Statement on Principal Adverse Impacts

Federated Hermes Limited

www.hermes-investment.com
For professional investors only

This statement applies to investment portfolios managed on behalf of investors based in the European Union ("EU"). Hermes Fund Managers Ireland Limited ("HFMIL") is appointed as the Manager for portfolios based in the EU, including funds and segregated mandates. Hermes Investment Management Limited ("HIML") and Federated Investment Counseling ("FIC") have contractual responsibilities where they are appointed by HFMIL as sub investment manager for EU investment portfolios. HFMIL, HIML and FIC are collectively referred to as "Federated Hermes" in this document. Hermes GPE LLP is not in scope of this statement. For those investment portfolios in scope of the EU Sustainable Finance Disclosure Regulation ("SFDR"), this statement meets requirements to provide a statement on due diligence policies with respect to principal adverse impacts of our investment decisions on sustainability factors. For a list of funds that are in scope of SFDR see Appendix A.

With the exception of Hermes GPE LLP, the processes and approach outlined within this statement are also relevant across all Federated Hermes Limited funds and segregated mandates, including those not in scope of SFDR. As at 31st May 2022, this includes our real estate and private debt funds. Hermes GPE LLP has a statement on principal adverse impacts.

Key definitions

Principle Adverse Impacts are defined by the SFDR as negative, material, or potentially material effects on sustainability factors that result from, worsen, or are directly related to investment choices or advice performed by a legal entity. For investment portfolios in-scope of this regulation, the SFDR framework specifically requires the consideration of 18 mandatory indicators on greenhouse gas emissions, biodiversity, water, waste, and social indicators applicable to companies, sovereigns and supranationals, and real estate assets. In addition, there are 22 additional climate and other environment-related indicators defined, as well as 24 additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters. For a list of SFDR mandatory indicators see Appendix B.

In addition to the mandatory and additional indicators outlined within the regulation, we incorporate consideration of other proprietary adverse indicators. Given the range of asset classes, sectors and geographies in which we invest, the principal adverse impacts that our investments may have are not homogenous and may include impacts on:

- climate and other environment-related matters, for example through greenhouse gas emissions of investee companies; or
- social and employee, respect for human rights, anti-corruption and anti-bribery matters, for example in relation to the diversity of employees or gender pay gaps at our investee companies.

Responsible investing is a long-term, active approach to investing that is efficient and intergenerationally fair to all beneficiaries and stakeholders, combining an analysis of ESG factors and active ownership.

Active Ownership means actively exercising shareholder rights by voting at meetings and engaging with companies to encourage responsible corporate behaviour.

Sustainability risks are environmental, social and governance (ESG) risks relating to our investee companies and assets. ESG issues constitute the three pillars of responsible investing.

ESG Integration is an investment approach that integrates sustainability and ESG related factors into the investment decision process.

Engagement is a purposeful, long-term dialogue between a company and its shareholders that aims to change or influence the way in which a company is run, in order to enhance the value of the firm and generate positive environmental and social outcomes.

Our philosophy

Federated Hermes is guided by the conviction that responsible investing is the best way to create sustainable wealth over the long term. Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns and, consistent with client objectives and applicable requirements, to contribute, where possible, to positive outcomes in the wider world.

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

We recognise that as fiduciaries, entrusted with the savings of millions of individuals, we have broad and important responsibilities to our clients and their ultimate beneficiaries. We have these responsibilities because our decisions will have impacts on the world in which beneficiaries live and work today as well as the one in which they will retire into tomorrow.

Whilst capital is at risk with any investment, in meeting the needs of our clients and beneficiaries we are cognisant of our commitment to delivering superior long-term risk-adjusted investment returns within the terms of our mandate. We also understand that the way we achieve these financial returns will have a wider economic, environmental and societal impact and will consequentially likely impact upon the real value of their savings and retirement incomes. These factors, while more difficult to quantify and measure, will be significant, not only to the real financial value of their savings but also to their quality of life and cost of living. Focusing on wealth creation at the expense of the planet and society – the very future for which investors are saving – is counterproductive over the longer-term.

It is this understanding that informs our belief that we have a duty to consider longer-term risks and opportunities when investing. We spend considerable time analysing investee companies and assets to understand the long-term financially material sustainability risks; understanding externalities, governance practices, and social and environmental impacts. It also means using our voice and economic influence to improve the behaviour of those companies in which we have invested; the operations of the assets that we directly manage; and advocating for systematic improvements to the financial system in which we participate.

Due diligence regarding principal adverse impacts

At Federated Hermes, we believe there are two mutually reinforcing strands of responsible investment management: responsible investment and responsible ownership. Within these strands, we aim to generate sustainable wealth creation for the end beneficiary – the investor – by delivering superior investment returns and positive social and environmental impacts. Responsible ownership consists of both asset engagement and advocacy. Asset engagement is the process of actively engaging with companies to encourage them to align their behaviours with the long-term interests of investors by addressing the needs of their most important stakeholders, and thereby improving their strategic, financial and ESG-related performance. Advocacy is where we engage with public policymakers, regulators and industry bodies to enhance industry norms, and market rules and regulatory requirements in relation to corporate governance, stewardship and environmental and social policy both globally and regionally.

To achieve the above, we consider the material ESG factors of all investee companies as part of our fundamental analysis as well as on an ongoing basis post-investment. The Responsibility Office meets with every investment team on a quarterly basis to review the portfolio holdings from a stewardship and ESG perspective and flag, if necessary, particular holdings which primary research or our third-party ESG data vendors might have highlighted as controversial due to potential adverse impacts. We understand the nascency of ESG data, especially when companies are not reporting across a number of these metrics. Hence, we not only rely on data sourced from the data providers or specific to regulatory indicators, but overlay this with our qualitative analysis using information we have sourced through our research, interaction with the investee company and/or any insights obtained through historic engagement. The quarterly meetings between the Responsibility Office and investment teams ensures the teams are integrating ESG and engagement insights into their investment processes.

Identification of principal adverse sustainability impacts and indicators

Given our belief that the purpose of the investment industry is to create wealth sustainably over the long term, we consider the assessment of principal adverse impacts to be a natural and necessary part of our investment process. As such, we integrate ESG considerations and engagement insights into our investment processes in all of our products, across all asset classes. Such principal adverse impacts may already be financially material or may become so over the longer time periods over which our clients invest. The consideration of principal adverse impacts – and how to mitigate them – is also key to achieving our goal of contributing to positive outcomes in the wider world. The identification of principal adverse impacts is therefore part of our ESG integration and our approach to engagement. All our investment activity is supported by our dedicated Investment Office and Responsibility Office, both of which report directly to our CEO. However, it is the responsibility of our investment teams to effectively integrate stewardship and ESG information into their investment processes. Ultimately our fund managers have discretion on individual investment decisions. ESG factors – including consideration of the impact of investees on sustainability factors – are fully integrated into investment analysis and decision making. The investment teams are best placed to assess the materiality of ESG factors for investments and the impacts they may have, relative to mitigation efforts. The work of the Investment Office and Responsibility Office oversee this process and challenge the approach.

Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, risk and material ESG factors – including adverse impacts – and the overlaps between these elements. Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress - is a key input into this process and investment strategy. Such engagement is carried out both by our investment teams and by EOS at Federated Hermes, our stewardship business. These factors influence decisions to invest and are also actively monitored after investment, with the potential to influence decisions to sell an asset. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and seek to reduce the risk. We believe that responsible investors should not rely on external ESG data alone, as it is often backward looking and updated infrequently and with a time lag. As such engagement and – for equities – voting activities can be used by our investment teams to provide a more forward-looking view of ESG and broader future performance implications of a company or asset. Therefore, we engage with companies on material principal adverse impacts where deemed necessary and appropriate.

The teams supplement fundamental financial analysis with information provided through a range of proprietary ESG and engagement tools, qualitative analysis and the insights gleaned through engagement. Some of our proprietary tools are highlighted below. Our investment teams are able to access additional data points beyond those captured in these tools either from our own ESG database or via third party platforms. We will be further enhancing the data available to our teams during 2022 with additional data sets to enhance our reporting on principal adverse impacts as required by the Sustainable Finance Disclosures Regulation (SFDR).

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

- Our **ESG Dashboard** includes our proprietary Quantitative ESG (QESG) Score and identifies stocks with positive ESG characteristics and/or stocks demonstrating positive ESG change. The QESG score captures how a company manages its ESG risks.
- Our **Carbon Tool** enables fund managers and engagers to identify carbon risks in portfolios and companies that currently exist or may develop in the future. Importantly, the tool incorporates our stewardship activity and intelligence and is able to identify companies that are priorities for engagement and their progress against environmental objectives.

- The **Portfolio Snapshot** allows us to observe the aggregate ESG risks across our portfolios relative to their benchmarks. It also examines ESG ratings and controversies and identifies contingent risks. Our portfolio managers use this tool to evaluate a strategy's ESG performance over time. It also provides insights into engagement and the progress made, and our voting choices relative to the benchmark.
- Our **Corporate Governance Tool** provides a breakdown of corporate governance characteristics, such as information on board independence, diversity and audit tenure, etc. This tool compares the governance of companies to the expectations we have set and flags any companies that do not meet the expected standard.
- Our **Environmental Tool** assesses both portfolios and companies on their carbon, water and waste performance. It also looks to quantify the environmental cost of the impact via the following six lenses; carbon, water, waste, air pollutants, land/water pollutants and natural resource use. In addition, we have incorporated the temperature alignment of portfolios and companies alongside exposures to carbon intensive sectors; namely fossil fuels, mining and thermal coal.

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

Engagement is in itself a form of additional due diligence, enabling us to establish a clearer picture of the practices and impacts of a company beyond the information available in corporate publications. Our Responsibility Office is tasked with monitoring and overseeing every investment team's approach to integrating ESG and engagement insights into their investment decisions and the monitoring of investees. To that effect, the Responsibility Office meets with every investment team on a quarterly basis to review the portfolio holdings from an ESG point of view and flag, if necessary, particular holdings which our third-party ESG data vendors might have highlighted as controversial. As such, the Responsibility Office and the investment teams regularly use our proprietary ESG tools to review the ESG performance and engagement coverage of our holdings.

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

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

More information on the above processes can be found in our Sustainability Risks Policy.

This integrated approach enables us to identify principal adverse impacts. While the most pressing material risks are those that will crystallise in the short term, we are long-term investors that strive to deliver sustainable wealth creation for our end investors. This means that our definition of materiality is necessarily wider. We believe that a wider range of risks will ultimately become material over a longer timeframe and that we need to engage proactively to mitigate them. The assessment of principal adverse impacts is therefore inextricably linked with our assessment of sustainability risks as over a long-term horizon, such impacts can become material risks to the investment, for example through reputational damage or regulatory interventions.

Prioritisation of principal adverse sustainability impacts and indicators:

Our investment teams consider all material investment factors, including those relating to material ESG risks and opportunities. As described above, given our long-term approach to investment, this would include an assessment of principal adverse impacts, integrated into the analysis of ESG factors. Where relevant, these include, but are not limited to, both the mandatory and additional principal adverse impact indicators as defined under the SFDR.

We assess material areas of concern for each of the sectors and industries, with an overlay of material ESG issues by region. Relevant ESG issues – including adverse impacts on sustainability factors – are then considered on a company-by-company basis, with implications for both inclusion and weighting in an investment portfolio, as well as engagement.

The presence of ESG risks – including principal adverse impacts - does not necessarily preclude investment, but rather helps investment teams reach a more holistic view of the risk profile of a company. Investment teams may also identify opportunities in companies that are improving their ESG practices including social and environmental impacts, particularly given our strong engagement capabilities.

Addressing principal adverse sustainability impacts

There are a range of actions we may take to mitigate such impacts. Firstly, our assessment of the adverse impacts as part of our investment analysis may impact investment decisions that we take, such as whether to buy, hold or sell an asset, or change our investment exposure, particularly where we feel adverse impacts may represent a material financial risk. Depending on the strategy of the investment portfolio, we may use the following approaches to mitigate adverse impacts:

- Negative screening techniques (sector & values-based exclusions);
- Positive screening techniques (proprietary scoring systems);

- Non-financial objectives for relevant investment portfolios (for example Article 9 Funds under the SFDR) to help mitigate against adverse impacts in a drive to deliver positive outcomes for clients; and
- Engagement.

Approach to Engagement

As well as helping us to identify instances of adverse impacts in the first place, engagement with investee companies and assets is a crucial part of our approach to mitigating potential or existing adverse impacts. We may also see an investment opportunity where there is potential for improvement through engagement. Our approach to engagement is outcomes-driven and focused on ensuring that the assets we invest in are creating wealth sustainably. Given our long-term approach, we are able to engage on particular issues over multiple years with key decision makers in the companies, such as executives and the board of directors, to encourage fundamental change within our investee companies and assets. For listed equities, voting is an integrated part of our engagement approach. As such, our voting decisions are informed by the insights and experience from engagement with the investee company and support our engagement objectives. We escalate the intensity of an engagement over time as required using our rights as an investor and may engage in collaboration with other investors to avoid or mitigate principal adverse impacts. We believe that this approach delivers the best results for our clients and end beneficiaries. More information on our engagement approach and outcomes is available on our website in our Engagement Policy and Stewardship Report.

We recognise that as investors we have an opportunity and a responsibility to help address market-wide and systemic risks. We therefore also engage constructively with regulators and policymakers globally to address environmental, social and other market failures that may prevent the financial system from operating in the best interests of its ultimate asset owners. This includes tackling thematic issues that impact the assets in which we invest.

Engagement policy

Federated Hermes honours its responsibility as a fiduciary for investors and their beneficiaries and seeks always to act in their best interests. We undertake stewardship and long-term engagement to exercise active ownership of the assets we invest in on behalf of investors, and to deliver our purpose of helping investors achieve their financial objectives. For Federated Hermes, stewardship is both a responsibility and an input to achieving optimal investment performance, in particular over the long-term. We take a comprehensive approach to stewardship, engaging globally with our companies and other investees and with other industry participants, in particular policy makers, standard setters and regulators. The majority of engagement with our public markets investees is undertaken for Federated Hermes by the dedicated stewardship services of EOS at Federated Hermes.

We benefit from the long engagement history and established relationships of EOS at Federated Hermes in relation to both Federated Hermes investee companies and its broader investable universe.

Our full Engagement Policy, our Voting Policy and Guidelines and disclosure of our voting decisions are available on our website.

Adherence to codes and standards

Federated Hermes is supportive of the development of codes and standards relating to responsible business conduct and responsible investment to aid transparency and accountability. We adhere to a number of responsible business conduct codes and internationally recognised standards for due diligence and reporting, including:

- We are signatories of the UN Global Compact ("UNGC") and report annually on our implementation of the UNGC Principles across the themes of Environment. Human Rights, Labour Rights and Anti-Corruption. We implement the Principles across our operations, and the themes are reflected in our ESG integration and engagement processes as described in our Sustainability Risks Policy. We engage with the UNGC UK Network to support the continued growth of the network and the impact of its engagement with businesses.
- We are founding signatories of the UN Principles of Responsible Investment ("PRI") and committed to embedding the six Principles as a responsible investor and owner. We report annually using the PRI Reporting Framework. We also work with the PRI through a number of its working groups and initiatives.
- We are members of the Net Zero Asset Managers Initiative, through which we have committed to support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C. We publish an annual climate-related financial disclosures report in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).
- We are a signatory of the Finance for Biodiversity Pledge and the Eliminating Commodity Driven Deforestation Commitment, through which we have committed to assess and disclose our exposure to deforestation and to protect and restore biodiversity through our investment and engagement activities.
- We are a signatory of a number of stewardship codes, including the Financial Reporting Council's UK Stewardship Code. As part of our signatory status to the UK Stewardship Code we produce an annual Stewardship Report.
- EOS is a signatory of the Best Practice Principles for Providers of Shareholder Voting Research & Analysis and reports annually on implementation of these principles.

In line with international treaties, we are currently excluding companies that are manufacturing and/or are providing either an essential and/or tailor-made product or service to the manufacturers of relevant controversial weapons.

We comply with all relevant regulatory disclosures, including the requirements of the UK Modern Slavery Act (2015) as set out in our Modern Slavery Statement and the EU Shareholder Rights Directive II. We are also members of a wide range of industry initiatives through which we seek to advance industry best practice, collaborate with other investors to achieve shared engagement and advocacy outcomes and ensure we remain at the forefront of best practice.[1] We provide an annual update of our external memberships in our Stewardship Report.

Appendix A

The following funds are in scope of the EU Sustainable Finance Disclosures Regulation, as 31st March 2022:

Federated Hermes Global Emerging Markets Equity Fund

Federated Hermes Global Equity Fund

Federated Hermes Global Equity ESG Fund

Federated Hermes Sustainable European Equity Fund

Federated Hermes Global High Yield Credit Fund

Federated Hermes Sustainable Europe ex-UK Equity Fund

Federated Hermes Asia ex-Japan Equity Fund

Federated Hermes US SMID Equity Fund

Federated Hermes Multi-Strategy Credit Fund

Federated Hermes Global Small Cap Equity Fund

Federated Hermes Absolute Return Credit Fund

Federated Hermes SDG Engagement Equity Fund

Federated Hermes Impact Opportunities Equity Fund

Federated Hermes Unconstrained Credit Fund

Federated Hermes Global Emerging Markets SMID Equity Fund

Federated Hermes Emerging Markets Debt Fund

Federated Hermes SDG Engagement High Yield Credit Fund

Federated Hermes China Equity Fund

Federated Hermes US High Yield Credit Fund

Federated Hermes Sustainable Global Equity Fund

Federated Hermes Climate Change High Yield Credit Fund

Federated Hermes Sustainable Global Investment Grade Credit Fund

Federated Hermes Biodiversity Equity Fund

Federated Hermes European Direct Lending II Fund

Appendix B

The following indicators are outlined within the EU SFDR as mandatory adverse sustainability indicators:

Climate and other Environmental-Related Indicators

1. Greenhouse gas emissions (Scope 1, 2 and (from 1/1/2023) Scope 3)
2. Carbon footprint
3. GHG intensity of investee companies
4. Exposure to companies active in the fossil fuel sector
5. Share of non-renewable energy consumption and production
6. Energy consumption intensity per high impact climate sector
7. Activities negatively affecting biodiversity-sensitive areas
8. Emissions to water
9. Hazardous waste ratio

Social and Employee, Respect for Human Rights, Anti-corruption and Anti-bribery matters

10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
12. Unadjusted gender pay gap
13. Board gender diversity
14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)

[1] Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert.

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:

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