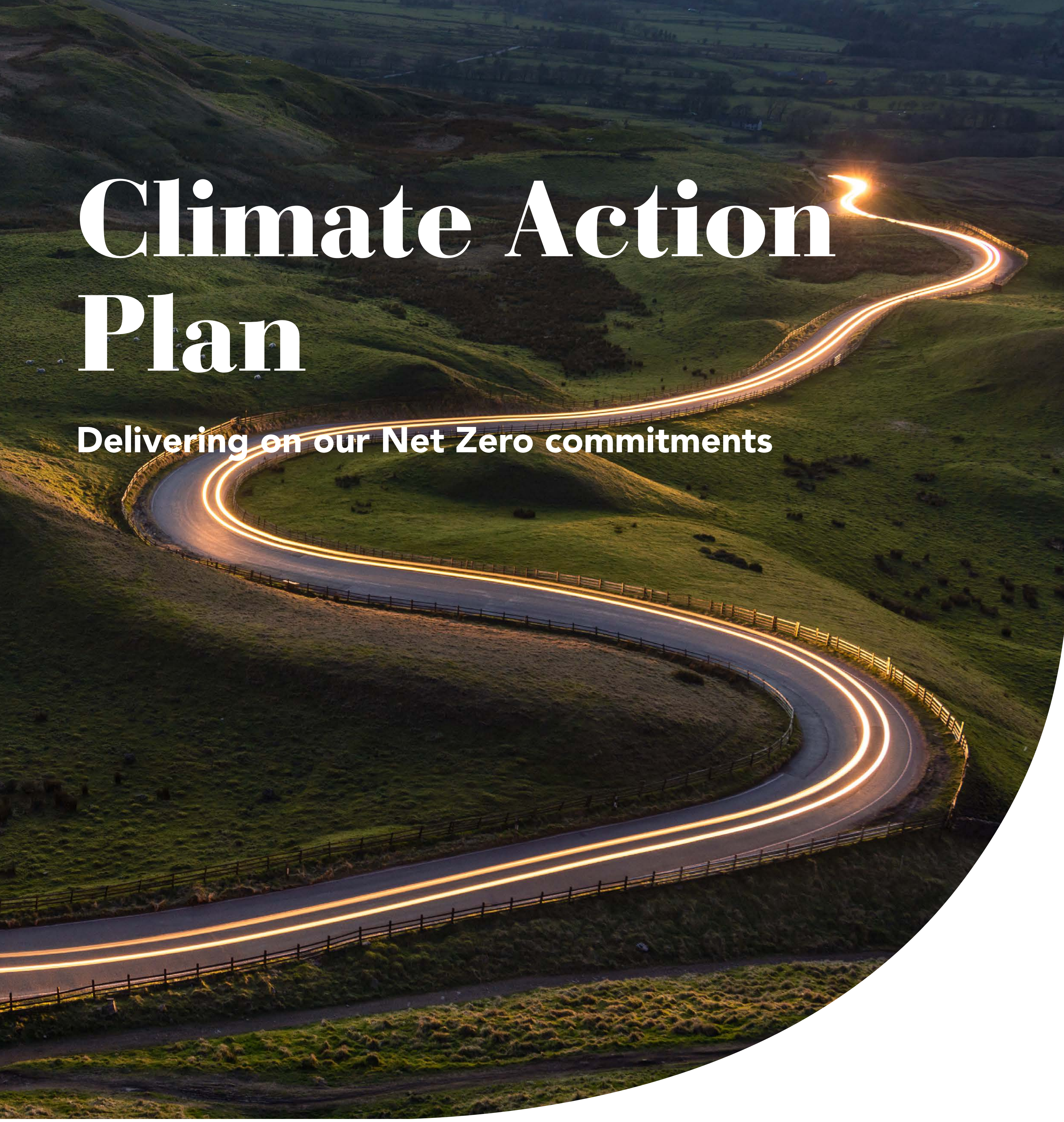

Climate Action Plan

Delivering on our Net Zero commitments

2022

Federated Hermes Limited

www.hermes-investment.com
For professional investors only

Introduction

As long term stewards of capital, Federated Hermes Limited believes that climate change represents a systemic risk to financial markets, the global economy and our ability to create sustainable wealth for our clients and their investors.

As policy and technology continues to accelerate decarbonisation of the global economy, companies not taking adequate action will be left behind, potentially resulting in suboptimal business models and stranded assets. For this reason, we take the view that we should work with clients to contribute to global efforts to limit warming to 1.5°C are successful. Our goal is to drive change in the real economy.

This is an inseparable part of our fiduciary responsibility to maximise long-term financial returns on investment on behalf of our clients. We believe we have a responsibility as an industry, and indeed as a business, to allocate capital in a way that mitigates exposure to climate risk and that plays our part in delivering the goal of the Paris Agreement[1]: an outcome that is fundamentally in the long-term financial interests of our clients.

This Climate Action Plan sets out why and how we will seek to work with clients and investee companies on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management of FHL. It also outlines the interim targets we have set along the way.

Our commitment is based on the expectation that governments and policy makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement. We recognise that the global challenges of climate change, biodiversity loss and social justice are highly interlinked and, therefore, our commitments will be delivered in ways that contribute to tackling these issues together. In delivering our climate goals, we will continue to focus our advocacy and engagement on related issues such as halting and reversing deforestation, protecting nature and promoting social justice.

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1.5°C temperature goal of the Paris Agreement.

The approach we set out below is not set in stone and we expect it will evolve in the context of future technological, market, regulatory and political change. In future iterations of this plan, we will adapt our approach to respond to these changes and continued advancement of climate science.

> **In delivering our climate goals, we will continue to focus our advocacy and engagement on related issues such as halting and reversing deforestation, protecting nature and promoting social justice.**

[1] Article 2.1c of the Paris Agreement, sets out the objective of "(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

An urgent need to act

Time is running out to meet the Paris Agreement's goal of limiting average global temperature increase to 1.5°C. Based on current trends, the world is likely to fully exhaust the remaining carbon budget within the next decade. As a result, urgent change is needed and we believe the crucial window for action is the next five years.

> **The pathways ahead for investee companies are varied and uncertain, especially in the multiple jurisdictions where climate policies are absent or in early stages of development.**

A net zero carbon global economy by 2050 will require a far-reaching transformation of critical infrastructure, buildings, transportation, industry and land use. We also know these changes will need to happen in the context of adaptation to the growing physical changes to the climate that are already in motion.

An engagement driven approach

We commit – as set out in our Climate Change Expectations of Investee Companies[2] – to work with clients to engage those companies where we have identified inadequate action relating to the climate transition to challenge them to accelerate their climate ambition. This includes setting credible science-based targets, developing robust decarbonisation strategies, contributing to climate solutions and building resilience to climate change. In doing this, we act to protect the financial interests of our clients and their investors and deliver long term value for their stakeholders.

Operational Emissions

We will aim to further **reduce** our operational energy intensity by

25% **by 2030** relative to a 2019 baseline.

> **We have also committed to reducing our emissions from business-related travel by 50%.**

[2] https://www.hermes-investment.com/uki/insight/outcomes/setting-our-climate-change-expectations-for-investee-companies/

The path to net zero

Turning commitment into action

As the climate crisis accelerates, the question remains: what can we do to remain on track?

Achieving net zero is the only way forward and, unfortunately, time is not on our side. That's why, as stewards of our clients' capital, the global financial community must act – and **we must act now.**

We believe we have a responsibility as an industry, and indeed as a business, to allocate capital in a way that mitigates exposure to climate risk and helps deliver the goals of the Paris Agreement.[3] So, how do we get there?

Taking the first step

Our climate goals

We need to start planning for this future now, even if we do not have all the answers today.

Federated Hermes Limited has committed to achieving net zero by **2050** but we will try our best to get there sooner.

As we strive to reduce our portfolio emissions, we have set the following **interim milestones**[4]**:**

In public markets, we are aiming to align...

- **25%** of AUM and financed emissions to 1.5°C by 2025
- **50%** by 2027
- **80%** by 2030

In Real Estate, we are working toward a...

- **25%** reduction in energy intensity by 2025
- **40%** by 2030
- **66%** by 2035

... And achieving **net zero** in terms of development and operations and debt by **2035.**

For Infrastructure, we are looking to achieve **100% Paris-alignment of assets by 2025**.

Engagement roadmap

Helping companies along the journey

Becoming fully net zero means focusing on our stewardship.

Across our assets, both in the public and private space, we pledge to engage with the most material emitters that are misaligned or exposed to significant transition risk, to help them reach the **1.5°C target.**

[3] Article 2.1c of the Paris Agreement, sets out the objective of "(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

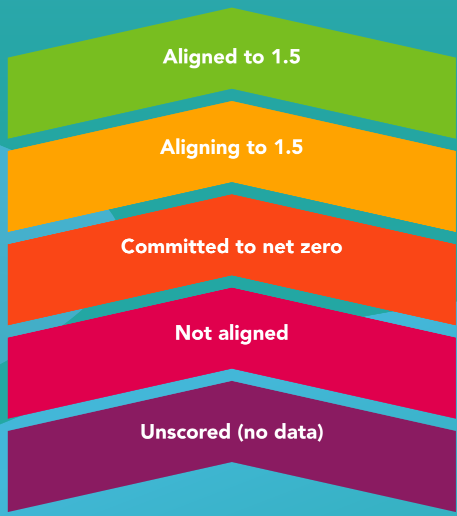
[4] While we hope to cover all asset classes over time, our interim target currently applies to all our assets under management except for private equity, direct lending, sovereign debt, FX, cash, indices and, ABS, CLOs and CDOs issued by companies.

Map the route

We believe we can achieve these goals in three ways:

1. **Reducing our financed emissions** by asking our investee companies to set credible targets and strategies validated by the latest climate science. We seek to increase engagement to **90% of financed emissions by 2025.**
2. **Taking a proactive and industry-specific approach** by prioritising the following sectors: forest, land and agriculture, banks, buildings, iron and steel, cement, chemicals, transport, oil and gas, and power generation.
3. **Increasing investment in solutions by raising the proportion of thematically managed assets with an explicit Paris-alignment goal.**

Companies will be placed into different categories, based on alignment:



The development of an in-house Paris-alignment methodology has allowed us to assess the extent to which a company's climate change ambitions are credible and in line with the Paris-alignment goals. We will report progress on an annual basis.

The road ahead

With the annual UN Climate Change Conference (COP27) just around the corner, we must continue to build momentum not only as a firm, but at an industry-wide level.

Leveraging our engagement and voting capabilities are the key to energising the ambition and action of our portfolio companies as we continue to support wider advocacy efforts.

We have reached a critical juncture in the net zero journey. The time for action is now.

Our operational emissions in focus: Our firm's direct environmental impact and associated climate risk exposure is primarily driven by the operation of our offices and business travel.

We aim to minimise our carbon footprint and use of environmental resources through our sourcing decisions and our carbon offsetting program, as well as through promoting behavioural changes amongst our employees, suppliers and other stakeholders.

We are already a net carbon neutral company in terms of our own Scope 1 and 2 operational emissions – as well as our corporate travel emissions by air and rail – and have been so since 2016 through high quality offsetting.

For every tonne of greenhouse gas emissions that the business generates from its day-to-day operations and its business travel, verified carbon offsets are generated by planting trees. Trees for Cities will plant more than 6,100 trees to offset the 2,287 tonnes of CO_2e the firm emitted in 2019 and will plant further trees in 2021-22 to offset the estimated 938 tonnes of CO_2e generated in 2020. Any decision to procure such offsets will follow the Oxford Principles for Net Zero-aligned Offsetting or other emergent best practice standards, and once opportunities for further emissions reduction have been exhausted.

Scopes 1 & 2 operational emissions reduction targets:

Our operational emissions targets are reviewed annually and are based on data captured in the Federated Hermes Environmental Management System (EMS) and Streamlined Energy and Carbon Reporting (SECR) methodologies. Our 2019 baseline was:

- Absolute energy consumption: Scope 1 – 1.13 tCO_2e; Scope 2 – 202.1 tCO_2e
- Energy Intensity – 0.39 tCO_2e/FTE[5]

Using an intensity metric as the basis of our operational emissions target allows us to track progress whilst allowing for changing office space and FTE numbers, which in turn will have a direct impact on office size, energy consumption and emissions. As a result, the growth path of our organisation will be monitored closely and we will work with our external environmental consultants combined with the internal knowledge base via our EMS to maximise efficiency gains and ensure that the targets remain fit for purpose.

We are targeting a further reduction in our energy intensity (based on our Scope 1 & 2 operational emissions per FTE) of 25% by 2030 relative to the 2019 baseline.

The 2019 baseline was based on the electricity and gas consumption and 509 FTEs for 150 Cheapside (London), Gutter Lane (the London offices of HGPE) and estimates for MEPC offices only. Going forward, our tracking of progress against our targets will include FTEs from our other offices and estimations for gas and electricity consumption in these additional offices.[6] We have used location based emissions factors – in line with SECR methodologies – to calculate the emissions associated with our energy consumption on site and corresponding energy intensity. This means that any use of renewable energy is not represented in these metrics, as they are based on the average emissions intensity of the grid, although our landlords source 100% renewable electricity for our head office (150 Cheapside). Reductions in our energy intensity will therefore result from energy efficiency measures and grid decarbonisation.

Business travel (scope 3) emissions reduction targets:

We have committed to reducing our emissions from business-related travel by 50% on a 2019 baseline (1,558 tCO2e),7 to 2030 whilst establishing internal mechanisms to monitor annual progress including an overall annual carbon cap, department-specific metric-tracking, mileage monitoring and updated guidance within our Travel Policy.

Paris Alignment and Net Zero Goals: how do they fit together?

In our view, net zero is an absolute state we are seeking to achieve as a business, where our own activities and the activities of our investments contribute on an absolute or net basis (for example through offsetting any residual emissions) to a zero emission economy in 2050 at the latest. Paris Alignment, on the other hand, is a transitional state and reflects the process of pivoting business strategy, operations and sales in such a way that greenhouse gas (GHG) emissions from the firm and its activities are reduced in line with a credible and timely pathway to net zero.

[5] Energy intensity for our offices is calculated by dividing energy consumption by the number of FTEs. This is calculated on a monthly basis and averaged over the year.

[6] FHL has used the main requirements of the GHG Protocol Corporate Standard (revised edition) as a basis to report operational emissions. Data was gathered at site level to compile the carbon footprint. The International Energy Agency (IEA) and DEFRA UK Government Conversion Factors for GHG Company Reporting have been used to convert activity data into tCO_2e emissions. For measuring progress against our targets, actual data will be prioritised, however in instances where this is not available, consumption data will be 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 company's leased floor area, or the 2021 CIBSE 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).

[7] Our travel policy, travel emission targets and travel emission metrics apply to colleagues in our London office (150 Cheapside) and our offices outside the UK. Hermes GPE are not included but will look to include them in the future.

Our financed emissions in focus: Becoming fully net zero means focusing on our investments too. These are part of our Scope 3 emissions.

Our approach is focused on driving decarbonisation in the real economy. We have therefore set targets for the proportion of our holdings that will be aligned with a 1.5°C trajectory; these will drive our engagement with portfolio companies to achieve decarbonisation at the company level and not just in our portfolios.

FHL will work with clients to achieve our commitment to reach 25% of in scope AUM and financed emissions to be 1.5°C aligned by 2025: 50% by 2027 and 80% by 2030 and achieving net zero by 2050 or sooner.[8] We aim to achieve this primarily through three interconnected routes:

Across all our assets – public and private – we will engage mis-aligned investee companies and those exposed to significant transition risk to align with 1.5°C.

- In 2022, we will focus engagement on the companies responsible for 80% of our financed emissions and will seek to increase this to 90% by 2025.[9] This includes asking investee companies to set 1.5°C-aligned science-based decarbonisation targets, and a credible strategy to achieve them.
- While we will strive to communicate our climate change expectations to all our investees where climate is a material issue, we will strategically concentrate and intensify engagement with the biggest emitters and most material holdings, where we believe we can achieve the greatest impact in the real economy.[10]
- FHL will take a dynamic approach to exclusions advisories at the corporate level. Fund managers are required to report to clients using Transparency and Accountability (T&A) Framework on companies with thermal coal, tar sands, shale oil and fracking activities.
- Economic risk from other controversial activities will be considered using the firm's and the investment strategy's specific ESG integration approach, which will be updated later this year. For the avoidance of doubt, portfolio managers will be expected to make portfolio and investment decisions in line with fiduciary duty and their specific investment mandate. We will also provide clients with information and analytics on net zero and climate risk and opportunity upon request.
- We will increase the proportion of our assets managed thematically with an explicit Paris alignment investment goal and will direct investment into climate solutions.

Our Baseline performance at the firm level:

Around 50% of our investments across our public markets portfolios have already established their path to net zero in some form.

All public markets FHL holdings

	% AUM	% Footprint
Aligned	**13.7%**	**8.3%**
Aligning	**18.9%**	**22.5%**
Committed to Net Zero	**21.0%**	**17.5%**
Not aligned	35.9%	41.1%
Unscored	10.5%	10.6%
Total	**100.0%**	**100.0%**

Sources: MSCI, Bloomberg, SBTi, Trucost. Please note: the baseline analysis shows the alignment of FHL public equity and credit holdings as at end of May 2022. We currently assess the alignment of our holdings by the GHG reduction targets the company has set.

We acknowledge that our ability to meet the commitments set forth above depends on the mandates agreed with clients and our clients' regulatory environments as well as our own. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, and in the context of our legal duties to clients. Standardised methodologies for aligning the management of assets with net zero goals do not yet exist in certain asset classes and sectors, and Government-level climate commitments are currently not 1.5°C-aligned in many emerging markets where we invest. Therefore, where our ability to align our approach to investment with the goal of net zero emissions by 2050 is currently constrained, we commit to work with clients and industry initiatives to seek to overcome any methodological and data limitations, as well as advocating for the policy ambition necessary to achieve net zero by 2050 globally.

[8] This scope of this interim target applies to all our assets under management apart from private equity, sovereign debt and direct lending. While we hope to cover all asset classes over time, the overall AUM figure may change if the amount invested in each asset class changes significantly.

[9] We follow the TCFD recommended methodology for calculating our carbon footprint. However, for this particular calculation, as it included credit names, we use enterprise value instead of market cap.

[10] We will prioritise the following sectors: forest, land and agriculture, buildings, iron and steel, cement, chemicals, banks, transport, oil and gas, and power generation. Sectors were identified using TPI, SBTI, Project Drawdown Framework and CA100+ as per NZIF guidelines.

Paris Alignment methodology

We have developed an in-house Paris Alignment methodology to assess the extent to which a company's climate change ambitions are aligned to the 1.5°C goal of the Paris Agreement. The methodology primarily assesses alignment of a company's GHG targets and associated emissions trajectory to a 1.5°C-aligned decarbonisation pathway, applicable to the relevant sector and geography where possible. The methodology uses authoritative benchmark pathways, such as those developed by the Science-based Targets Initiative (SBTi) and the Transition Pathway Initiative (TPI). Where sector-specific benchmarks are not available, we use the SBTi cross-sector pathway, which requires a 4.2% per annum linear reduction in absolute emissions in the near-term and at least 90% reduction by 2050 with residual emissions offset.

Companies will be placed into different categories of alignment:

Not aligned – includes companies that have not yet made a net zero commitment or have announced levels of ambition that are deemed inadequate to align with 2°C.

Committed to net zero – includes companies that have publicly announced a net zero ambition to reduce emissions by 2050 or sooner.

Aligning to 1.5°C – includes companies that have announced an ambition to reduce emissions sufficiently to align with 2°C or lower or have committed to align to 1.5°C. A commitment to set a SBTi-validated target is recommended (or an already validated 2°C or well-below 2°C target). These criteria are underpinned by the expectation that such companies will in future increase the ambition of targets to be 1.5°C-aligned.

Aligned to 1.5°C – includes companies that have demonstrated a coherent ambition to reduce emissions sufficiently to align with 1.5°C. An SBTi validated target is a preferred indicator of alignment. To remain in this category over time, companies must, since setting the targets, deliver emissions reductions substantially aligned to the relevant emissions reduction trajectory on a 3-year rolling average basis.

Unscored – includes companies that have demonstrated some ambition to reduce emissions but there is no robust methodology or data available to assess this ambition relative to a temperature outcome.

Over time we will also develop a credibility test to gauge how well companies are performing against their targets. This part of the test will identify companies failing to take sufficient action to meet their targets and provide further inputs to engagement and investment decision making.

We will continue to review and evolve the Paris-alignment methodology in line with best practice, including updated inputs and definitions. We will also continue to monitor the challenges and limitations that the industry faces, including data availability, quality, consistency, and current methodological limitations of portfolio alignment metrics.

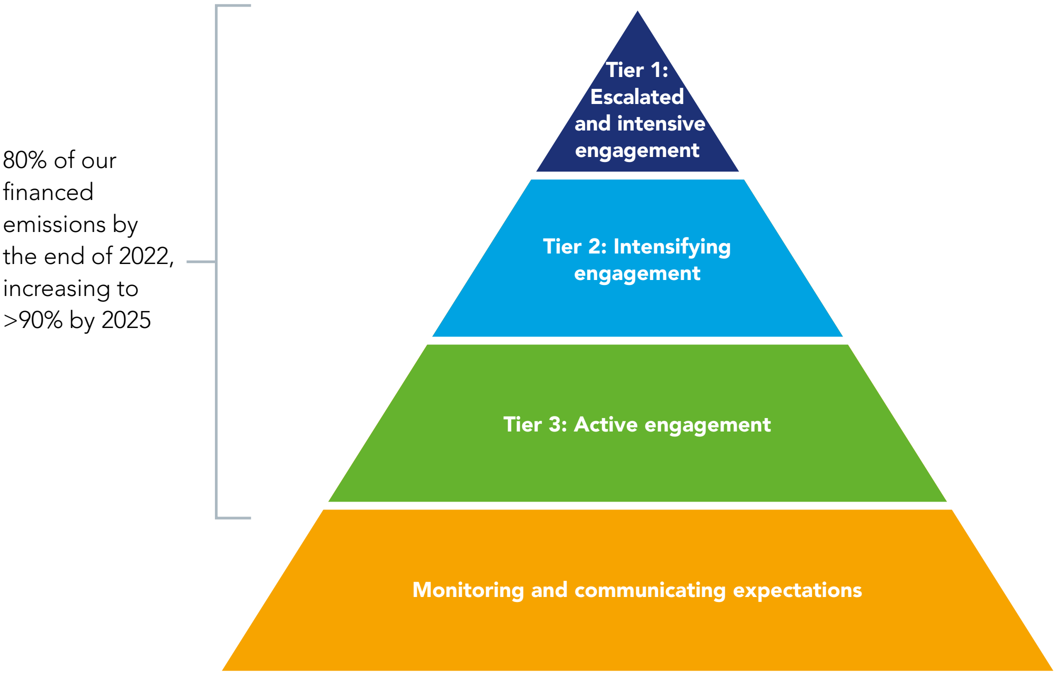
Overview of climate change expectations and engagement approach

Companies identified as not aligned with 1.5°C will be flagged as priorities for engagement and escalation. Engagement strategies will be tailored to the region, sector and company context but will include a combination of approaches, such as letters to the board, one-to-one meetings, collaborative engagement, and escalation strategies where appropriate. We will engage in line with the expectations outlined in the EOS Engagement Plan, the Federated Hermes Climate Change Expectations for Investee Companies, and best-practice frameworks, such as the Climate Action 100+ Benchmark and the IIGCC Net Zero Investment Framework, Stewardship Toolkit and sector-specific climate change expectations.

As an overview, we expect companies to actively demonstrate that their emission reduction targets and strategies are aligned to the 1.5°C goal of the Paris Agreement. Companies should commit to reaching net zero emissions by 2050 at the latest and set interim short and medium-term targets that are science-based, in line with what is required for a 1.5°C pathway. These targets should be backed up with a credible decarbonisation strategy, noting that targets should be met primarily through emissions abatement rather than offsetting. We expect risk management and disclosure to be in-line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Effective governance of climate-related risks and opportunities, including ensuring that direct and indirect lobbying activities are aligned to the goals of the Paris Agreement, is also critical. In the short-term, we also expect companies to deliver emissions reductions that correspond to their climate strategies and we will hold to account companies that fail to deliver on their targets, in the absence of mitigating circumstances, for example by voting against the reappointment of responsible directors.

Engagement will be prioritised based on the materiality of financed emissions and the degree of misalignment to the goals of the Paris Agreement. For instance, companies that are categorised as "Not Aligned" or "Unscored" will receive the highest intensity of engagement over the next few years, with engagement focused on asking companies to commit to

Structuring climate change engagement



net zero by 2050 at the latest and set supporting interim emission reduction targets. Meanwhile, companies that are already categorised as "Aligned" will receive less intensive engagement but will be monitored to ensure that they are not underdelivering. In general, we will allow approximately up to 2-3 years for companies to move from one level to the next level, depending on specific regional or sectoral challenges. If the pace of change is slower than expected, we will consider using a range of escalation tactics, such as voting against responsible directors.

FHL is currently engaging over 200 portfolio companies, and will engage 80% of our financed emissions by the end of 2022, which will grow to over 90% by 2025. Improved disclosure, targets and strategies have previously followed our engagement at, for example: BP, LyondellBasell, Duke Energy and POSCO.

In 2021, in partnership with our stewardship team, EOS, we engaged on 392 climate-related issues and objectives with 248 individual companies and supported all 12 climate-related shareholder resolutions at AGMs.

The role of advocacy

We also believe that policymakers have a key role to play in influencing the investment risks and opportunities created by climate change. We recognise there may be situations in which companies are hampered in how fast they can transition their businesses to be Paris Agreement-aligned, because of either competitive disadvantage created by moving faster than peers, or other market-based barriers. We engage constructively with regulators and policymakers globally to address instances in which features of the financial system may prevent it from operating in the best interests of its ultimate asset owners. We advocate for solutions to overcome these barriers and help facilitate an economy-wide transition

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to a net zero emissions, resilient and nature positive economy. We also engage in industry discussions to advance best practice in assessing and mitigating climate and nature risks.

We contribute to policy discussions both directly and in collaborative initiatives. We are a member of a number of industry bodies and initiatives around the world on climate and nature issues, including the Institutional Investors Group on Climate Change (IIGCC), Glasgow Financial Alliance for Net Zero (GFANZ), FCA-PRA UK Climate Financial Risk Forum, Financing a Just Transition Alliance and Finance for Biodiversity Foundation.

Increasingly, in partnership with such initiatives like GFANZ and the Investor Policy Dialogue on Deforestation, we are intensifying our country-level engagement in order to raise ambition and credibility of NDCs (Nationally Determined Contributions) and national policy on climate and nature issues, including deforestation, and therefore create an enabling environment for corporates. This in turn should also benefit our clients and their end beneficiaries through the mitigation of climate change and the financial risks it poses.

Climate solutions

Investment in the shift to a low-carbon world is about six times lower than it needs to be.[11] In parallel to our engagement efforts, we will continue to work on product innovation, on a client-led basis, as clients increase their focus on climate risk but also, importantly, opportunity. Following the launch of our Biodiversity Equity Fund, which utilises insights from the Natural History Museum, we will look to continue to increase investment inflows into climate and nature-based solutions between now and 2030.

Just transition

We urgently need ambitious net zero targets; clear, credible transition plans; and ambitious implementation of those plans from governments, corporates and financial institutions globally if we are to have a timely, orderly, and just transition. A focus on an orderly and just transition is critical not only for the welfare of citizens but also the transition itself because decarbonisation must occur in a manner that does not diminish public support for the net zero transition. Key considerations include urgently addressing adaptation issues for countries on the frontline of the climate emergency, addressing the global energy crisis in a way that is mindful of access and affordability, and ensuring that stakeholders exposed to the impacts of a transitioning economy experience fair outcomes. We are currently partnering with the Financing the Just Transition Alliance to develop just transition metrics and to expand our place-based investing work.

The path ahead

We recognise there is much more work needed to limit temperature warming to less than 1.5°C above pre-industrial levels. We will continue to leverage our engagement and proxy voting capabilities to elevate the ambition and action of our portfolio companies, and we will continue to support a focused range of advocacy initiatives in an effort to encourage a transformation of the whole industry. FHL has sought to develop an initial approach to maximise the number of companies that can be rigorously assessed and to cover a large proportion of our AUM (82.7%). At the same time, we are conscious that the methods and data are still evolving, and as such we will continue to look to incorporate the most robust and forward looking approaches over time and update our strategy and report progress on an annual basis.

[11] IPCC's Sixth Assessment Report, 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:

Targets cannot be guaranteed.

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