



Federated Hermes Impact Opportunities Fund

Quarterly Impact Report
Q4 2022

**Federated
Hermes**
Limited

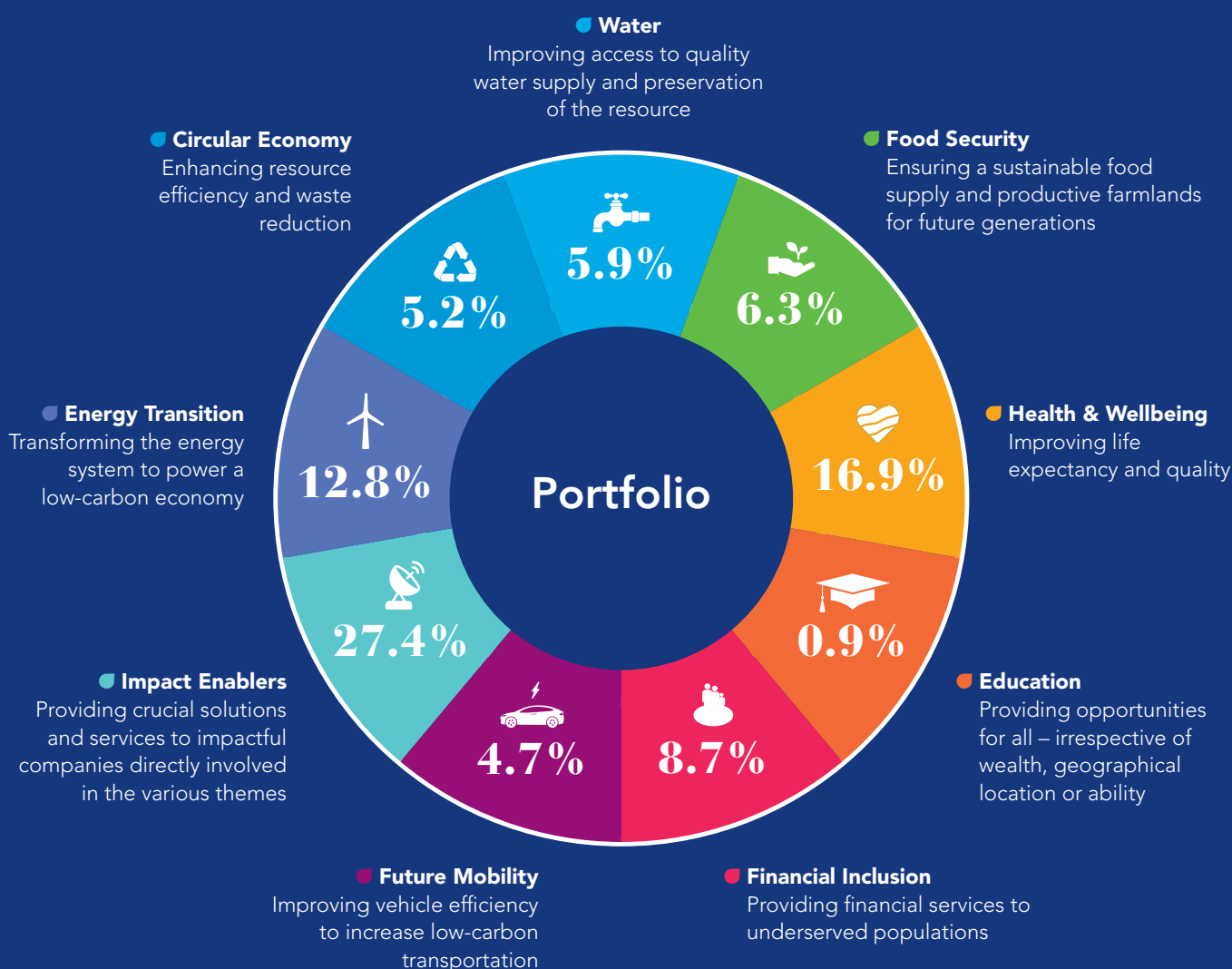


www.hermes-investment.com
For professional investors only

The Federated Hermes Impact Opportunities Fund is a high-conviction global equity strategy with a bold objective. It aims to generate long-term outperformance by investing in companies succeeding in their core purpose: to generate value by creating positive and sustainable change that addresses the underserved needs of society and the environment. In this way, it focuses on tomorrow's leading companies – today.

Exposure by impact theme

We take a thematic approach: our holdings fit into one or more of nine impact themes that are aligned with the Sustainable Development Goals (SDGs) of the United Nations (UN).



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

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THEMATIC FOCUS:

Clean water and sanitation for all

Water is life. Access to clean water is vital for health, sanitation and hygiene. Without it, crops fail and preventable diseases take hold. In developed countries, getting water is as simple as turning on the tap. Yet what should be a basic human right is out of reach for millions.

That's why SDG6 is to 'ensure clean water and sanitation for all'.

The global population is growing rapidly. In November 2022, it was predicted to have hit eight billion¹. That undoubtedly puts pressure on water supplies. As well as domestic needs, demand for water continues to increase across agriculture, industry and the energy sector.

The UN estimates that currently,

73m people live in countries with high and critical levels of water stress.

The UN estimates that currently, 73 million people live in countries with high and critical levels of water stress. And by 2030, billions will lack access to safe drinking water, toilets and handwashing facilities – unless the pace of progress increases fourfold.

Meeting **drinking water, sanitation and hygiene** targets by 2030 requires a **4x** increase in the pace of progress

At current rates, in 2030



1.6bn

people will lack safely managed drinking water



2.8bn

people will lack safely managed sanitation



1.9bn

people will lack basic hand hygiene facilities

What's the problem?

Water is a natural resource, so why is it so hard to come by?

As well as the demands of a growing, increasingly urban and industrialised population, there are several big-picture issues that have exacerbated the situation, including:

- Decades of misuse and poor supply management
- Overextraction of groundwater and contamination of freshwater
- Degraded water-related ecosystems
- Underinvestment in water and sanitation
- Lack of cooperation on transboundary waters

We can also point to climate change as a key contributor, as rising global temperatures increase the incidence of extreme weather and drought.

As an investor that aims to generate positive and sustainable change, we see poor water practices as a material risk. We believe investing in businesses that manage water responsibly is not only the right thing to do but will deliver more sustainable long-term value.

Targets for life

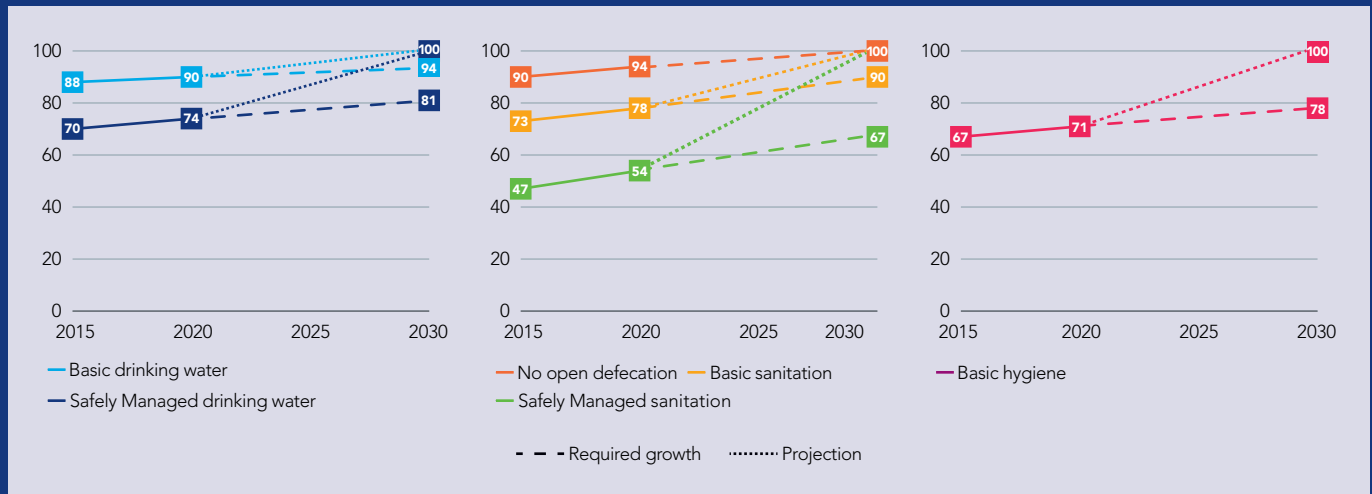
In its *Sustainable Development Goals Report 2022*², the UN set out the targets the world must work towards on drinking water, sanitation and basic hygiene. Achieving these by 2030 will require significant investment and accelerated action but would save 829,000 lives a year by reducing diseases linked to dirty water and poor hygiene.



¹ United Nations, as at 15 November 2022.

² The Sustainable Development Goals Report 2022

Figure 1: Global coverage of drinking water, sanitation and hygiene services, 2015-2020 (percentage), and acceleration required to achieve universal coverage by 2030



Source: The Sustainable Development Goals Report, 2022.

The water gap

The water gap is the difference between the supply and demand of water resources. It's widening every day due to a number of factors.

Figure 2: Why is the water gap widening?

Water infrastructure

- Lack of investment
- Inadequate policies
- Poor maintenance in agriculture

Water pollution

- Agricultural run-off
- Industrial pollution

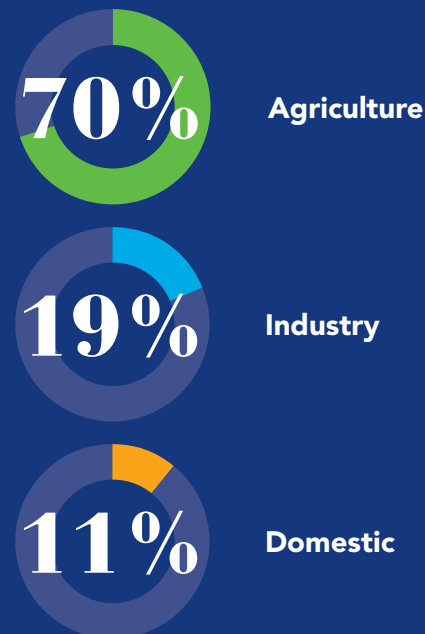


These influences are interconnected – for example, poor policy and regulation typically lead to poor infrastructure, which in turn creates more pollution. The Covid-19 pandemic also impaired access to clean water, just when it was needed most.

A holistic approach – with significant investment – is required to make supply more efficient. In agriculture, better education and policies could help address the inefficient 'build-neglect-rehabilitate-neglect' cycle in irrigation and drainage systems.

Where does the water go?

There are three broad areas of water usage³, which are explored below:



³ UNESCO, 'Groundwater: Making the invisible visible', 2022.





Agriculture

Feeding our ever-growing population is an ongoing challenge that has an impact on water supplies. Popular crops such as rice, soybeans and cotton are among the 'thirstiest', while raising animals for meat is one of our most water-intensive activities.

Irrigated land is much more productive than rain-fed land. The World Bank estimates that 40% of all global food production comes from irrigated land, while agriculture accounts for 70%⁴ of all freshwater withdrawals.

Agricultural water use must become more efficient and sustainable. To increase food production and save water, we need to improve water delivery, irrigation and drainage systems. Advanced technologies (such as soil moisture sensors and satellite evapotranspiration measurements) can also improve productivity.

Water saved from agriculture can be allocated to other areas, including homes, industry and energy, as well as to preserve the environment.

85% of the world's natural wetlands have been lost in the past 300 years



Industry

Industrial production currently makes up around 19% of water usage⁵, and there are opportunities to reduce that through behavioural, operational and technological change.

More efficient technology (pipes, smart dosage systems, timers, cleaning systems and water monitoring systems) and better detection and repair of leaks could make significant improvements.

Better regulation would also help, with tariffs to promote more efficient use of water.

On an individual level, increasing awareness among workers can make a difference by encouraging them to change their behaviours to reduce consumption.

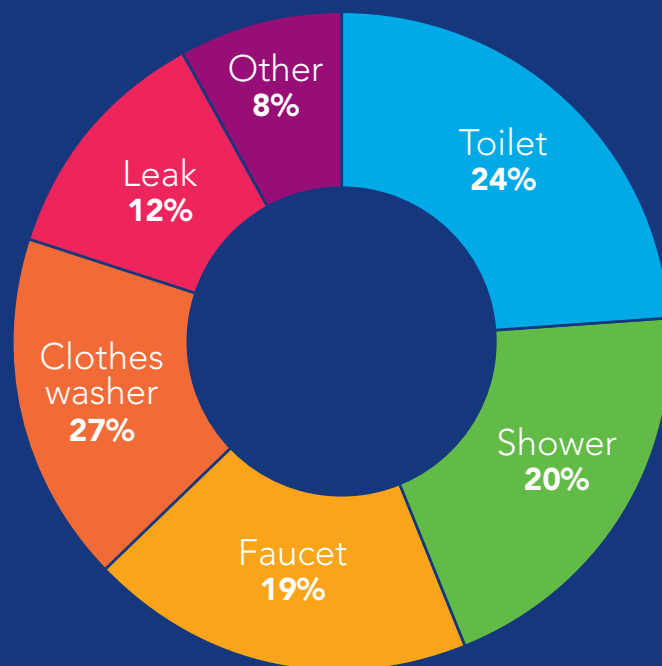
As well as reducing consumption, we also need to look at ways to reuse and recycle water from industrial sources. This creates a new water source without extraction or transportation, helping to conserve freshwater sources and reduce energy and cost.



Domestic

There may be eight billion of us⁶, but, at just 11%, the water consumption of individuals is low compared with agriculture and industry.

Figure 3: How much water do we use?



Source: Water Research Foundation, Residential End Uses of Water, 2016.

Nevertheless, we can take small, practical steps to cut our usage and make savings.

For example, we can choose more water-efficient taps, showers, toilets and appliances to save water and money. A water-efficiency labelling and standards scheme, like that in Australia, can help consumers make more informed decisions.

80% of wastewater in the world flows back into the ecosystem untreated⁷

Water meters can also be helpful in making people more aware of consumption and cutting waste from leaks or overuse.

Recycling also comes into play: 'grey' water (discharged from bathroom appliances, for example) can be processed and treated before being reused, mainly for flushing toilets.

Time to close the gap

Closing the water gap is one of the major challenges for society and the planet. But allowing this gap to grow is not an option: achieving SDG6 is vital for saving lives.

We urgently need to accelerate progress, taking a joined-up approach that brings together policymakers, public and private investment, infrastructure improvements and maintenance, technological advances, incentives, and behavioural change.

⁴ The World Bank, as at October 2022.

⁵ United Nations, SDG 6, as at 2022.

⁶ <https://www.un.org/en/dayof8billion/> The United Nations, 2022.

⁷ The World Bank, as at March 2020.



Clean water and sanitation

The United Nations (UN) considers access to clean water and sanitation an essential human right. However, over two billion people around the world face obstacles in enjoying this right. The statistics shown here are taken from the UN Sustainable Development Goal 6 Synthesis Report 2018 on Water and Sanitation.⁸

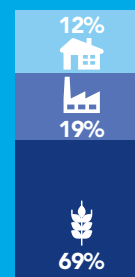
Water

About **844 million** people lack basic water services, while **2.1 billion** people lack clean, safe water available on their living premises.



About **159 million** people around the world collect their drinking water directly from surface water sources such as **rivers, dams, or lakes**.

Agriculture accounts for about **69 percent** of all freshwater use around the world. The **industry** employs about 30 percent of the global workforce, and more than 60 percent of the workforce in sub-Saharan Africa. Other industries account for almost **19 percent** of freshwater use, while **household** use accounts for **12 percent** of the global total



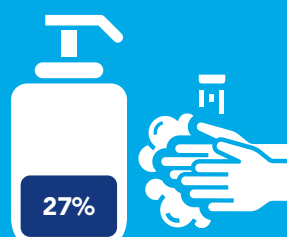
Demand for water for industrial use in **Europe** has decreased in recent years; remained at steady but high levels in **North America**; and increased throughout **Africa, Asia, Australia and Oceania, and South America**.



Sanitation and hygiene

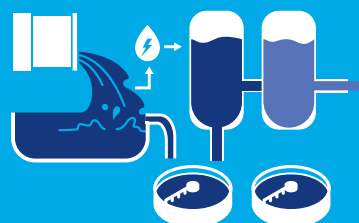
In 2015, about **2.3 billion** people lacked basic sanitation services, while **4.5 billion** lacked a managed sanitation service involving safe treatment or disposal of sewage.

Nearly **900 million** still practiced open defecation.



In the world's least developed countries, only about **27 percent** of the population has access to soap and water for hand washing on premises.

The UN estimates that the amount of energy contained within wastewater in the form of biofuel is about 5 to 10 times greater than the energy required to treat the wastewater, which provides incentive to invest in innovative wastewater treatment



According to the UN every **\$1 US** invested in **WASH** (**W**ater, **S**anitation, and **H**ygien) yields **\$5 US** in social and economic benefits.

Source: Water Research Foundation, Residential End Uses of Water, 2016.

Source: National Geographic, Clean Water and Sanitation: A Global Report Card, 2022.

⁸ <https://www.unwater.org/publications/sdg-6-synthesis-report-2018-water-and-sanitation>.



Ecolab is a global leader in water, hygiene and infection prevention solutions and services that help protect people, the planet and business health.

Impact theme:

Water

Health & Wellbeing



It delivers comprehensive science-based solutions, data-driven insights and world-class service to advance food safety, help maintain clean and safe environments, optimise water and energy use, and improve operational efficiencies and sustainability for customers throughout the world.

Ecolab exists to find solutions to the world's biggest challenges. It's particularly focused on water stewardship and reducing the use of other natural resources, which supports the UN's Sustainable Development Goal around clean water and sanitation.

Working at over one million locations, Ecolab helps companies to do things differently, identifying ways of reducing their energy use and greenhouse gas emissions. It has found that more efficient production processes can result in big savings for companies and the planet:



Up to **44%** less water usage



Up to **22%** less energy usage



Up to **12%** fewer greenhouse gas emissions

And with 28% of revenues linked to products to improve efficiency throughout the water processing chain, we believe there's a potential opportunity for investors here.

Supporting good health and wellbeing

In line with the UN's health and wellbeing goal, Ecolab's healthcare division is working to reduce the risk of healthcare-associated infections. These, it says, kill more people each year than breast cancer and prostate cancer combined.

35% of revenues are linked to cleaner food, saving lives by preventing the spread of contaminants.

Clear targets with measurable impacts

Ecolab has developed a proprietary methodology to measure the economic, operational and environmental impact of its solutions. Its Water Risk Monetizer, launched with Trucost in 2014, is a financial modelling tool that helps businesses understand their water-related risks.

It also sets clear, quantitative targets to reduce its own environmental footprint and that of its customers.

By providing high-quality, environmentally friendly cleaning products and superior customer service, it helps customers to reduce water and energy consumption and cut waste.

In 2021, Ecolab reports conserving

215 billion gallons of water — enough drinking water for

734 million people — and avoiding

3.6 million metric tons of greenhouse gas emissions.

(Source: Ecolab)

These results were achieved without adding to net cost. These businesses used proven, tangible solutions to operate more efficiently, reduce water and energy use, and accelerate growth.

Impact goals for 2030

Ecolab has set itself the following targets for 2030:



40%

reduction in water impact per unit production across its enterprise, from its 2018 base year



>50%

of its absolute water withdrawal volume to be restored at high-risk sites



AWS (Alliance for Water Stewardship) certification to be achieved in high-risk watersheds

Addressing our environmental challenges is not easy, but companies like Ecolab show how, with a clear focus and new ways of working, we can move towards a more sustainable world.



CASE STUDY

AECOM

AECOM is the largest global environment engineering firm as ranked by Engineering News Record (ENR), and a leader in several key water and water-related markets. It leads the way in green buildings and design, and it is advancing next-generation transportation and renewable-energy infrastructure.

Impact theme: Water



AECOM provides planning, consulting, architectural and engineering design, construction and programme management services, and investment and development services to commercial and government clients worldwide. It operates in markets including transportation, facilities, environment, energy, water and government.

Clients are increasingly turning to AECOM to shape solutions to achieve their environmental, social and governance objectives. As well as architectural solutions, AECOM provides professional services in the water, wastewater, environmental management and water resources end markets.

AECOM's expertise has positioned it as an industry leader; in 2022, it was ranked second in ENR's list of top-200 environmental firms and featured in their top 10 for professional services.⁹

Pollution caused by human activity is a key risk to biodiversity, which AECOM seeks to materially avoid. By consulting on and managing projects to clean up or mitigate land and sea pollution, AECOM helps to protect plants, animals and habitats. This includes cleaning up and other remediation to repurpose land following industrial accidents, chemical leakages and contamination.

AECOM's services are closely aligned with US and global priorities on infrastructure, water and the environment, including clean water, coastal restoration, building efficiency and zero-emission public transit.

Water innovation in action

AECOM helped develop a plant in Singapore that can switch between desalinating seawater and treating reservoir water. By treating up to 137,000 cubic metres of water a day, the plant helps Singapore become more self-sufficient.

More frequent dry seasons with low rainfall are increasing reliance on seawater desalination, an energy-intensive treatment process.

More frequent dry seasons with low rainfall are increasing reliance on seawater desalination, an energy-intensive treatment process. Even during seasons of heavy rainfall, the amount of rainwater and stormwater that can be collected and treated to provide drinking water is limited by the availability of containments in Singapore.

During wet periods, therefore, the plant switches to treating reservoir water. This is not only a more efficient use of water, but uses less energy than desalination, reducing the environmental impact and resulting in operational cost savings.

Goals and targets



50%

target reduction of carbon impact on projects



84m

tonnes CO₂ that AECOM estimates could be cut from the environment annually



Net zero

achieved in its own operations in 2021, with a commitment to maintain it



90%

target reduction in total emissions by 2040

The above does not represent all of the securities held in the portfolio and it should not be assumed that the above securities were or will be profitable. This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments

⁹ENR News record, 2022

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