

Federated Hermes Biodiversity Equity

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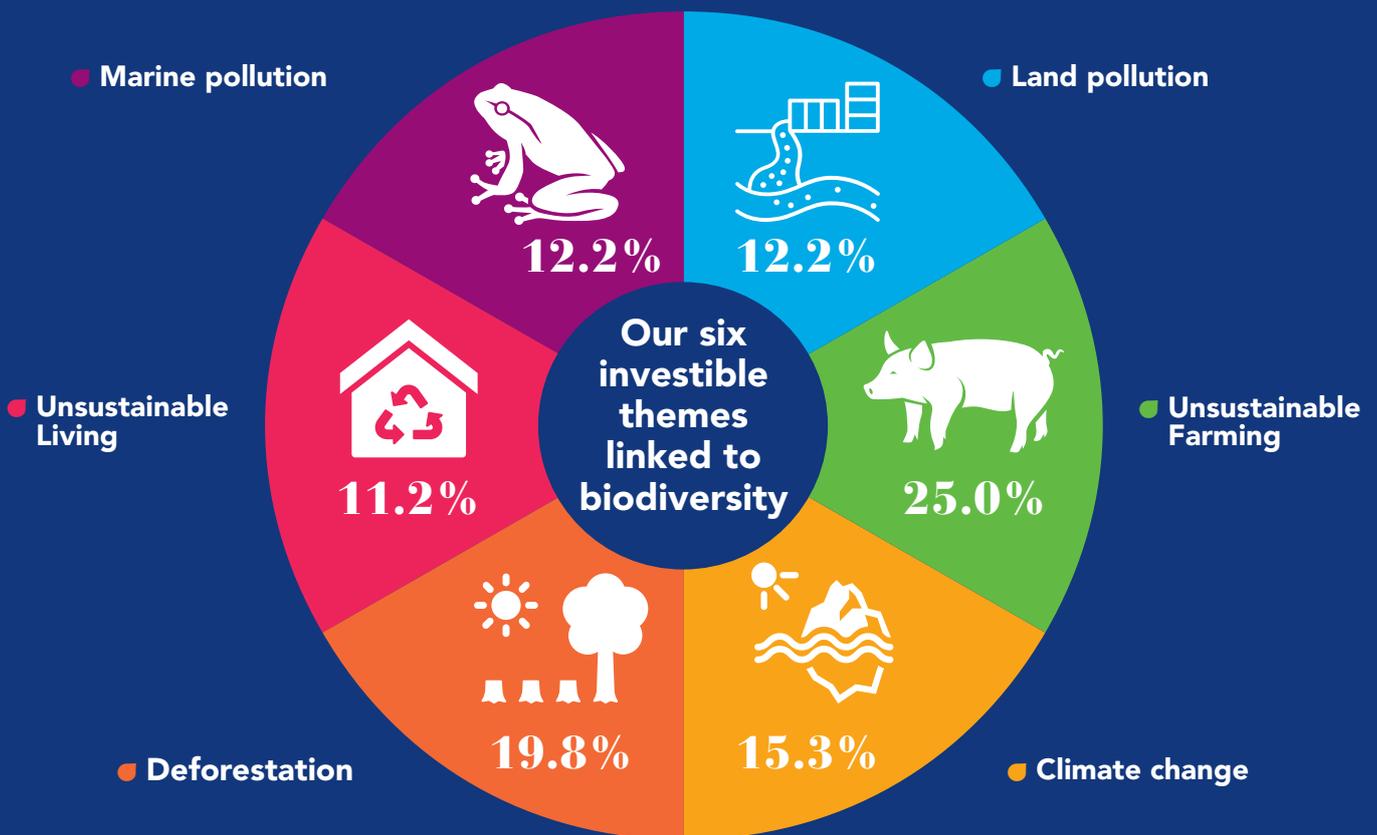
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The Federated Hermes Biodiversity Equity Strategy aims to achieve long-term capital appreciation by investing in a concentrated portfolio of best-in-class companies that provide solutions to avert loss of and support restoration of biodiversity.

Thematic framework

We have extensively researched the major regional and global threats to biodiversity and have defined six investable themes: land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation. Each of these themes has multiple sub-verticals that are aligned to specific UN Sustainable Development Goals (SDGs).



Federated Hermes is a pioneer in this field, with a strong record advocating and engaging around biodiversity. We are members of industry organisations including the **Finance for Biodiversity Pledge**, the **PRI Sustainable Commodities Practitioners' Group**, the **SPOTT Supporter Network**, the **Partnership for Biodiversity Accounting Financials**, and the **PRI plastics working group**.



THEMATIC FOCUS:
Farming

Our fast-growing global population poses a significant challenge for farmers: how can we produce more food in a way that is sustainable for the long term? Intensive farming methods may produce high yields today, but if we destroy the planet in the race for food, we risk getting hungry tomorrow.

As we face the climate emergency, agriculture is currently a big part of the problem – but it could be part of the solution. With millions around the world currently not getting enough to eat, we need to sow the seeds for a fairer world.

8 billion estimated global population in 2022¹ 

690 million number of people (and rising) who are currently undernourished²

9.7 billion projected global population by 2025³ 

Biodiversity: all the different kinds of life you will find in one area — the variety of animals, plants, fungi, and even microorganisms that make up our natural world⁴.

Our world is at risk

Industrialised farming practices, while designed to boost yields, are having a devastating effect on the environment.

 **Industrialised farming** favours monocropping – growing a single, profitable crop year after year on the same land. This degrades the topsoil by sapping it of nutrients and microorganisms that promote healthy growth as well as carbon sequestration. As a result, more chemicals and pesticides are required and the run-off, in turn, pollutes rivers and seas.

 **Pollinators** (such as bees) are in decline due to pesticide use, climate change and habitat loss. This brings risks for food security and impacts companies that source natural products.

 Our increasing yet unnecessary consumption of **animal protein** sees almost 50%⁵ of all habitable land used for grazing or growing animal feed. Each year we kill in excess of 80 billion⁶ animals, excluding fish, for food. This drives deforestation and the destruction of other wild habitats that form part of the ecosystem. In addition, it increases greenhouse-gas emissions responsible for climate change.

¹ United Nations, 2022
² United Nations, 2020
³ United Nations, 2019
⁴ WWF, 2022
⁵ Our World in Data, as at 2019.
⁶ Our World in Data, as at 2019.
⁷ Our World in Data, Half of the world's habitable land is used for agriculture, 2019
⁸ WWF, 2022

 The **decline in biodiversity** affects the whole ecosystem, which can have indirect consequences for other sectors.

All these factors make it harder, and more costly, for farmers to achieve a reliable yield. When crops fail, we see devastating regional famines as well as a global knock-on effect of shortages and price shocks.

50% of the world's habitable land is used for agriculture⁷ 

77% of this land is used for animal grazing or growing animal feed⁷ 

Can we farm without harm?

We've outlined how industrialised farming damages the ecosystem through chemical use, pollution and loss of biodiversity. It is clear we need to transition to a more sustainable approach in order to protect our ecosystem and reduce the impacts of climate change.

Ecosystem: a community of animals and plants interacting with each other and with their physical environment, such as soils, water, nutrients and all types of living organisms⁸.

Regenerative agriculture in the spotlight

Regenerative agriculture is defined as a system of farming principles and practices that increases biodiversity, enriches soils, improves watersheds and enhances ecosystem services. It seeks to restore the soil's natural ability to absorb and retain carbon, minimises chemical inputs and integrates crops with animals and forestry.

By reducing the damage caused and improving soil health, regenerative agriculture could be the key to a secure and sustainable food supply.

As well as improving the soil, we need to consider ways to reduce the land used for agriculture. Lowering meat and dairy consumption would be a step forward and would also improve animal welfare.



Figure 1: The importance of reduced land usage



Source: Federated Hermes Limited, Biodiversity presentation, 2022.

Regenerative farming makes sense for the environment and benefits farmers through lower costs and improved profitability. However, it demands a big change at a time when farmers are under financial pressure.

The goal of a net-positive impact is ambitious. It requires strong governance, effective strategy and measurement, and regular disclosure.

That’s why we can’t expect them to do it alone: companies with agricultural supply chains also play a role. They need to actively encourage and support farmers to transition to regenerative practices – for example, setting targets on sourcing ingredients and helping farmers to implement these.

Let’s not forget the role of technology, with precision agriculture, vertical farming and lab-grown proteins all offering less harmful, more cost-effective methods of food production for the future.

How we make a difference

We believe that investors and companies’ current approach to nature is unsustainable. Many simply don’t realise that biodiversity and the ecosystem are key risks and value drivers.

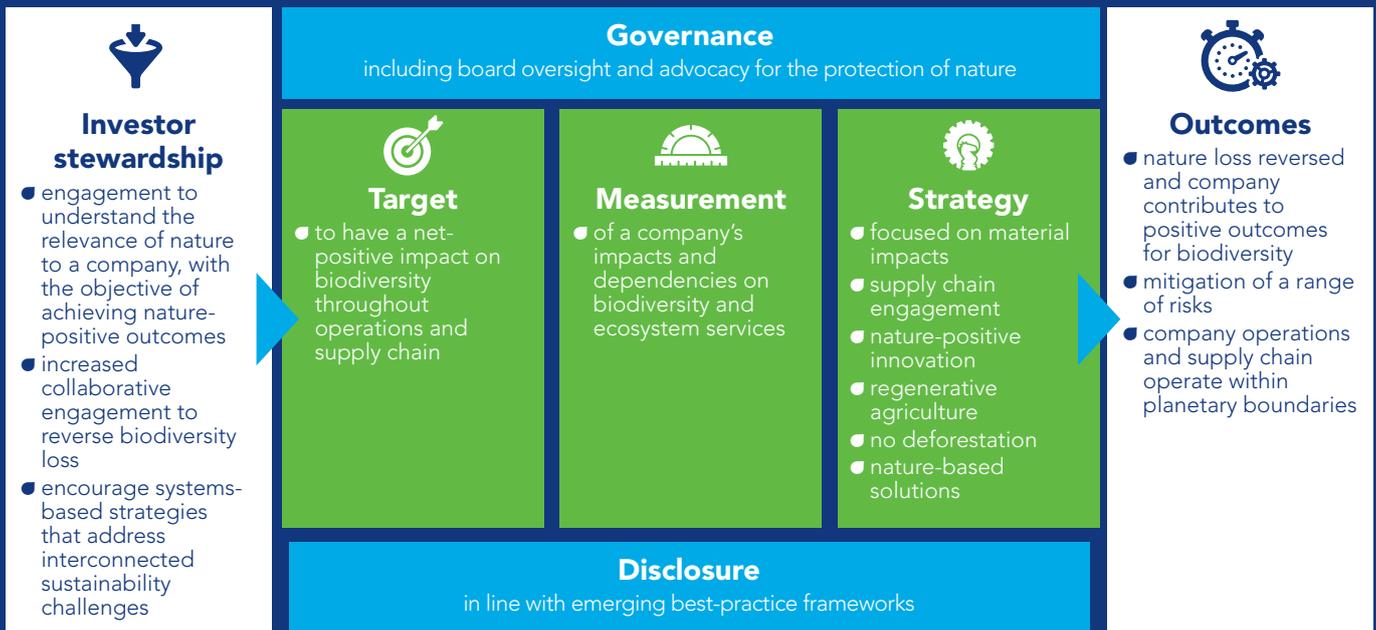
Investor engagement is key to encouraging companies to put the environment first. It’s why we recommend that companies commit to having a net-positive impact on biodiversity throughout their operations and supply chains. This could include supporting farmers with regenerative agriculture or investing in nature-based solutions to the climate crisis. By engaging with companies further up the value chain, our engagements have a much larger impact. Companies should also look to minimise their own environmental impact, for example, by reducing land use and pollution.

The goal of a net-positive impact is ambitious. It requires strong governance, effective strategy and measurement, and regular disclosure.



⁹ Hosonuma et al. 2012.
¹⁰ ELD / UN Report 2014.
¹¹ CubicFarms presentation February 2021.

Figure 2: Summary of engagement priorities and expectations



Source: Federated Hermes Limited, EOS, 'Our Commitment to Nature' report, as at February 2021.

Precision Agriculture: Using less to grow more

Within the farming industry, precision agriculture is the concept of adopting new technologies in order to increase crop yields and profitability while lowering the amount of traditional inputs used to grow crops, such as land, fertiliser, herbicides, and water.

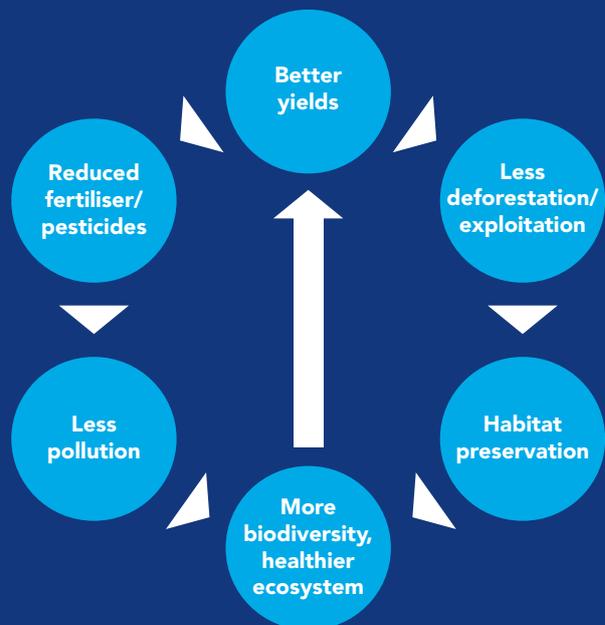
Higher crop yields don't just feed more people and bring more profit for farmers – they also benefit the planet. When your existing land produces more, there is less need for deforestation and exploitation of virgin land.

More efficient farming methods can bring higher crop yields from a smaller area, preserving the natural habitat of animals and plants.

As we struggle to feed the world's ever-growing population, more and more land is being used for growing crops – both for human consumption and to rear animals for meat. More efficient farming methods can bring higher crop yields from a smaller area, preserving the natural habitat of animals and plants.

Under its Sustainable Development Goal 2 of zero hunger, the United Nations (UN) has committed to doubling the agricultural productivity and incomes of small-scale food producers and ensuring sustainable food production systems by 2030¹².

In this report, we focus on two agricultural portfolio holdings which are behind innovative farming solutions that are helping to protect species and their habitats throughout the ecosystem, promoting the biodiversity our world needs to thrive.



¹² The United Nations, SDG 2.

 CASE STUDY



Trimble

Trimble is a leading provider of technology solutions that enable professionals and field mobile workers to improve their work processes. It operates in a range of industries, including architecture, engineering and construction, agriculture and natural resources, geospatial services, and transport.

Impact theme: Zero hunger 

Trimble's products – sold in over 150 countries – use technology to connect the physical and digital worlds through positioning, modelling, connectivity and analytics. This enables customers to improve productivity, quality, safety and sustainability.

Trimble's work on precision agriculture supports the goal of UNSDG 2 (zero-hunger) by aiming to increase the yield in arable farming.

For example, it sells equipment that increases precision within large industrial machines such as tractors and bulldozers. It also provides systems to track and manage fleets of vehicles and collect geo-referenced data, as well as software used in construction, farming and building.

Trimble's work on precision agriculture supports the goal of UNSDG 2 (zero-hunger) by aiming to increase the yield in arable farming. This would prevent the relentless expansion of industrialised farming, which we see as a significant biodiversity risk.

Precision production

Trimble's agricultural business includes precision solutions like GPS and information management systems, which enable farms to collect and analyse large volumes of data to drive performance, quality and profitability.

Growers use Trimble technology throughout the crop cycle: land preparation, planting, nutrients, pest management and harvesting. Trimble claims this precision-planning approach can increase yield by up to 30%, and reduce the use of fertilisers by 32% and herbicides by 77%. The technology can also reduce nutrient loss by 50% at the minimum, while ensuring no deterioration in soil fertility¹³.

180 million

farming acres use Trimble technology¹⁴

125 million

acres are covered using Trimble Ag Software

With

115,000

implements equipped

Across

c.100

different Original Equipment Manufacturers (OEMs)

Precision protection

c.50%

of the world's animal and plant species live in tropical forests¹⁵

>50%

of man-made pressure on biodiversity comes from the food chain (particularly farming and fishing)¹⁶



¹³ Trimble, 2022

¹⁴ Trimble, 2022

¹⁵ BCG, 2021

¹⁶ United Nations Food and Agriculture Organization, 2020



CASE STUDY

John Deere

John Deere is a leading manufacturer and distributor of agricultural, construction, forestry, and commercial and consumer equipment, with three distinct business units:

- Production and precision agriculture
- Small agriculture and turf
- Construction and forestry

Impact theme: Zero hunger



Business units	Production systems			
Production and precision ag	 Corn and soy	 Small grains	 Sugar cane	 Cotton
Small ag and turf	 Dairy and livestock	 High-value crops	 Turf and compact utility	
Construction and forestry	 Earthmoving	 Roadbuilding	 Forestry	

Source: John Deere, Investor Presentation, Fiscal 2021.

The company also operates a financial services division that provides credit services to finance sales and leases of equipment by John Deere dealers.

The John Deere brand is recognised all over the world, thanks to its global sales.

Biodiversity matters

In line with the UN's Sustainable Development Goal 2, which is focused on achieving global food sustainability to eliminate hunger, John Deere provides a solution to the expansion of arable crops.

Through its production and precision agriculture division, John Deere provides equipment and solutions to production-scale growers of corn and soy, small grains, sugar cane and cotton.

The company also operates a financial services division that provides credit services to finance sales and leases of equipment by John Deere dealers.

These are crops with enormous potential to improve yields; Bernstein estimates, for example, that current yield on soybeans is just 27%¹⁷. This could increase fourfold with precision agriculture.

¹⁷ Bernstein Note, as at 2021.

CASE STUDY
John Deere

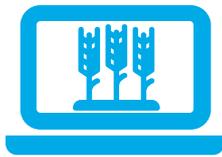
John Deere has some of the highest exposure to precision agriculture within the machinery sector: its systems are used on more than 300 million acres of farmland, and demand is expected to grow sharply over the next decade as precision tools become more widely adopted.

315 million

acres use the company's online farm-management system¹⁸

440,000

connected machines¹⁸



Grow more, grow smarter

At every stage of the growing process, John Deere's precision-agriculture solutions help farmers improve efficiency and produce more at a lower cost:



Planting: the ExactEmerge tool has sensors to enhance planting accuracy, doubling the speed of planting with c.15% fewer seeds used¹⁸.



Fertilisation: the ExactApply tool uses variable rate technology to apply exactly the right level of fertiliser depending on the soil condition and saves c.10-15% on inputs¹⁸.



Harvest: the Combine Advisor increases yield by 2 to 5 bushels per acre¹⁸.

John Deere highlights three key benefits for farmers using its precision-agriculture kit:



More efficiencies: connection and automation of tasks to help farmers work smarter



Lower costs: less waste and lower input



Higher yields: better performance at every stage

By helping farmers achieve better yields on existing land, John Deere protects forests and virgin land from exploitation and reduces use of pesticides and fertilisers. These measures preserve the natural habitat of animals, plants and microorganisms, protect the soil and reduce pollution, thereby mitigating biodiversity risks.

Sustainable goals

As a responsible business, John Deere has also set itself stretching environmental targets for 2030, including reducing CO₂ emissions, making products more environmentally friendly and reducing freshwater consumption at water-stressed locations.

Financial and sustainable outcomes

Equipment Operations OROS at 20% by 2030



Enhance Ag Customer Outcomes by 2030

- Improve nitrogen use efficiency 20%[†]
- Increase crop protection efficiency 20%[†]
- Reduce 15% of customer CO₂e emissions[†]



Product Circularity by 2030

- Achieve 95% recyclable product content
- Ensure 65% of product content is sustainable material
- Grow 50% in remanufacturing revenue



Safety by 2026

- Improve Total Recordable Incident Rate 20%



Reduce Environmental Footprint by 2030

- 50% of operational CO₂e emissions (Scope 1 & 2)
- 30% of upstream and downstream CO₂e emissions (Scope 3)
- 15% of waste intensity
- 10% freshwater consumption intensity at water-stressed manufacturing locations

Source: John Deere, Sustainability Report, 2021.

¹⁸ John Deere, 2022

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