asset Management Limited in October 2019. His prior experience includes nine years at Odey Asset Management, initially as CEO and later as a Non-Executive Director until standing down in December 2014. Before that, David's career encompassed Fidelity Investments (1994-2005), James Capel (1986-1994) and Swire Pacific Ltd, Hong Kong (1981-1986). He recently retired as a Non-Executive representative on the MacMillan Cancer Care Investment Committee.

S A Nusseibeh

Saker is the CEO of FHL. He was appointed CEO in November 2011 having joined FHL in June 2009 as Chief Investment Officer (CIO). Prior to joining FHL, Saker was Global Head of Equities at Fortis Investments, having initially been appointed as Fortis CIO Global Equities in 2005. Before this he was CIO of Global Equities and Head of Marketing for SGAM UK. This role followed SGAM's acquisition of Trust Company of the West ("TCW"), where Saker was a Managing Director, running global and international strategies, as well as managing TCW's London office. He started his career at Mercury Asset Management in 1987.

Saker is the founder of the 300 Club, a group of leading CIOs and investment professionals who seek to challenge investment orthodoxy. He is a member of the Chartered Financial Analyst (CFA) Institute's Future of Finance Advisory Council, a member of the International Integrated Reporting Council (IIRC) Council, and the FCA-PRA Climate Financial Risk Forum, as well as the UNEPF Financial Initiative Steering Committee. He sits on the Financial Services Culture Board (FCSB), formerly the Banking Standards Board (BSB), which was created as a result of a Parliamentary enquiry to restore trust in the UK banking industry. In May 2020, Saker was appointed as a director of BSB (Global) Services Limited, a subsidiary of the FCSB, and appointed Chair, in November 2020. Saker also sits on the UK National Advisory Board on Impact Investing.

At the 2020 Funds Europe Awards, in November, Saker was named as Funds Europe "European Personality of the Year", in recognition of his "lifelong mission to bring ESG and Socially Responsible investing into the mainstream". This followed on from the award of a CBE in the New Year's Honours List at the beginning of the year, which recognised his service to the development and promotion of Responsible Business and for contributions more broadly to the finance industry in the UK. In 2015, Saker was named CEO of the Year at the Global Investor Investment Excellence Awards and, in 2018, he was named CEO of the Year at the Financial News Asset Management Europe Awards.

S James*

Sally was appointed Non-Executive Director of FHL in April 2017. Sally served as Managing Director and General Counsel of UBS Investment Bank EMEA from 2001 to 2008. Previously she held several senior legal roles in investment banks in London and Chicago. She has been a Non-Executive Director of Moneysupermarket.com Group plc since April 2013 and now Senior Independent Director; a Non-Executive Director of Bank of America Merrill Lynch International Limited since February 2016 (now Bank of America Merrill Lynch International DAC); and a Non-Executive Director of Rotork plc since May 2012 and then Senior Independent Director, until April 2021.

H Steel

Harriet is Head of Business Development at FHL, a member of the SMT Committee and an Executive Board Director. She joined the Company in 2011 with responsibility for Sales, Client Service, Marketing, Communications and Product Strategy. Harriet was appointed to the Board of FHL in 2013, becoming FHL's first female Executive Board Director.

Prior to joining FHL, Harriet led Portico Advisors, an asset raising and marketing advisory firm for alternative investment managers, including hedge funds, private equity and real estate strategies, which she founded in 2003. Her earlier career included roles in capital markets at Morgan Stanley and Bankers Trust, where she started her career in 1990.

P Purewal*

Pars was appointed Non-Executive Director of FHL in June 2020 and as Chair of the Audit Committee in July 2020. Pars retired as a senior partner from PriceWaterhouseCoopers (PwC) in June 2019 after a thirty-six-year career at the firm. Pars' experience included being PwC's UK Asset Management Leader for 10 years and Finance Partner for both Asset and Wealth Management. Pars also spent three years as People Partner; three years as Sales and Markets Partner for the PwC's Insurance and Asset Management sectors; and a year as Executive Assistant to the UK Managing Partner with responsibility for the firm's UK operations. Pars is a Fellow of the Institute of Chartered Accountants of England and Wales. Pars has been a Non-Executive Director of Brewin Dolphin Holdings Plc and Brewin Dolphin Holdings Limited since May 2021; and of The Law Debenture Corporation Plc since December 2021.

G Ceresino**

Gordy is an Executive Board Director of FHL and Vice Chair of FHI President of Federated International Securities Corp., President of Federated Global Holdings LLC and Executive Director of Global Private Markets Development. He is responsible for leading, developing and executing the firm's global private markets distribution strategy.

Gordy joined FHI in 2006 when the firm acquired MDT Advisers of Boston, where he served as CEO. Gordy is an Executive Board Director and the President of Federated Holdings (UK) Limited and an Executive Board Director of Federated Holdings (UK) II Limited, Federated Investors International PTE Ltd. (Singapore), Federated Hermes (UK) LLP, Federated Short-Term Daily U.S. Dollar Fund, Ltd. (Cayman), Hermes Equity Ownership Services Limited. (UK), Hermes Stewardship North America, Inc. (US) and Federated Hermes Japan Ltd.

D Cunningham**

Debbie is CIO of Global Liquidity Markets and Executive Vice President, Federated Investment Counseling, and Federated Investment Management Company. She joined FHI in 1981 as a performance analyst and has more than 30 years of investment experience. Since 1990 she has been a portfolio manager for all government and prime liquidity products. In 1994 she took over the management of the taxable liquidity group. In addition to the domestic taxable liquidity portfolios, Debbie also oversees the management of the domestic tax-exempt liquidity portfolios, as well as the offshore liquidity products. She is a current member of the CFA Society of Pittsburgh and previously held the title of Director and President of that organisation.

* Independent Non-Executive Directors.
** FHI's nominated Directors.

T Donahue**

Tom is Chief Financial Officer, Treasurer, and Director of FHI and President of FII Holdings, Inc.

Tom joined FHI in 1993 as a Vice President and currently serves as a FHI Director and Chief Financial Officer, and is a member of its executive committee. Tom is also a Board member of certain Federated Hermes mutual funds. Prior to joining FHI, Tom was in the venture capital business, and from 1983 to 1987 was employed by PNC Bank in its Investment Banking division.

J Fisher**

John is Vice President and a Director of FHI and the CEO of the Federated Advisory Companies[15]. In this role since 2006, John provides overall leadership to FHI's investment management organisation, which employs more than 225 investment professionals. Joining the firm as a regional marketing representative in 1979, John rose through the distribution channel, serving in a variety of positions, culminating with him being named president of Federated Securities Corp., Institutional Division, prior to taking his current position. John is a member of the executive committee and either principal executive officer or a board member of several Federated Hermes mutual funds.

J E. Lambesis**

Jane is Senior Vice President, Regional Sales Consultant of Federated Securities Corp. Jane joined FHI in 1987 and is Senior Vice President of Sales. She specialises in consulting to individual financial advisors and their teams regarding income planning, manager search and selection, investment portfolio design and monitoring.

R Novak**

Rich is Principal Accounting Officer and Vice President of FHI. Rich is a Director and President of Federated Investors Trust Company; Director and Vice President of FII Holdings, Inc.; Director and Senior Vice President of Federated International Securities Corp; and Senior Vice President of Federated Investors Management Company. Rich is also a director, treasurer, and/or assistant treasurer of various subsidiaries and offshore funds managed by the Federated Advisory Companies

Rich joined FHI in 1995 as Vice President of Finance for Federated Services Company, was Controller of FHI from 1997 to 2005 and was Fund Treasurer of FHI's US registered mutual funds from 2006 to 2013 prior to his current role.

Prior to joining FHI, Rich was an auditor at Arthur Andersen & Company and held various finance related positions at The Mercy Hospital of Pittsburgh. Rich is a Certified Public Accountant.

[15] Federated Advisory Companies include the following: Federated Advisory Services Company, Federated Equity Management Company of Pennsylvania, Federated Global Investment Management Corp., Federated Investment Counseling, Federated Investment Management Company and Federated MDTA LLC, each wholly owned by Federated Hermes.

T W Zierden III**

Ted is President, Administration, Federated Services Company. Ted manages a number of businesses at FHI, including Business Information Services, Investor Services, Literature Publishing and Fulfilment Services, Decision Support, Corporate Procurement, and Mergers and Acquisitions. Ted began his career at FHI in 1994.

James Fraser resigned as a director on 31 August 2021, following FHI's acquisition of BTPS' minority shareholding through its subsidiary, Federated Holdings UK (II) Limited, FHL's immediate parent.

The table below reflects the Board members attendance during 2021.

Member	Attendance
David Stewart	7/7
Saker Nusseibeh	7/7
Sally James	7/7
James Fraser	5/5
Harriet Steel	6/7
Pars Purewal	7/7
Gordy Ceresino	7/7
Deborah Cunningham	6/7
Tom Donahue	7/7
John Fisher	5/7
Jane Lambesis	6/7
Rich Novak	7/7
Ted Zierden	6/7

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Committee Reports

Report of the Audit Committee

Statement from the Chair of the Audit Committee

I am pleased to present the Audit Committee report for the year ended 31 December 2021. I would like to start by taking this opportunity to thank Denis McAuley for his work on the Committee since the majority stake acquisition by FHI in 2018. Denis was replaced by Rich Novak at the beginning of 2021. We also say goodbye to James Fraser, who served as BTPS' nominated representative during 2020 and 2021 and made a valued contribution to FHL during this time.

The Audit Committee is charged with independent oversight of the financial affairs and control processes in operation within FHL. The Committee is proud to play its role in promoting the integrity of FHL's financial reporting.

Pars Purewal
Audit Committee Chair

Membership

All members of the Audit Committee ("the Committee'') are Non-Executive Directors of FHL.

As at 31 December 2021, the Committee comprised three members: Pars Purewal (Chair), Sally James, and Rich Novak. Both Pars Purewal and Sally James serve as independent Non-Executive Directors, and Rich Novak as Federated Hermes' nominated representative to the Committee.

Members of the Committee have been appointed by the Board by virtue of their previous financial services experience, senior executive experience and relevant accounting knowledge. The Committee oversees FHL's financial and operating controls framework on the Board's behalf.

Biographical details and experience of all members are detailed on pages 58 to 61.

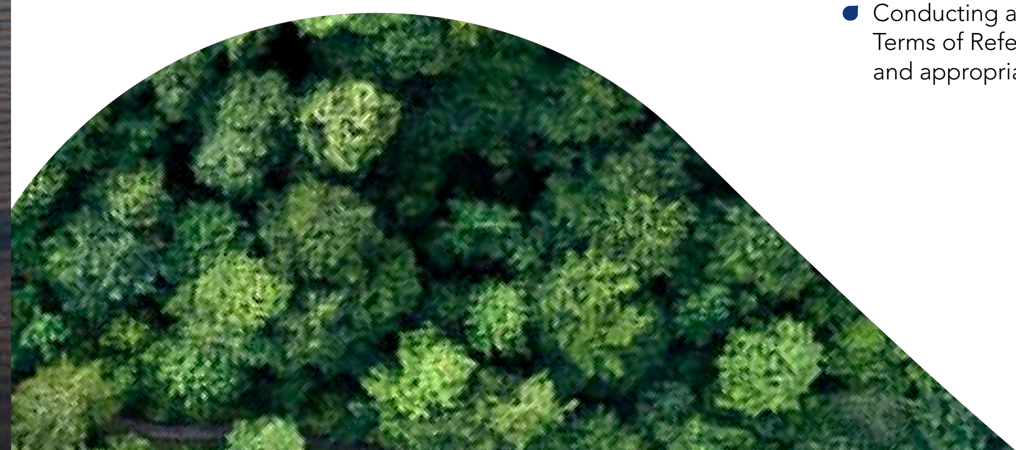
The table below reflects the Committee attendance during 2021.

Member	Attendance
Pars Purewal (Chair)	5/5
Sally James	5/5
James Fraser (Resigned 31/08/2021)	3/3
Rich Novak (Appointed 01/01/2021)	5/5

Responsibilities

The Committee's primary role is to assist the FHL Board in fulfilling its oversight responsibilities. The scope includes, but is not limited to:

- Reviewing and challenging, where appropriate, the actions and judgements of management in relation to the Group's financial statements, business review and any related formal statements before submission to, and approval by, the Board;
- Reviewing the adequacy and security of arrangements for the Group's employees and contractors to raise concerns, in confidence, about possible wrongdoings in financial reporting or other matters, and reviewing procedures for detecting and preventing both fraud and bribery;
- Monitoring and reviewing the activities, processes and performance of both internal and external audit, including the external auditor's independence;
- Reviewing and challenging, where appropriate, the management framework, systems, processes, procedures and controls in relation to all investment management activity and administration services that FHL has contracted to provide to its clients;
- Reviewing going concern and the viability of the Group;
- Reviewing non-audit services provided by the independent auditor to the Group for onward recommendation to the Board for approval;
- Monitoring the design and operational effectiveness of internal controls for the Group in line with Section 404 of Sarbanes Oxley Act (SOx); and
- Conducting an annual review of the Committee's Terms of Reference to ensure that they are relevant and appropriate.



The Committee's work in 2021

Work of the Committee during 2021 outside of the regular agenda items included:

January	• Review of the accounting policies estimates and judgements in the 2020 Annual Report while also ensuring the report is fair, balanced and understandable • Status update on both the statutory and SOx audit presented by EY
March	• Recommending that the Board approve the 2020 Annual Report • Review of continued going concern assessment resulting from Covid-19 • Assessment of findings of the 2020 Internal Audit thematic review • Review of Internal Audit Reports issued in the Quarter
July	• Review of the purchase price accounting as a result of the acquisition of MEPC • Review of the external audit plan for 2021 • Assessment of effectiveness of the 2020 external audit • Consideration of the recognition of deferred tax assets • Review of SOx compliance update • Private session with Ernst and Young LLP (EY) excluding FHL management • Review of Internal Audit Reports issued in the Quarter
November	• Consideration of the application of the methodology for recognising deferred tax assets and liabilities • Review of the consolidation accounting as a result of the acquisition of HGPE • Review of Internal Audit Reports issued in the quarter • Review of proposed accounting estimates and judgements to be included in the 2021 Annual Report • Interim testing update of both the statutory audit and the SOx audit provided by EY • Approval of the annual Internal Audit Plan for 2022 • In camera session with EY excluding FHL management

On 20 January 2022, the Committee reviewed and challenged the appropriateness of the accounting policies adopted by management in the 2021 annual report. The Committee was satisfied that the accounting estimates and judgements applied were appropriate. On 23 March 2022, the Committee recommended that the Board approve the 2021 Annual Report.

Significant accounting estimates and judgements

Three key areas of focus for the Committee in 2021 have been:

The acquisition of the Argent development team

Effective 1 July 2021, MEPC, a subsidiary of FHL, acquired the Birmingham-based development and asset management team, comprising eight employees, from Argent (Property Development) Service LLP ("Argent"). The Argent Birmingham team will manage contracts related to site preparation, and sites in Chamberlain Square and One Centenary Way. One of the aims of this transaction was to prevent the potential downside for two strategic clients of the Group if Argent were to withdraw from the industry.

While there was no consideration attributed to this acquisition, MEPC agreed to reimburse Argent for any external legal fees incurred and also for certain internal time spent. Unlike the acquisition of MEPC and HGPE in 2020, where a third-party specialist was engaged, given the size of this transaction, the purchase price accounting was carried out internally. No intangible assets were identified through the discounted cash flow valuation technique and, as such, all costs associated with the acquisition were taken through the profit and loss account in the year. Given the zero value of the business, the approximately £0.4m consideration was comprised of legal fees and the reimbursement of Argent for their internal time spent assisting with the acquisition. The Committee noted that under business combination accounting, all contracts would be fair valued at day one and included on the balance sheet as intangible assets.

Senior accounting officer (SAO) regime

The senior accounting officer regime was introduced by HMRC in 2009, with a view to ensuring that large companies – essentially those with a balance sheet total exceeding £2bn and/or turnover exceeding £200m – take reasonable steps to ensure that "appropriate tax accounting arrangements" are in place. For the year ending 31 December 2020, the aggregate turnover of the Group passed £200m and the regime therefore became applicable to the FHL Group in 2021. The committee noted that work would need to be undertaken to ensure there were appropriate processes and procedures to comply with the regime, which would cover the material taxes: Corporation tax, PAYE and VAT. An SAO has now been nominated by the Board for each of the UK-domiciled Limited companies.

Deferred tax assets and liabilities

Considering the results for 2021, the projections on a stand-alone legal entity basis and the proposed increase in corporate tax rate to 25% in April 2023, management has determined that it is probable that an additional £3.9m of deferred tax assets will be recognised, alongside deferred tax liabilities of £1.0m as the deferred tax liability associated with the intangible assets would increase from £4.2m to £5.2m following the increase in the tax rate. This meant that the overall impact on the balance sheet would be a positive net impact of £2.9m, due to the revaluation effect of the increase in the tax rate.

External Auditor

The Committee carried out a formal review of the effectiveness of the external audit performed by EY and is satisfied with the standard of work from EY. The formal evaluation was carried out by means of a questionnaire which was completed by the Committee and those members of staff who participated in the audit process.

The Committee recommended to the Board that EY be reappointed as external auditors, and the Board accepted this recommendation.

The Committee carefully monitors and approves the extent of non-audit services carried out by EY aiming to ensure that these remain in line with the Federated Hermes, Inc. auditor independence policy relating to caps on non-audit fees. The non-audit fees paid to EY remained within these guidelines during 2021. Non-audit services carried out by EY included: assurance over the AAF Controls Report and Client Money and Assets (CASS) audit. In addition, EY also carries out SOx control testing in support of the audit of FHL's US parent and tax compliance for HGPE.

The external auditor attended all Committee meetings in 2021 and in 2022 up to the date the annual report was signed on 23 March 2022. At each meeting they presented reports and updates to the Committee, including a confirmation of independence at the planning and conclusion stages of the audit.

Internal Audit

Internal Audit is independent of management and reports directly to the Committee. The team has unrestricted access to all functions, property, systems, records and staff as required to accomplish its audit objectives, including the permission to co-source with external advisers. Internal Audit operates a risk-based audit cycle based on an assessment of risks within the FHL Group. The annual audit plan is presented to the Committee for approval, and for amendments where necessary.

The Head of Internal Audit has regular meetings with the Committee Chair and attends all Committee meetings to present reports on the Internal Audit findings and on the proposed future audits and audit plans. The Committee continues to monitor the internal audit plan on an ongoing basis to ensure that it remains relevant to the needs of the business and to allow it to be adapted or changed as required. The Committee is satisfied that the quality, experience and expertise of the Internal Audit function is appropriate for the business, and it periodically commissions external effectiveness reviews of Internal Audit in line with best practice. The last of these external effectiveness reviews was completed during 2021.

Evaluating the performance of the Committee

It is intended that an evaluation of the performance of the Committee will be conducted towards the end of 2022.

Report of the Risk and Compliance Committee

Statement from the Chair of the Committee

I am pleased to present the Risk and Compliance Committee report for the year ended 31 December 2021. I would also like to start by taking this opportunity to thank Denis McAuley for his work on the Committee since the majority stake acquisition by FHL in 2018. Denis was replaced by Rich Novak at the beginning of 2021. We also say goodbye to James Fraser, who served as BTPS' nominated representative during 2020 and 2021 and made a valued contribution to FHL during this time.

The Committee is integral to FHL's governance and risk management frameworks. Key areas of focus for the Committee in 2021 were the continued ongoing impact of Covid-19 on the Group's operations, financial crime and anti-money laundering, and the Internal Capital Adequacy Assessment Process (ICAAP) and its successor from January 2022, the Internal Capital and Risk Assessment (ICARA).

The Committee successfully addressed each of the key priorities as disclosed in last year's report.

Sally James
Risk and Compliance Committee Chair

Membership

All members of the Risk and Compliance Committee ("the Committee") are Non-Executive Directors of FHL.

At 31 December 2021, the Committee comprised four members: Sally James (Chair), David Stewart, Pars Purewal, all serving as independent Non-Executive Directors, and Rich Novak as Federated Hermes' nominated representative to the Committee. The Board is satisfied that each member of the Committee has the competence relevant to the investment management industry to discharge their responsibilities effectively, individually and collectively.

The table below reflects the Committee attendance during 2021.

Member	Attendance
Sally James (Chair)	5/5
David Stewart	5/5
Pars Purewal	5/5
James Fraser (Resigned 31 August 2021))	3/3
Rich Novak (Appointed 01/01/2021)	5/5

Responsibilities

The principal role of the Committee is to advise the FHL Board on risk strategy, risk appetite and capital and liquidity management and to provide oversight and challenge on risk exposures within that framework. The key responsibilities of the Committee were reviewed in 2021 and include, but is not limited to:

- Providing oversight and advice to the Board on the Group's current and future risk profile;
- Proposing to the Board an appropriate risk appetite and tolerance that aligns with and supports the Group's strategy, including but not limited to continual monitoring to ensure its safe delivery;
- Overseeing the Group's risk management, compliance and financial crime prevention frameworks and the integrity and effectiveness of risk management, governance and compliance activity within the Group;
- Reviewing the risk management culture and the effectiveness of the Group's Risk and Compliance function;
- Providing oversight and advice on the alignment of reward structures to support risk culture;
- Overseeing outsourced and other significant third-party services;
- Overseeing the management of relationships and registrations with regulatory authorities and reviewing developments and prospective changes in the regulatory environment;
- Reviewing the methodology and assumptions used in FHL's models for determining its regulatory capital, and satisfying itself that the models are fit for purpose; and
- Conducting an annual review of the Committee's Terms of Reference to ensure that they are relevant and correct.

In carrying out its duties, the Committee is authorised by the FHL Board to obtain any and all information it needs from any Director or employee of the Group. The Chief Risk and Compliance Officer (assisted by the Heads of Risk, Compliance and Financial Crime Compliance) reports in person to the Committee at each meeting. The Committee regularly invites members of senior management to attend, thereby allowing a greater understanding of operational concerns faced by the business and facilitating effective debate at the meetings. Attendees during the year included: the Chief Executive Officer, the Chief Operating Officer, the Chief Risk and Compliance Officer and the Heads of Risk, Compliance and Financial Crime Compliance.

The Committee's work in 2021

Work of the Committee during 2021 outside of the regular agenda items comprised of:

February	• Review and challenge of the proposal for the acquisition of Argent's Birmingham Development Management Team • Review of the Internal Audit Reports on ICAAP Lessons Learned and on the FHL Risk Appetite Framework Annual Assessment • Review of the series of activities focused on supporting the on-going resilience of the business in the remote, and hybrid, working world • Approval of the 2021 Compliance Monitoring Plan • Review of Supplier Segmentation paper
May	• Review of the Annual Money Laundering Reporting Officer's Report • Review of the Operational Risk Scenarios for the 2021 ICAAP • Approval of the new Market Abuse Risk Assessment Framework • Review of the work to implement the high priority enhancements identified from the Operational Resilience review of the most critical business activities • Approval of the Committee's revised Terms of Reference • Approval of the updated Market Risk Policy
July	• Review of ICAAP update • Review of Brand Theft and Sanctioned Investor Events Report • Review of new Financial Crime Compliance update • Review of General Data Protection Regulation (GDPR) and Data Protection Update
October	• Review and approval of the 2021 ICAAP Final Results and the 2021 ICAAP, for recommendation to the Board for approval
November	• Review of the Financial Crime Compliance Enhancement Update • Review of the new Reputation and Sustainability Risk Update • Review of 2022 ICARA Timetable, which under the new IFPR came into force on 1 January 2022, replacing the ICAAP • Review of the Conflicts of Interests Register • Review of the Information Security Deep Dive paper • Completion of key enhancement identified from the Operational Resilience review • Review the design of the new, enhanced Risk Management Framework

Internal Capital and Risk Assessment (ICARA)

A new UK prudential regime for Markets in Financial instruments Directive (MiFID) investment firms was introduced by the FCA on 1 January 2022: ICARA. This replaces the ICAAP; its aim is to streamline and simplify the prudential requirements, and to refocus requirements not only on risks the firm faces but also to include those that could cause harm to clients and the market. The new regime will require firms to consider the amount of capital and liquid assets they hold to allow for an orderly wind-down.

PWC was engaged to provide guidance over three key areas: remuneration; regulatory reporting requirements; and a risk framework for the ICARA. Internal business change project management support for the production of the ICARA has been approved.

A detailed mapping exercise has been completed in order to identify any differences between the current and the proposed rules under the new regime. At this stage, no significant issues have been identified, except for a revision of the UK reporting group. The new rules require the development of four ICARA processes, one for each of our MIFIDPRU entities in the group. As part of this process each entity will need to define a new governance process for the review, challenge and approval of each ICARA.

Priorities for 2022

As well as considering the rolling agenda and ad hoc items, the Committee focuses on upcoming risks that are likely to be faced by FHL. The following areas are considered to be key for 2022:

- Investment Risk Deep Dive
- People Risk Deep Dive
- Review of Sustainability and Reputational Risk
- The development and implementation of the enhanced Risk Management Framework and Risk Taxonomy.

Evaluating the performance of the Committee

It is intended that an evaluation of the performance of the Committee will be conducted towards the end of 2022.

Report of the Remuneration Committee

Statement from the Chair of the Committee

On behalf of the Board I am pleased to present the Remuneration Committee ("Committee") report for 2021.

This has been a significant year for FHL with our parent, FHI acquiring all of BTPS's remaining shares. As a result James Fraser stepped down from the Board as Non-Executive Director and a member of the Remuneration Committee on 31 August 2021. I would like to take this opportunity to thank James for his contribution to the Committee and to wish him well for the future.

Reflections on 2021

Throughout 2021, I have been hugely impressed by the extraordinary commitment of all our colleagues during another difficult year as the pandemic continued to present challenges for all of us. We value the contribution of every employee and recognise that they make a real difference to our clients and our shareholders. It is important that we treat them fairly and ensure that they feel valued. To support our employee's wellbeing during the pandemic, we supported our senior management with additional guidance on how best to manage teams in remote and hybrid working environments. Throughout the year, we provided practical support on a range of topics including stress, mindfulness and financial wellbeing. The community of mental health first aiders at FHL is well established, providing confidential listening, signposting support and championing good practice.

Performance and incentive outcomes in 2021

As discussed in detail on pages 8-10, 2021 was a mixed year for the business. Strong net new revenues reversed two years of declining net sales. Investment performance was mixed. Operations performed strongly throughout the year, maintaining the smooth functioning of our business remotely, onboarding a large number of new employees during a difficult period. Underlying profit however was down by 10% due principally to an increase in colleagues. The Committee has sought input and assurance from the Audit Committee and Risk and Compliance Committee that business performance has been achieved within its stated risk appetite and that no adjustment was required to the bonus pool. This performance resulted in a modest increase in the bonus pool available for distribution with average per capita bonus down.

Gender pay gap reporting

We are now in our fourth year of reporting since the regulations were introduced and having made good progress in recent years, we suffered a setback in 2021. In addition to the inclusion of HGPE and MEPC employees following the acquisition and change in ownership structure of those businesses, we recognise that a key driver for the gap is the imbalance in gender in our senior roles.

Having achieved our original 2018 Women in Finance Charter ("WiFC") targets which we set in 2016 and having been on track at the end of 2020 to meet our revised 2021 targets, we ultimately fell short. A contributory factor was the acquisition in 2021 of two business areas. We nonetheless remain committed to our new 2025 targets of 50% across the business, including Senior Management and the Board.

Our plan to further address the gender gap is tied to the wider Diversity, Equity and Inclusion strategy and follows the appointment of our new Head of Inclusion in early 2021, and the responsibility of Inclusion reporting directly to the CEO. We also continue to work to broaden our focus beyond gender outlined on on page 44.

Looking forward to 2022

With strong financial markets and increased optimism post the pandemic this has led to many asset management firms, including ourselves, to experience increased employee turnover. In response, we have undertaken a strategic review of our remuneration arrangements and have made a significant investment in base salary effective April 2022 to enable us to continue to attract and retain the talent needed to deliver against our business strategy.

In preparation for the implementation of the Investment Firm Prudential Regime ("IFPR") effective January 2022, we have introduced a fixed to variable pay ratio for the 2022 performance year that will allow the business to operate a fully flexible variable pay policy including paying zero bonus, where warranted. We have enhanced our Control Function risk adjustment process to support the Committee to exercise greater discretion over the setting of the bonus pool and individual awards, better reflecting the Group's performance within risk appetite. We have also enhanced our approach to the identification of Material Risk Takers through a new framework. To reflect these new regulatory requirements, modifications have been made to our remuneration policy which is available on our website.

The Committee continues to believe that our approach to remuneration and our strategic initiatives will continue to attract and retain the talent needed to deliver desired outcomes. It also believes this approach will continue the long-term success and our position as a responsible employer with a clear purpose. The Committee continues to remain mindful of ensuring that remuneration is appropriate in light of industry challenges and remains clear of any bias or protected characteristic including but not limited to gender, race, and disability.

The major change to executive remuneration in 2022 is to the Long Term Incentive Plan (LTIP). The employee benefit trust, which as at 31 December 2021 held approximately 10% of FHL for the benefit of certain members of FHL's management and key employees, in early 2022, has been converted to an equivalent award amount of restricted stock in FHI and form part of FHI's long-term share programme. This serves to incentivise and align FHL's senior colleagues with the sustainable performance and value of FHI.

Overall, I am pleased to report that the remuneration policy has operated well in what continued to be a challenging year, carefully considering performance outcomes.

David Stewart
Remuneration Committee Chair

Membership

The Remuneration Committee is constituted as a Committee of the Board. Membership of the Committee is formed by the Chair and other Directors who are appointed in line with the business needs of the Group. The Committee currently comprises:

David Stewart	Chair and Non-Executive Director
Sally James	Non-Executive Director
Pars Purewal	Non-Executive Director
Gordy Ceresino	FHI Nominated Non-Executive Director
Thomas Donahue	FHI Nominated Non-Executive Director
John Fisher	FHI Nominated Non-Executive Director

The primary focus of the Committee continues to be centred on advising the Board on remuneration matters. This advice takes shape through policies and plans that are designed to motivate and retain high-calibre executive directors[16], senior management and the wider workforce.

This report continues to place an emphasis on remuneration disclosure in 2021, ensuring continuous improvement in both the transparency and detail of the Group's remuneration reporting.

Responsibilities

The Committee's primary responsibilities are to assist and advise the Board regarding the following:

- agreeing the broad policy and framework for the remuneration of the CEO, other executive directors of the Company, and senior managers whose compensation is over a certain threshold;
- determining the overarching principles and parameters of the remuneration policy on a FHL Group wide basis, excluding Hermes GPE and Hermes Fund Managers Ireland Limited (HFMIL), which have their own committees;
- establishing and maintaining a competitive remuneration package to attract, motivate and retain high-calibre executive directors and senior management;
- aligning senior executives' remuneration with the interests of our clients, their investors and our shareholder and relevant remuneration legislation;
- determining our approach to remuneration for the wider workforce including our benefit offering; and
- ensuring compliance with the FCA and other regulators' rules with regards to remuneration.

Committee attendance in 2021

Member	Attendance
David Stewart (Chair)	3 / 3
Sally James	3 / 3
James Fraser (Resigned 31 August 2021)	2 / 2
Pars Purewal	3 / 3
Gordon Ceresino	2 / 3
Tom Donahue	3 / 3
John Fisher	3 / 3

[16] Executive Director is an internal grade and typically these are not statutory directors.

Activities of the Committee during 2021

During the year the Committee received and approved updates on the continued development of the remuneration policies and structure, including:

Area	Activity
Salary review	As part of the annual salary review, the Committee reflected on salary adjustments, taking into consideration the current market pay positioning for the executives and wider workforce.
Strategic review of total compensation	The Committee reviewed analysis of market pay positioning for strategically important roles within the Group and approved off-cycle salary increases and retention awards and a significant investment in base salary effective April 2022.
Incentive Scheme Outcomes	The Committee reviewed bonus outcomes for 2021 in the context of overall Group performance and risk appetite.
Long Term Incentive Plan (LTIP)	The Committee reviewed and approved nominations and awards for participation in the 2021 LTIP. The Committee reviewed and approved the first vesting event in respect of 30% of Pool A Shares and 20% Pool B shares under the 2018 Award.
Regulatory Considerations	The Committee ensured the Group complies and is up to date with all prevailing regulations, including: • approval of the Remuneration Policy statements required under AIFMD and BIPRU; • approval of Material Risk Takers (MRT) under Alternative Investment Fund Managers Directive (AIFMD) and Undertakings for Collective Investment in Transferrable Securities (UCITS); • approval of proportionality assessment under AIFMD and UCITS; and • the implementation of the IFPR which included a new Remuneration Policy, setting Fixed to Variable pay ratios for the 2022 performance year and MRT identification framework and employee list.
Corporate Citizenship	The Committee approved gender pay gap reporting for 2021 and reviewed targets for the WiFC.
Annual review of Terms of Reference	The key responsibilities of the Committee are set out in its terms of reference, which are reviewed annually.

The Committee believes that the incentive scheme and LTIP, operated within the positive culture of strong performance and behaviour that exists in our business, supported by the Federated Hermes Pledge, provide alignment between employees and our clients, their investors and our shareholder and are in accordance with the relevant legislative changes and best practice.

The members who make up the Committee do not have a vested interest in the amounts being paid to any employees and do not participate in any FHL based incentive schemes.

Director remuneration is reviewed by the Chair and the FHL CEO and implemented, where appropriate, following approval of the CEO and Compensation Committee of the Board of Directors of FHL's owner, FHI.

Transparency

The transparency of the disclosures included in this report is generally consistent with that of public companies in the UK. Disclosures include remuneration payable to executive directors and setting this in the context of business performance. This aligns the disclosures with the UK Corporate Governance Code and EOS at Federated Hermes' recommendations for public listed companies, and this is discussed in detail in the report.

Stakeholder alignment

The Committee believes that remuneration must be aligned with sustainable performance and reflect strong risk management. The Committee believes that this will encourage a responsible culture regarding both investments and relationships with key stakeholders. It is important that the remuneration framework is clear, understandable and achievable in order to motivate and retain employees and ensure alignment with the strategic business targets agreed with our shareholder. This is achieved by using a combination of fixed and variable compensation schemes enabling senior management to encourage the right behaviours and strong performance over the short, medium and long term, as appropriate.

The Senior Management Team (SMT) is charged with applying their discretion as they steer the business within a clear risk management framework. The SMT Team is supported in these responsibilities by the consistent application of performance and behaviour metrics used as part of the annual performance review discussion. These have been reinforced by the Federated Hermes Pledge which underpins the importance of putting the client first and acting responsibly and transparently. An overview of how our remuneration policies align the interests of employees with FHL's objectives is set out on the following pages.

Strategy

Our ongoing strategy is to build a world-class investment management business through a focus on Sustainable Wealth Creation that enriches investors, society and the environment; in order to deliver outstanding holistic return outcomes for clients and their beneficiaries, attract strong inflow of third-party assets, and continue to meet and exceed its financial objectives. We will continue to review the remuneration policy as our business evolves. Employee remuneration will continue to be linked with the success and long-term growth of the Group.

Reward strategy principles

We are aligned to the principles we have communicated to listed companies. There is a key focus on strategic delivery (we do not have a share price on a public exchange) and rewarding both "the how" as well as "the what" in terms of operational and financial performance, and through representation on the Board there are clear lines of accountability to our shareholder.

Diversity and gender pay gap

Having made positive progress between 2016 and 2020 we suffered a setback in 2021 and experienced a decline in the number of senior women in our business. We launched our Gender Employee Network to support our aim of increasing female representation at the senior management level. We have also agreed with the Board a set of actions we believe will enable us to reverse this position over time and achieve our new stretching WiFC target of gender parity by the end of 2025.

We have a strong culture of responsibility, ingrained in our DNA, and we firmly believe that we should lead by example. We remain committed to treating everyone fairly, with dignity and respect, and believe that diversity and an inclusive culture allows us to continue to grow as a strong and innovative organisation.

Remuneration philosophy and principles

The Committee's philosophy is to reward individual contribution, as demonstrated by the delivery of sustainable results that are aligned with the business strategy, values and behaviours of the Group and that serve the best interests of clients, their investors and our shareholder, while enabling the business to profitably grow to its potential.

Our incentive pay strategies encourage all employees to act like long-term shareowners, creating sustainable wealth for our clients and their investors and support our responsible performance culture to create a sustainable business, discouraging excessive or concentrated risk taking. The risk appetite of the Group is closely monitored, and further discussed in the Risk Management section of the Strategic Report. Individual and organisational performance is transparently and rigorously assessed against a combination of financial (multi-year) and non-financial targets and key performance indicators to determine the appropriate total remuneration that will attract and retain our talent.

Remuneration Principles	Approach	Implementation
Shareholding Executives should make a material long-term investment in the Group's shares.	• Long-term awards for senior management that encourage long-term success. • Commitment to not pay more than is necessary.	Our LTIP awards restricted stock to selected employees, generally senior management and key contributors to long term success and is designed to encourage profitable growth over a five-year profile. The details are discussed further on in this report. The FHL CEO is eligible to participate in a UK Sub-Plan of the FHI stock incentive plan. Under the terms of the Sub-Plan, the CEO is eligible to be invited annually to purchase a set number of shares in the Group's parent company, FHI at a discounted price. These shares vest five years after the date of purchase. The CEO is also eligible to participate in FHI's Bonus Restricted Stock Program under which he is eligible to receive a portion of his annual bonus in restricted stock of FHI at 85% of its value. The bonus restricted stock vests over a three year period.
Alignment Pay should be aligned to the long-term success and the desired corporate culture.	• Strategic performance metrics (rather than total shareholder return) to dominate incentive schemes. • Assessment of performance with use of relevant metrics focused towards impact on stakeholders. • To promote a sound and effective approach to risk management that is aligned with the Group's risk appetite, client needs and business objectives. • Tail risk built into pay structures.	Employees who are awarded a bonus over a certain threshold are required to defer a percentage of their bonus award. Deferred awards notionally track the performance of selected funds managed by the Group, thereby aligning interests of employees with our clients, their investors and our shareholder. Individuals are assessed on a combination of financial, technical and behavioural key performance indicators. Non-financial metrics include demonstration of our corporate behaviours as outlined in the Federated Hermes Pledge. The Remuneration Committee works closely with the Risk and Compliance Committee to ensure that remuneration principles are governed by a sound and risk-aware management system. During the vesting period for deferred compensation, awards are subject to malus provisions in the plan rules. After vesting, awards remain subject to clawback.
Simplicity Pay schemes should be clear and understandable for both investors and executives.	• To deliver reward programs that are transparent, simple to administer and affordable to the Group.	We have a single incentive scheme for all employees. The discretionary bonus rewards achievement of in-year results against our annual business objectives in the context of the agreed strategy and demonstration of corporate behaviours. The aim of the LTIP is to align selected employees with the long-term interest of our clients, their investors and our shareholder to incentivise the delivery of the business' long-term strategy. Additionally, the UK Sub-Plan of the FHI stock incentive plan referred to above is available for the CEO.

Remuneration Principles	Approach	Implementation
Accountability Remuneration committees should use discretion to ensure that awards properly reflect business performance.	• Ownership and accountability for pay outcomes, including greater use of discretion. • Publication of pay ratio.	Our Remuneration Committee is committed to enhancing the disclosures we provide within the annual remuneration report and will be disclosing our fixed to variable pay ratio in 2023. Total variable compensation is determined by the Remuneration Committee and recommended to the Board. The Remuneration Committee directly review and approve the remuneration payable to the 50 highest paid employees. The Remuneration Committee has full discretion to adjust the bonus pool and individual awards where they feel it is appropriate to do so. In recent years the Remuneration Committee has exercised its discretion to adjust awards both up and down. We have disclosed our relative spend on pay and the ratio of total CEO pay as compared to median employee pay. Our CEO and Senior Management Team hold regular events in which they make themselves available to answer any questions from employees.
Stewardship Companies and investors should regularly discuss strategy, long-term performance and the link to remuneration.	• Greater quality of engagement along the ownership chain.	Our shareholder is represented on the Board and the Remuneration Committee, ensuring there is clear connection between FHL, our shareholder.

Outline of individual pay elements of the Group

Individual pay elements support our purpose and align interests with clients and their investors.

Fixed pay elements – base salary, retirement and other benefits

Provides competitive fixed pay at a level that reflects market compensation for the role and supports the recruitment and retention of talented people required to deliver the business strategy. This applies to all employees.

- Assists employees with retirement and provides insurance coverage and other corporate benefits.
- Determined by experience, duties and scope of responsibility, as well as internal and external market factors.
- Reviewed annually, the Remuneration Committee considers, challenges and approves the budget proposed by the SMT.
- Proposals are approved in accordance with the Remuneration Committee Terms of Reference.

Bonus

Encourages all employees to focus on the in-year results that need to be achieved to meet the business annual objectives in the context of the agreed strategy and demonstration of corporate behaviours. This applies to all employees.

Structure:

- The discretionary bonus scheme is for all eligible employees. Eligibility is based on service conditions.
- Bonus awards are based on an assessment of an individual's performance and behaviours with reference to Company performance, team performance and market factors.
- All bonus awards are reviewed by the SMT and the top 50 (and all current employees identified as Senior Managers under the SMCR and MRTs) are reviewed by the Remuneration Committee.
- Bonus awards over a certain threshold are subject to deferral which is notionally co-invested. The upfront bonus and deferred awards are ultimately delivered in cash, with the deferred portion co-invested in investment strategies to ensure alignment of interests (see next section for more detail).
- Leaver provisions: Good and Bad leaver provisions apply to the awards.

Performance & Adjustment:

- The bonus pool is determined on the Group's financial performance and having a sound capital base.
- Performance measures such as revenue, profitability and profit margins are considered before the pool available for distribution is determined by the Remuneration Committee.
- The Risk and Compliance Committee advises the Remuneration Committee about any material risk events that the Remuneration Committee should consider when determining the pool.

Co-investment/bonus deferral

Aligns short and long-term interests of employees with our clients, their investors and our shareholder.

Structure:

- The deferral scheme applies to all eligible employees whose bonus is £75,000 (or local equivalent) or greater.
- Awards vest over three years in equal tranches (except in special circumstances) and the performance period does not restart each year.
- Over the performance period, the underlying award notionally tracks fund(s) performance and is adjusted in line with the performance of the fund(s).
- For investment professionals at least 50% of their deferred award is notionally co-invested into the fund(s) they manage. The remaining 50% can also be notionally co-invested into the funds they manage, or they can choose to notionally co-invest in a basket of funds from across the business. There is no retention period.
- Non-investment professionals must notionally co-invest 100% of their deferred bonus award into a basket of funds.
- During the vesting period for deferred compensation, awards are subject to malus. After the vesting, awards remain subject to clawback.
- Upon vesting, the change in performance during the performance period is applied to the vesting tranche. This mechanism is applied when performance increases, as well as decreases.

Long-term incentive plan

Aligns the interests of selected employees with the long-term interest of our clients, their investors and our shareholder and incentivises the delivery of our long-term strategy through restricted shares.

Structure:

- Participants are selected at the discretion of the SMT and approved by the Remuneration Committee based on an employee's strategic importance to the delivery of the businesses strategic initiatives over the long-term.
- The shares are valued by an independent valuation firm.
- Good and Bad leaver provisions apply to the award.
- Dividends are payable on vested and unvested shares.

UK Sub-Plan of the FHI Stock Incentive Plan

The Group's parent company FHI operates a Sub-Plan to its existing Stock Incentive Plan.

Structure:

- The Sub-Plan allows awards of shares of restricted Federated Class B common stock to be granted to the CEO.
- In connection with any award, dividends may be made.
- The FHI Compensation Committee has full authority to make awards under the Sub-Plan, to determine the terms and conditions of such awards, and to interpret and make all other determinations affecting the Sub-Plan, subject to the provisions of the Sub-Plan and the existing FHI Stock Incentive Plan, and direction by FHI's Board of Directors.
- Certain Periodic awards under the Sub-Plan have a purchase price of $3.00 per share.

Performance and Adjustment:

- LTIP awards have a five-year vesting schedule and are subject to certain vesting acceleration, forfeiture or malus and clawback provisions that may apply depending upon the circumstances surrounding a participant's termination of employment or the occurrence of certain other events.
- Bonus restricted stock is awarded at 85% of fair market value, based on the closing price of FHI Class B common stock on the New York Stock Exchange on the award date and generally vests over a three-year period.

Below is a description of the approach to measuring the performance of individuals, including both financial and non-financial metrics, and explains how this assessment influences an individual's remuneration.

- The Group's performance management process requires all managers to review the performance and behaviours of their employees and to assign a rating to reflect their contribution throughout the year.
- All roles are benchmarked against the market to ensure that their remuneration is competitive.
- A rigorous review is undertaken to ensure a strong correlation between performance and awards.
- Non-financial metrics include demonstration of corporate behaviours, and successfully delivering agreed performance objectives.

Remuneration ratios

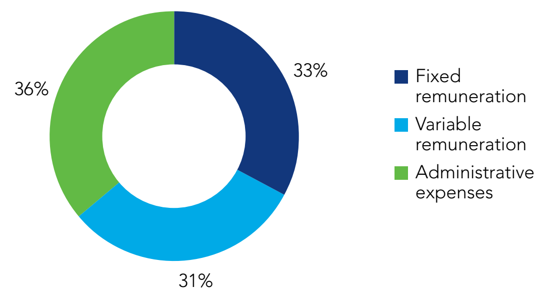
The compensation to revenue ratio, bonus to revenue ratio and CEO to median employee ratio form part of our key remuneration measures. These measures allow us to benchmark performance against industry peers and align compensation with the Group's financial performance. In January 2021, the Board, which includes representation from our parent, approved a discretionary bonus pool of £45m inclusive of National Insurance for the 2021 performance year, equating to a bonus to revenue ratio of 23%.

The table below shows the comparable relative spend on pay:

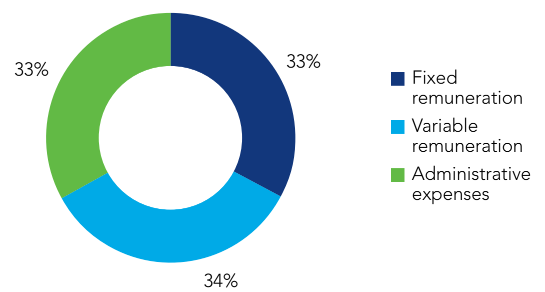
Relative Spend on Pay on an underlying basis		
Ratio	**2021**	2020
Compensation ratio	**64%**	52%
Total compensation for employees/net revenues		
Bonus to revenue ratio	**23%**	24%
Bonus/net revenues		
CEO to median employee pay	**21x**	22x
Total pay for CEO/median annual compensation for UK employees		

The charts below show the relative spend on remuneration (both fixed and variable) as a percentage of total costs of the business.

2021



2020



Treatment of executive incentive schemes, deferred compensation awards and LTIPs

The main sources of variable remuneration are the discretionary annual cash bonus, the Co-investment Scheme and the LTIP. The proposed awards are presented to the Committee by the SMT, which reviews all proposals prior to the submission to the Committee. All of the schemes are approved by the Board and Committee and are regularly reviewed.

Any bonus pool is set as part of the strategic plan agreed between the Board and FHI. The Committee and SMT are charged with effectively distributing any awards across the business on a discretionary basis. Participation in any bonus pool is limited to eligible employees only.

With regard to employees engaged in Control Functions, we ensure that their remuneration does not compromise their ability to objectively review the business areas they control and monitor.

Guaranteed variable remuneration

In limited and exceptional circumstances and generally only in the first year of employment, the Board may agree to make an award of guaranteed variable remuneration in line with the remuneration policy. Replacement awards, such as the buyout of a new joiner's deferred compensation that they are forfeiting to join the business, are not our standard compensation practice; however, on the occasions where a replacement award is considered, we will take steps to determine an appropriate amount and at all times be committed to paying no more than is necessary and no more generous terms, including in relation to the vesting schedule and are subject to malus and clawback.

Remuneration Policy Coverage

This policy covers all permanent employees, wherever based, and across all subsidiaries. We believe the current policy to be fully compliant with the requirements of IFPR, UCITS and AIFMD.

Performance and Key Performance Indicators (KPIs)

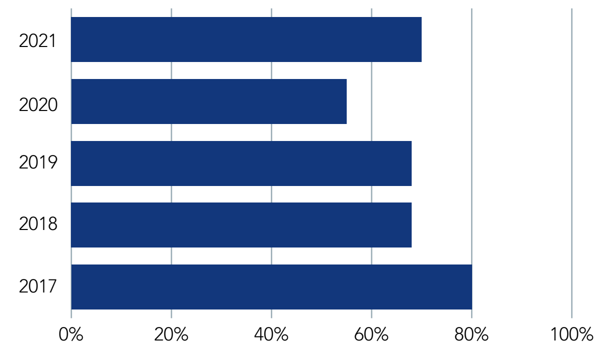
2021 Performance and Remuneration outcomes

The Committee considered business results relative to key performance indicators below and progress against its strategic objectives, as well as the personal performance of each SMT member. This includes taking a balanced approach to growing the business profitably and in a sustainable way that encourages the longevity of client relationships, while retaining and developing the key talent critical to the long-term success of our business.

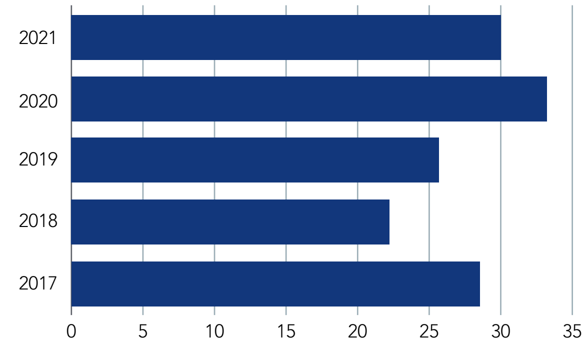
KPIs at a glance

The charts opposite provide an overview of the Group's performance over the last five years.

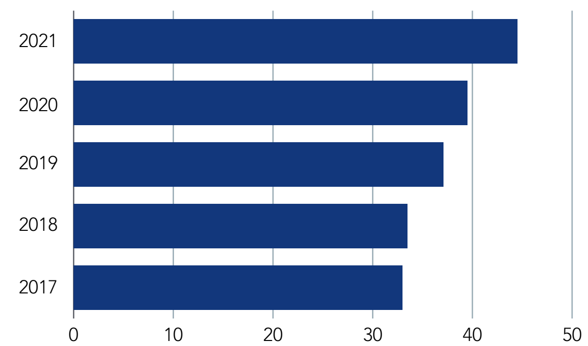
5-year investment performance
(% of funds beating benchmark)



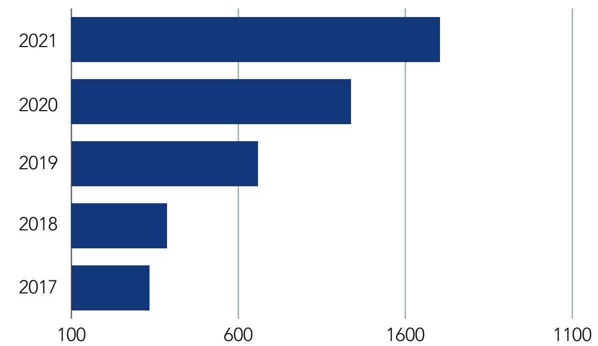
Underlying pre-tax profit £m



Assets Under Management £bn



Assets Under Stewardship £bn



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Senior Management Team Remuneration vs. Key Performance Indicators

The SMT for this purpose are comprised of the key management personnel. This includes the CEO and Head of Business Development who are FHL Board members, the Chief Operating Officer, the Chief Risk and Compliance Officer, the CEO Real Estate and Head of Private Markets and the Head of Investment, who are not FHL Board members. Key management personnel is a term used by Financial Reporting Standard (FRS) 102 for those persons having authority and responsibility for planning, directing and controlling the activities of a reporting entity, directly or indirectly, including any director (whether executive or otherwise).

Total spend on remuneration is up year on year. This is due to inclusion of the Chief Risk and Compliance Officer who was not in place in 2020 and an increase in bonus for one other member of the Senior Management Team. The total remuneration for the remaining four members – including the CEO (see below) – was down by 60% and bonus by 11% reflecting the mixed performance in the year.

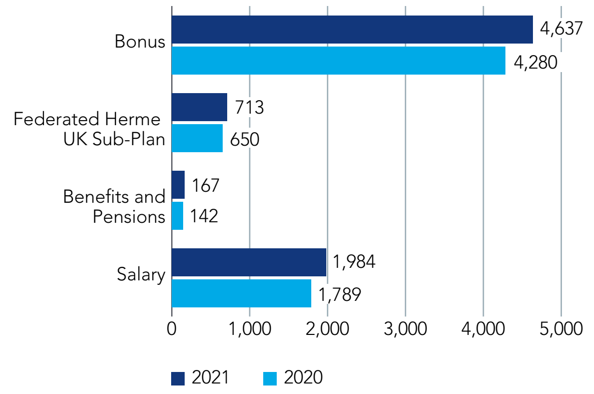
The total spend on remuneration is derived from a composite of the revenue and profit metrics discussed in more detail on the previous page. Further information on the total spend for key management personnel is detailed below.

	2021 £'000	2020 £'000
Ongoing remuneration	**6,788**	6,211
FHI UK Sub-Plan	**713**	650
	7,501	6,861

Total ongoing key management personnel remuneration includes emoluments, Company contributions to money purchase pension schemes and the FHI UK Sub-Plan in the case of the CEO.

The chart below shows the composition of remuneration for 2021 and 2020.

Senior Management Team Committee (£'000)



CEO remuneration

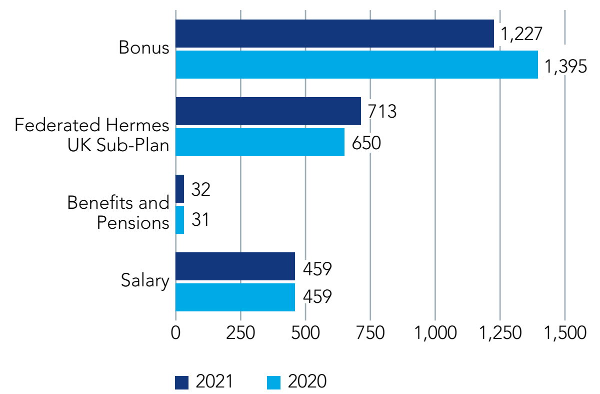
The CEO's performance is formally assessed twice each year by the Chair of the Board in discussion with the CEO of FHI's; assessment is against the CEO's annual performance objectives and progress toward the achievement of the long-term objectives of the business.

The formal performance review supports further discussion and deliberation by the Committee regarding the CEO's annual cash bonus, deferred co-investment and long-term incentive pay award. This process is formally documented as part of the Committee's Terms of Reference. Our performance and behaviour framework applies to all employees regardless of seniority; however, specific additional competencies are assigned to those in leadership and management positions.

	2021 £'000	2020 £'000
Ongoing remuneration	**1,718**	1,884
FHI UK Sub-Plan	**713**	650
	2,431	2,534

The total CEO's remuneration includes salary, bonus, Company contributions to money purchase pension schemes, the long-term incentive pay award, and the FHI UK Sub-Plan.

Chief Executive Officer or CEO (£'000)



Key performance indicators	Key points in 2021 financial year – relevant to bonus award	Assessment
Strategic Delivery	• Lead the execution of corporate strategy and in particular the development of our Private Markets, Public Markets and Responsibility platforms and support the structural review of Risk and Compliance to ensure the function is positioned to enable the business' 3-year strategic ambitions and longer-term objectives.	✔✔
Management Account Profit	• Deliver the Group's financial growth plan in line with market adjusted Target Performance Indicators. • Drive and where appropriate 'sponsor' cost management initiatives functionally and company-wide in support of the Group's financial performance.	✔✔
Investment performance	• Maintain investment performance of third-party and shareholders' assets and, adapting to market direction, maximise investment performance/ growth opportunities across the product range.	✔
Business Development	• Support the effective collaboration of Business Development activities across the FHI business to achieve Net Sales targets.	✔✔✔
Cultural Leadership		
Ambassador for asset management industry through initiatives	• Promote an inclusive and performance led culture that supports Federated Hermes' vision statement and mirrors our Pledge and Behaviour Framework. • Actively sponsor and participate in Unity, Diversity, Equity and Inclusion Committee and Corporate Social Responsibility (CSR) events in support of a unified, 'top down' commitment to promoting an environment for people to be themselves. • Act as the champion of change within the organisation and actively sponsor the firms Responsibility Commitments. • Stakeholder management of Board, SMT, owners, clients, key talent and employees.	✔✔✔
Federated Hermes Pledge and performance and behaviour framework	• Promote an inclusive and performance led culture that supports FHL's vision statement • Build a collaborative relationship with the majority shareholder that supports productive, solution orientated outcomes with beneficiaries at the heart of decisions.	✔✔✔

Key

Above target	✔✔✔
Around target	✔✔
Between threshold and target	✔
Below threshold	⬇

The remuneration of the CEO is approved by the Chair of the Board and the CEO of FHI at the Compensation Committee of the Board of Directors of FHI.

Regulatory Change Update

IFPR applies in a way that is proportionate to the size, nature, and complexity of the firm. The MiFID entities in scope of IFPR within the Group are non-significant non-SNI (small and non-interconnected) firms. This means that while we apply the basic and standard remuneration requirements under IFPR, we do not apply the extended remuneration requirements for significant firms. Notwithstanding this, we have voluntarily adopted some features of the extended requirements (including the establishment of a Remuneration Committee, use of deferral and instruments to deliver variable pay) in line with best practice. Our remuneration policy has been updated to reflect the requirements of IFPR and was formally adopted by the Board in January 2022.

Independency and Objectivity of the Remuneration Committee

The Chief Risk and Compliance Officer and Head of Internal Audit have reporting lines into the Chair of the FHL Audit Committee in the case of Internal Audit, and into the Chair of the FHL Risk and Compliance Committee in the case of Risk and Compliance. The Head of Human Resources, although reporting internally, interfaces directly with the Chair of Remuneration Committee. The chair of each of the committees is a Non-Executive Director.

Remuneration for the Chief Risk and Compliance Officer, and Head of Human Resources is proposed by executive management but independently approved by the Remuneration Committee. Remuneration for the Head of Internal Audit is proposed by the Chair of the FHL Audit Committee. It is based on a combination of individual performance and market comparison. Objectives for Control Functions[17] are set and measured independent of the business areas they support. The independence ensures the discretionary award granted is reflective of the achievement of personal objectives, rather than business performance.

Personal Shareholding Policy

When applicable, employees undertake not to use personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk-alignment effects embedded in their remuneration arrangements, and the SMT maintains effective arrangements designed to ensure that employees comply with their undertaking.

Avoiding Conflicts of Interest

To ensure remuneration policies avoid conflicts of interests, we have a Conflicts of Interest Policy in accordance with the MiFID, which outlines the steps we have taken to identify and mitigate the types of conflict of interests that exist or may arise. We are also subject to the FHI's Code of Business Conduct and Ethics and its Code of Ethics for Senior Financial Officers.

Effective Risk Management

To ensure that remuneration decisions consider the implications for risk and risk management of the firm, the heads of Legal, Risk, Compliance and Audit provide the Committee with regular updates on material risk events including any errors or breaches and sustainability risks that may have occurred throughout the performance period that may require the Remuneration Committee to exercise discretion to adjust the bonus pool or individual awards. At the end of the period, the Control Functions are re-engaged to ensure that risk events are appropriately considered as part of the performance review process and have been considered when making remuneration decisions.

Directors' Emoluments

Directors' emoluments, all of which have been approved by the Committee, are disclosed in the financial statements.

Evaluating the performance of the Committee

It is intended that an evaluation of the performance of the Committee will be conducted towards the end of 2022.

[17] Control Functions are considered to be Risk and Compliance and Internal Audit.

Report of the Nominations Committee

Membership

The FHL Nominations Committee is chaired by David Stewart and its members include Gordy Ceresino, Sally James and Pars Purewal. James Fraser resigned from the Committee on 31 August 2021.

Responsibilities

The Committee's primary responsibilities are to assist and advise the FHL Board. The scope includes, but is not limited to:

- Evaluating the balance, skills, knowledge and experience of members;
- Regularly reviewing the structure, size and composition of the FHL Board;
- Identifying and nominating candidates for appointment to the FHL Board;
- Considering the leadership needs of the Group and considering succession planning for FHL's Directors and other senior executives;
- Assessing the contribution of the FHL Non- Executive Directors; and
- Approving the appointment of any Director to the board of a subsidiary operating company of the Group and recommending this to the Board for approval.

Committee attendance in 2021 – Member Attendance

Member	Attendance
David Stewart (Chair)	3/3
Gordy Ceresino	3/3
James Fraser (Resigned 31 August 2021)	3/3
Sally James	3/3
Pars Purewal	3/3

Work of the Committee in 2021

Major topics considered by the Committee during the year were:

- Appointment of Keith Davies (Chief Risk and Compliance Officer) to the Board of Hermes Alternative Investment Management Limited (HAIML) and of Hermes Investment Management Limited (HIML);
- Appointment of Michael Boyce and Ms Sylvie McLaughlin to the Board of Hermes Fund Managers Ireland Limited (HFMIL);
- Appointment of Charles Maudsley as a member of the Appointments and Management Committees of Federated Hermes Property Unit Trust (FHPUT);
- Appointment of Gordy Ceresino, Greg Dulski, Joseph Kagan, and Jakob Nilsson as directors of Federated Hermes Japan LTD; and
- Appointment of Greg Dulski and Joseph Kagan to the Board of Federated Investors Australia Services Ltd.

Evaluating the performance of the Committee

It is intended that an evaluation of the performance of the Committee will be conducted towards the end of 2022.

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: