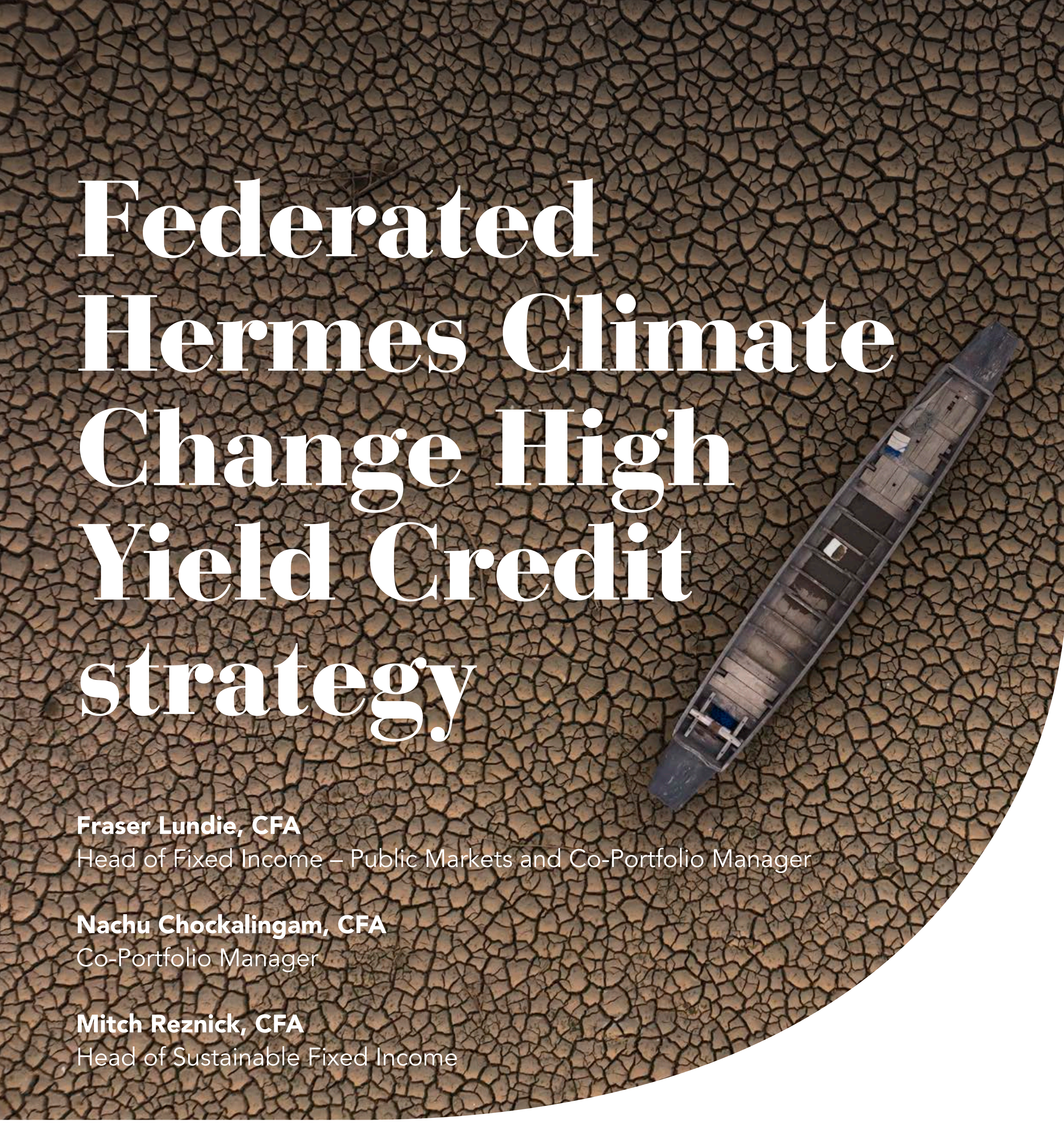

Federated Hermes Climate Change High Yield Credit strategy

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Annual report
December 2022

Federated Hermes Limited

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**CFA UK Level 4 Certificate in Climate and Investing

Contents

SECTION 1

The strategy at a glance

Seeking to deliver a positive climate impact

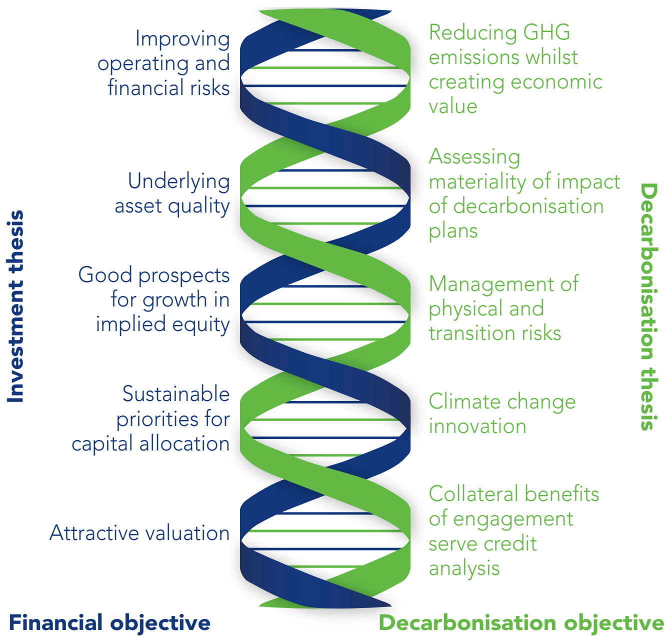
The world faces significant challenges as a result of structural transitions in climate, technology, demographics, and geopolitics, all of which could dramatically change the way we live. To manage these transitions, there is an imperative to deliver more resilient and sustainable outcomes. Investors, we believe, have an important role to play.

Launched in September 2021, the Federated Hermes Climate Change High Yield strategy aims to outperform the global high yield market by investing with conviction in companies that have strong fundamentals and which demonstrate the potential to decarbonise and transition to a low-carbon world.

> **The world is currently facing significant challenges as a result of structural transitions in climate, technology, demographics, and geopolitics, all of which could dramatically change the way we live.**

The global high yield market offers opportunities to identify attractive companies with the willingness to change their operations, products or services to generate a positive environmental impact for the planet. We use our proprietary framework – the Climate Change Impact (CCI) Score – to reflect the progress companies have made towards decarbonisation. We will not hold companies where engagement on the climate change transition has failed, and we exclude controversial sectors and heavy greenhouse gas (GHG) emitting issuers that have no desire to change.

Figure 1. Interwoven and self-reinforcing decarbonisation and investment theses



Benefitting people and the planet: We seek to deliver into two self-reinforcing objectives – strong financial performance for investors and positive climate impacts, through decarbonisation, that contribute to the low-carbon transition.

Investment expertise: Since 2004, our team's principal members have delivered attractive high yield credit returns through relative value investing across the capital structures of companies worldwide.

Engagement strength: Our dedicated engagers, supported by EOS at Federated Hermes, a leading global stewardship team, seek positive climate action.

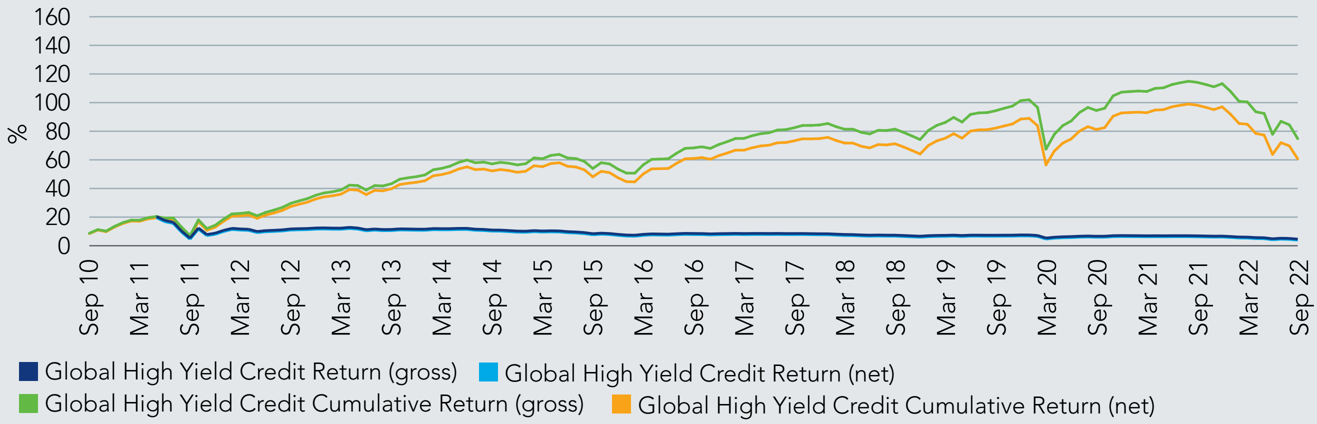
Measuring climate impact: Our proprietary internal scoring framework (outlined in more detail in a later section of this piece) allows us to measure a company's contribution to decarbonisation and its progress in relation to the low-carbon transition.

Investment team experience

Federated Hermes Global High Yield Credit Strategy

Note: This is the track record of the Federated Hermes Global High Yield Credit strategy and is illustrative of the team's investment ability and not the expected returns of the Federated Hermes Climate Change High Yield Credit strategy.

	30/09/21 to 30/09/22	30/09/20 to 30/09/21	30/09/19 to 30/09/20	30/09/18 to 30/09/19	30/09/17 to 30/09/18
Strategy returns (gross)	-18.41	-3.48	-0.86	3.03	4.63
Strategy returns (net)	-18.94	-4.1	-1.5	2.35	3.92
Volatility (% ann.)	10.62	12.49	10.17	7.96	8.57



Source: Federated Hermes as at 30 September 2022. Benchmark: ICE BofA Global High Yield Constrained Index. Inception date is 1 June 2010. Data is supplemental to the GIPS compliant report that follows. **Past performance is not a reliable indicator of future returns.**

The value of investments and income from them may go down as well as up, and you may not get the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable guide to future performance.

Source: Federated Hermes as at 30 September 2022. Performance is in EUR gross of fees. The current benchmark is ICE BofA Global High Yield Constrained hedged to EUR index. From inception to end January 2016 the benchmark was ICE BofA Global High Yield Constrained non-Financial hedged to EUR Index. Inception date is 1 June 2010. Data is supplemental to the GIPS® compliant report (see appendix).

Climate Change High Yield Credit: Strategy information

- Objectives: To achieve a positive financial return and to deliver a lower carbon footprint than the benchmark index.
- Benchmark: ICE BoA Global High Yield Constrained Index, hedged to US dollars.
- Instruments: Primarily high yield corporate bonds and derivatives.
- Exclusions: Among others, fossil fuels, tobacco, controversial weapons and companies in contravention of the UN Global Compact.
- Number of issuers: Approximately 150-200.
- Base currency: US dollars, hedged.
- Liquidity: Daily.

Investment philosophy and process

The strategy aims to generate long-term, risk-adjusted outperformance by investing in attractive high yield credit instruments, while delivering a positive impact that supports a low-carbon future.

By investing in and engaging with material emitters that demonstrate a genuine willingness to change, investors can make a real difference for current and future generations.

To achieve this, we overlay our dynamic investment process – developed by our credit team in 2004 and continuously enhanced – with a process that determines the climate change credentials of companies for portfolio construction and position sizing purposes. This involves converting climate-related data into forward-looking scores using inputs from our credit analysts and engagement professionals. Through our disciplined, bottom-up research, we aim to identify issuers with an attractive investment profile that are contributing to the decarbonisation of the wider economy. We exclude climate change laggards that show no desire to change, along with those companies exposed to controversial sectors, including fossil fuels. By investing flexibly, we target opportunities to generate strong returns and income across geographies, instrument types and credit curves.

SECTION 2

Investment review

Since inception[1], the strategy's benchmark spreads have been range-bound between the mid-300s and mid-600s – a stark contrast to the height of the pandemic in March 2020 when they reached a peak of 1,100bps. In its short lifetime the strategy has seen its fair share of volatility, as a result of:

- The conflict in Ukraine with its many political and financial ramifications.
- Soaring inflation which has forced central banks to hike interest rates at a fast pace.
- Growth fears as global economies are expected to slow in the coming years, some even likely experiencing a recession.
- Covid-19 risks, especially the continued pressures caused by China's zero-Covid policy.

All things considered, the strategy has navigated volatility well and we expect the current positioning of the fund and absolute levels in global high yield to be supportive of forthcoming returns.

Figure 2: Historical global high yield spread (option-adjusted spread (OAS) from September 2021 to September 2022)

Source: Bloomberg, using ICE BOA Global High Yield Constrained Index, as at 30 September 2022.

We use negative and positive screening techniques to identify those issuers that can help the strategy best achieve its dual objective

Through top-down analysis, we determine our risk appetite and the return prospects of different regions, sectors and ratings categories. Through our disciplined, bottom-up research, we then aim to identify high yield corporate issuers that not only have strong credit profiles, but demonstrable potential to decarbonise and transition their operations to a low-carbon world. We use negative and positive screening techniques to identify those issuers that can help the strategy best achieve its dual objective:

- The strategy negatively screens companies by excluding those that engage in, or derive revenues from, specified activities, including fossil fuels, tobacco and weapons.
- We achieve positive screening through our proprietary climate change impact scoring methodology – the 'CCI score'. All else being equal, companies that have higher CCI scores should have a higher weighting in the portfolio, to maximise the decarbonisation and engagement potential of the strategy.

Positive screening is achieved through our proprietary climate change impact scoring methodology – the 'CCI score'.

[1] The Climate Change High Yield Credit Hedged to USD strategy run by the Federated Hermes Global Credit team (London Office) has an inception date of 1 October 2021.

Figure 3. The team's credit selection process is guided by macroeconomic analysis

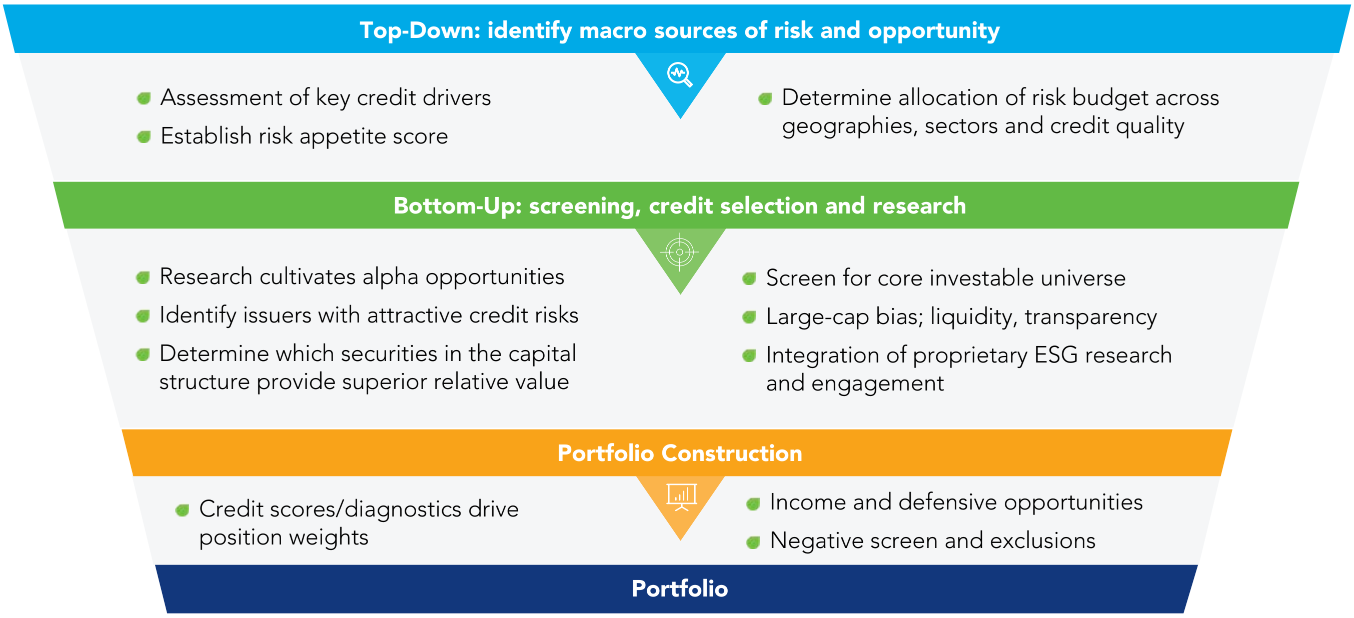
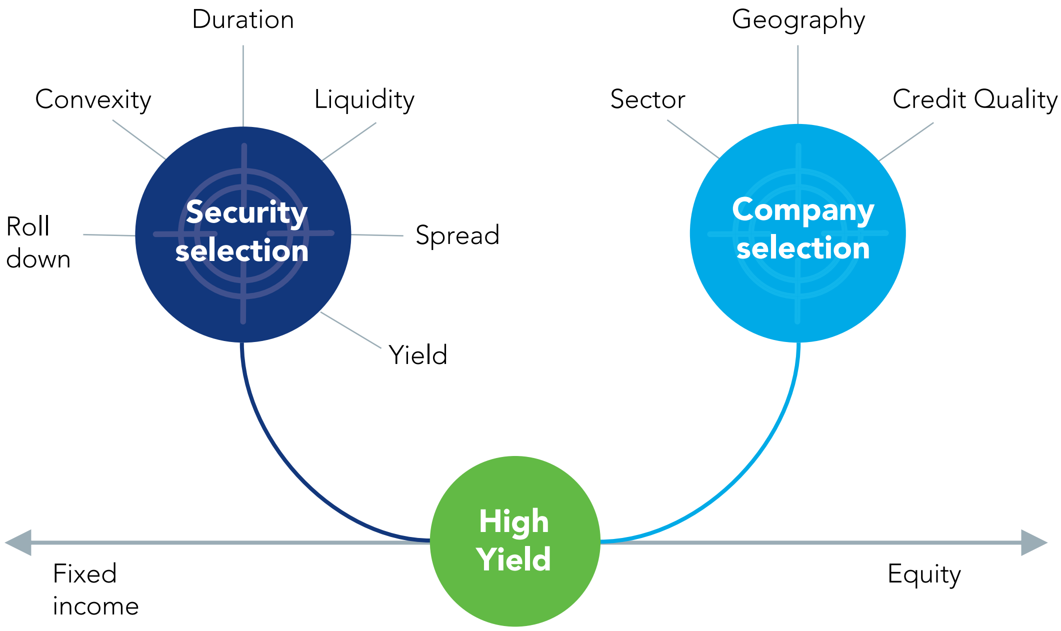


Figure 4. The team exploits differences in relative value throughout issuers' capital structures



We aim to outperform through the cycle by identifying issuers that have an attractive credit risk and decarbonisation profile, and determining which securities in their capital structures provide superior relative value. We make use of an issuer's full capital structure to manage risk and performance – we are mindful that there is risk to be managed and alpha to be made in areas such as duration and convexity. As such, we tend to prefer larger capital structures, more global issuers and national champions, particularly in emerging markets.

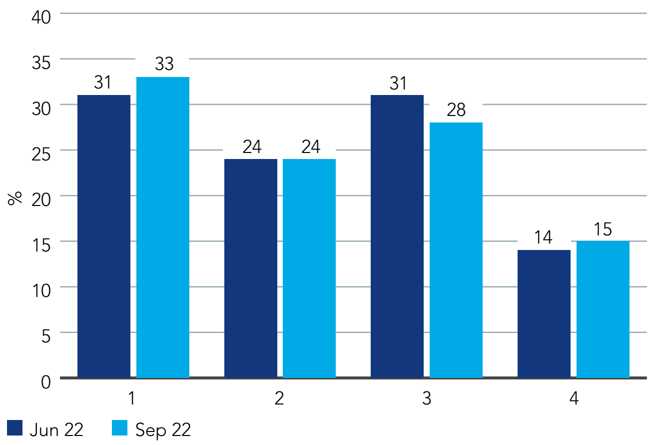
Since inception, the strategy's underweight positioning in energy, real estate and leisure has been the top contributor with regards to overall performance. In contrast, its overweight positioning in banking, capital goods and insurance has been the biggest detractors on a sectoral basis.

From a rating's perspective, the strategy's underweight positioning in B and CCC and lower-rated issues has had the biggest positive impact on performance since inception, while its overweight positioning in BB and higher-rated issues has detracted the most.

At the regional level, the strategy's underweight positioning in Emerging Asia, Latin America and Eastern Europe has contributed the most to relative performance since inception, while its overweight positioning in Western Europe and the UK has detracted the most.

Figure 5. CCI Climate Change Impact (CCI) score dispersion within the portfolio

Climate Change Impact scores: portfolio breakdown



Climate Change Impact scores: sector breakdown.

Sector	1	2	3	4	Total
Automotive	2.6%	1.2%	2.5%	0.3%	**6.6%**
Banking	4.6%	5.4%	3.9%	0.4%	**14.4%**
Basic Industry	2.3%	2.8%	4.1%	1.5%	**10.7%**
Capital Goods	3.7%	5.2%	2.7%	1.1%	**12.7%**
Consumer Goods	0.6%	0.3%	0.8%	0.8%	**2.5%**
Financial Services	0.0%	0.0%	2.1%	1.1%	**3.1%**
Healthcare	0.0%	0.0%	3.0%	2.6%	**5.6%**
Insurance	2.1%	2.1%	1.5%	0.6%	**6.4%**
Media	1.0%	0.0%	0.6%	2.1%	**3.7%**
Real Estate	1.4%	0.4%	0.0%	0.3%	**2.1%**
Retail	3.1%	0.8%	2.7%	0.4%	**6.9%**
Services	0.0%	0.7%	0.6%	0.2%	**1.5%**
Technology and Electronics	4.1%	1.0%	1.3%	0.5%	**6.9%**
Telecommunications	5.6%	1.7%	2.3%	2.5%	**12.1%**
Utility	2.4%	1.8%	0.0%	0.0%	**4.2%**
Total	**33.5%**	**23.6%**	**27.9%**	**14.6%**	**100.0%**

Source: Federated Hermes, Sustainability Hub, 30 September 2022.

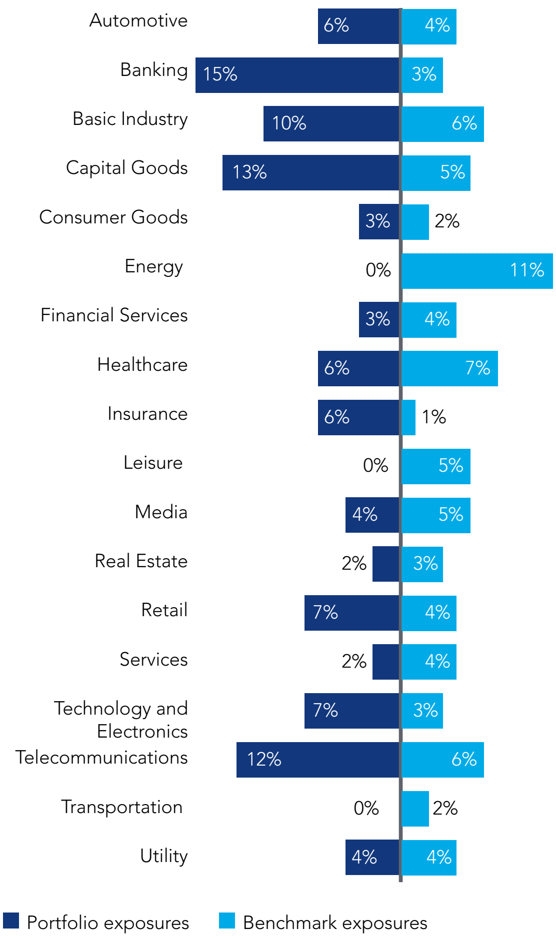
Carbon emissions vary significantly by sector

As active managers, we are aware that a portfolio's carbon intensity can be driven by both sector and security selection. In this context, allocations to high emitting sectors and low emitting sectors can have an outsized impact.

> **At a regional level, the strategy's underweight in Emerging Asia, Eastern Europe and Latin America has contributed most to relative performance, while its overweight in Western Europe and the Americas has been the greatest detractor.**

That said, a sector with a wide range of emissions, such as Basic Industries, presents a significant opportunity to optimise our carbon profile through individual security selection.

Figure 6. How we manage sector carbon exposures in relation to the benchmark



Source: Federated Hermes, Environmental Tool, 30 September 2022. The benchmark used is the ICE BofA Global High Yield Constrained Index, hedged to US dollars.

Carbon metrics

By including carbon foot-printing as a component of our environmental analysis, we can determine which companies are most exposed to emission levels.

Indeed, our carbon intensity analysis is an extension of our overall environmental due diligence; we monitor the portfolio's carbon intensity and carbon footprint using a variety of tools, company data and third-party research, when available. The data provided below is sourced using Trucost, as of 30 September 2022.

Engagement statistics

	Jun-22	Sep-22	% change
Environment engaged % AUM	64	66	3
Climate change engagement	59	61	3
Climate change emissions % engaged	82	89	9

Source: Federated Hermes, Environmental Tool, 30 September 2022.

Figure 7: Seeking climate action: Environmental engagement by themes

Source: Federated Hermes, Environmental Tool, 30 September 2022.

Decarbonisation over time

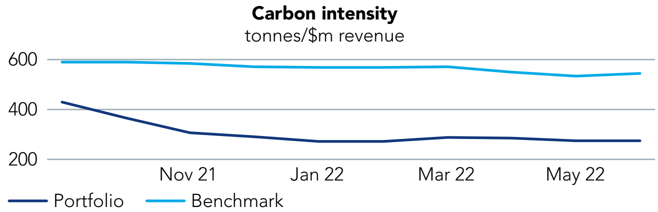
Over time, we expect the global economy to decarbonise; however, progress will not be uniform. The strategy will need to be dynamically adjusted to manage risk and allocate to companies and sectors that we believe to be strong contributors to performance over various time horizons.

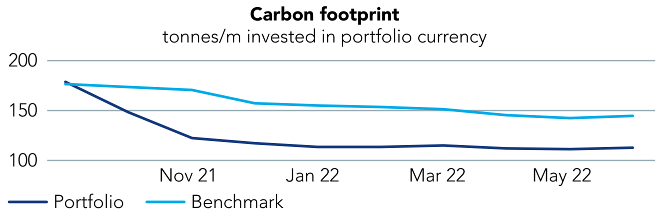
The Federated Hermes Climate Change High Yield strategy looks at names that are leading the way in the decarbonisation transition, as well as companies that already have low baseline carbon emissions and the potential to make other companies more sustainable by virtue of their products and services. For investors, this provides the means to invest in the decarbonisation effort from two different angles.

Ultimately, we believe we should encourage companies to 'do the right thing'. As such, we continuously engage with portfolio companies, helping them commit to various milestones and deliver on their decarbonisation objectives.

While we believe our efforts will result in steadily falling emissions, this decline will be slower than if we were to divest from companies with high emissions today. There will also be some industries or companies where engagement will prove futile. Still, we prefer active engagement over divestment; engaging with companies to engender positive change ensures our capital has a voice.

While we believe our efforts will result in steadily falling emissions, this decline will be slower than if we were to divest from companies with high emissions today.





Source: Federated Hermes, Environmental Tool, as at 30 June 2022.

All environmental performance data has been calculated using available data from the below mentioned sources. For the credit funds, many of the benchmarks have low data coverage in comparison to the Fund which can lead to understating of the benchmark's environmental performance.

Carbon footprint measures carbon emissions generated by companies within the Fund for every million units of currency invested. The calculation accounts for both direct and indirect greenhouse gas emissions, which are covered in industry-standard definitions for Scope 1, 2 and 3 emissions. Therefore, a smaller carbon footprint figure than the benchmark's is evidence that the Fund's emissions, adjusted for the market value held in the Fund, are lower than those of the benchmark.

SECTION 3

The Carbon Disclosure Project (CDP): A hub for climate-related insights

The importance of comparable sustainability reporting

International investors are increasingly calling for more transparent and comparable reporting by companies on environmental, social and governance (ESG) matters to make educated investment decisions. The International Sustainability Standards Board (ISSB), created by the IFRS Foundation at COP26 in November 2021, continues its highly anticipated development of worldwide standards for sustainability reporting and is expected to combine the most used frameworks into one unified sustainability reporting framework. Until then, investors must navigate an assortment of approaches to gathering and reporting sustainability information. An organisation which has led efforts to standardise sustainability data long before the formation of ISSB, is the Carbon Disclosure Project (CDP).

International investors are increasingly calling for more transparent and comparable reporting by companies on environmental, social and governance (ESG) matters to make educated investment decisions.

Founded in 2000, the CDP is an international non-profit organisation that runs a global disclosure system for investors, companies, cities, and regions. This system collects data in the form of granular questionnaires on climate, water and forest impact, with the CDP subsequently rating responses from A to F.

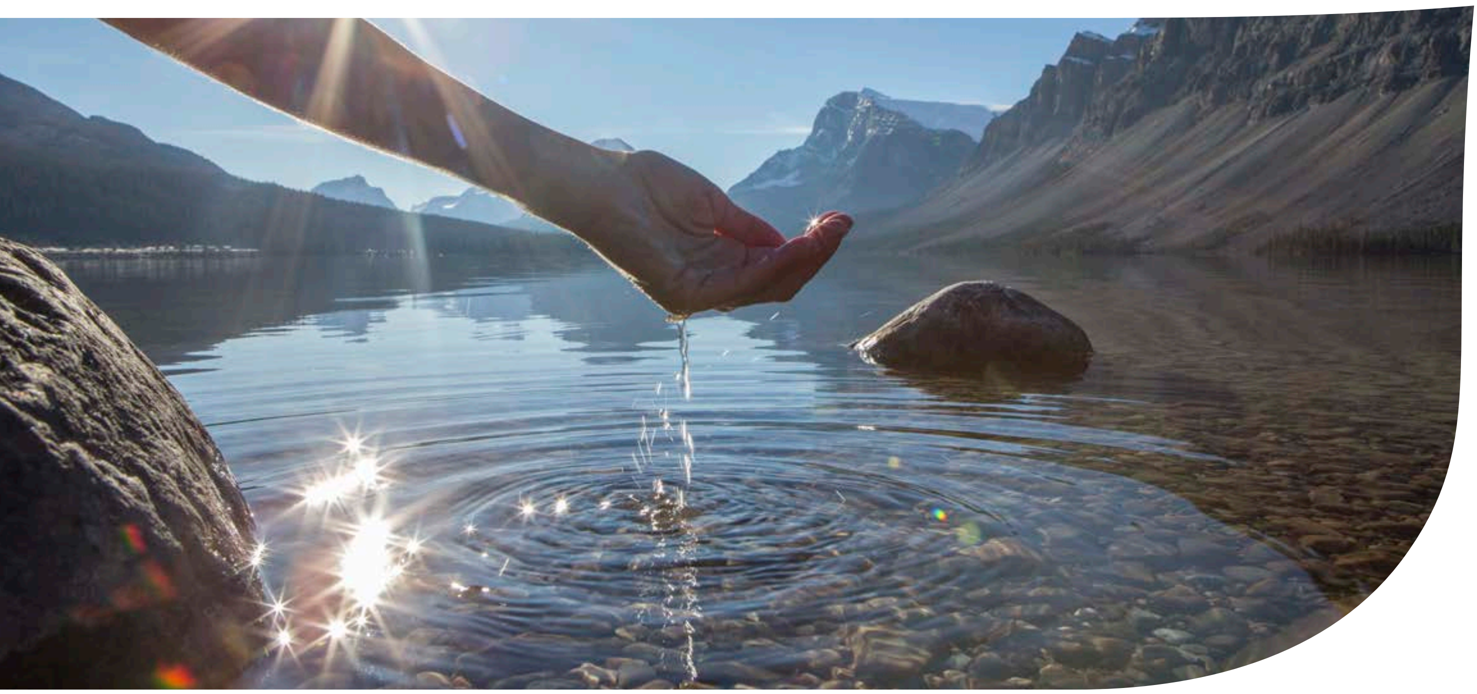
In 2021, the CDP recorded and rated the responses of over 13,000 companies, worth over 64% of global market capitalisation. For companies that submitted climate change data (a number which also exceeded 13,000), just 199 (or 1.5% of total submissions) received the top rating of an A. Over the course of its history, the CDP has developed into a leading indicator of robust environmental impact strategies with high ratings gaining recognition across the investor community and beyond.

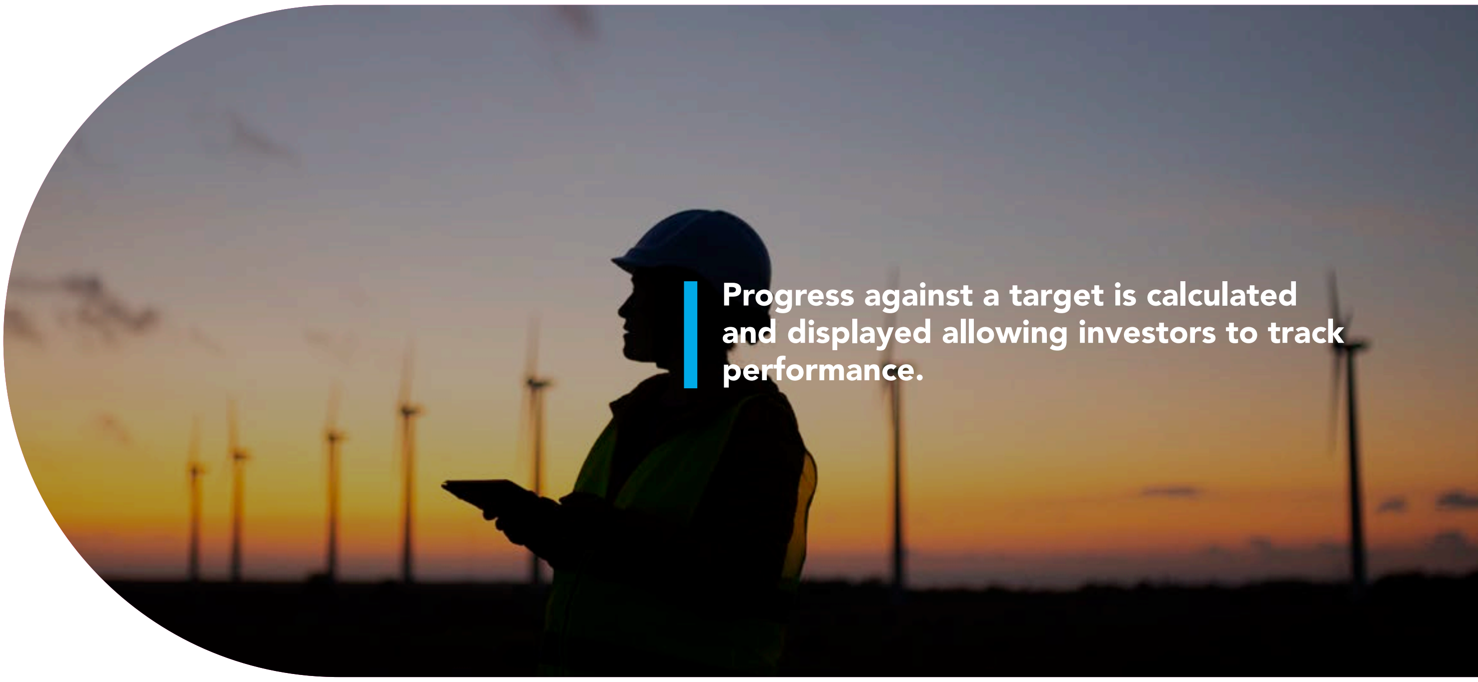
In addition to the CDP publicly disclosing ratings, the organisation offers further transparency by disclosing participants' submissions in the form of standardised data. Crucially, this allows investors to compare data between companies and measure their respective progress in reducing harm to the environment.

In terms of our own fund, our proprietary Climate Change Impact (CCI) score looks beyond the CDP rating and incorporates data within participants' submissions that support key indicators within the CCI score's framework.

The CDP's system subsequently places greater accountability on participants, who are incentivised to improve disclosures with the reward of a higher rating. The rating provides a useful indication of a company's climate strategy robustness but offers only a blunt comparison when used as a tool for peer assessment.

In terms of our own fund, our proprietary Climate Change Impact (CCI) score looks beyond the CDP rating and incorporates data within participants' submissions that support key indicators within the CCI score's framework.





Importance of the CDP in relation to the CCI score

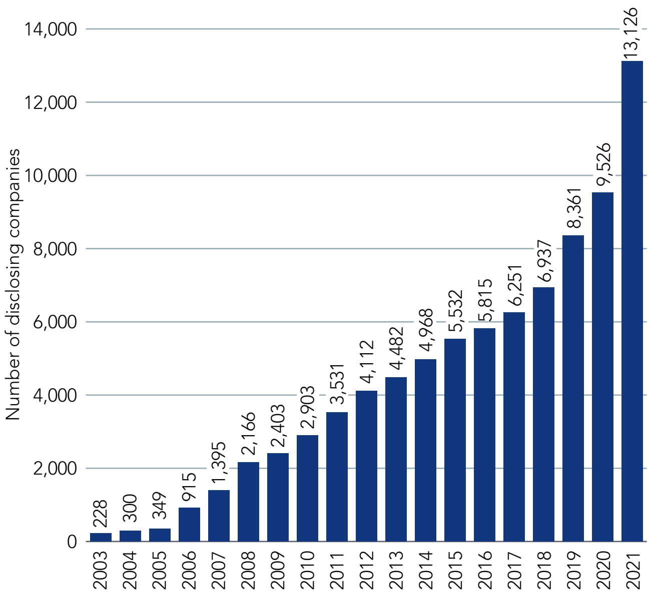
The CCI score harnesses data from multiple third-party sustainability data providers in addition to company disclosures to make an informed assessment of a company's *Ambition* and *Expected Impact*. In the context of the CCI score, a company's *Ambition* to decarbonise is determined by the quality of its emissions reduction initiatives and targets. Decarbonisation commitments, however, are not guaranteed to be fulfilled. It is, therefore, important to also assess a company's *Expected Impact*. This involves using insights from engagement with the company and carbon data to understand a company's emissions trajectory and alignment to the Paris Agreement to generate a level of confidence in the company's ex-ante potential emissions impact. Assessing *Expected Impact* helps to mitigate the risks of greenwashing influencing a CCI score.

The CDP's climate change questionnaire provides data that is highly relevant when assessing a company within the dimensions of the CCI score. For the assessment of emissions reduction targets, for instance, the CDP provides a dedicated chapter in its questionnaire that requests the disclosure of climate-related targets in a standardised format formed of comparable datapoints. Progress against a target is calculated and displayed allowing investors to track performance. This standardisation allows for a quantitative comparison of targets across companies which would otherwise be a tedious task for investors. In many cases, the emissions and energy data requested by the climate change questionnaire is more granular than what companies are prepared to disclose in their sustainability reports, adding further value to CDP's disclosures.

Another feed-in to the CCI score is *climate change governance*, i.e. assessing the level of responsibility and accountability that lies with the board to achieve climate-related targets. The governance chapter of the climate change questionnaire directly addresses this through targeted questions that look to highlight both the level of oversight CEO and board members have of climate-related issues to what incentives are in place for the management of such issues.

The CDP works with intergovernmental organisations and incorporates the recommendations of reporting frameworks such as the Taskforce for Climate-related Financial Disclosures (TCFD), which is considered a leading framework for disclosures on climate-change risk-management. The CDP's questionnaires are set to remain highly relevant for both participants disclosing data and investors using the data as standards for sustainability reporting continue to evolve.

Figure 8: Two decades of disclosure: From niche to mainstream



Source: CDP STRATEGY 2021-2025.pdf published by CDP, Oct 2021

SECTION 4

Case studies: Pulp and paper

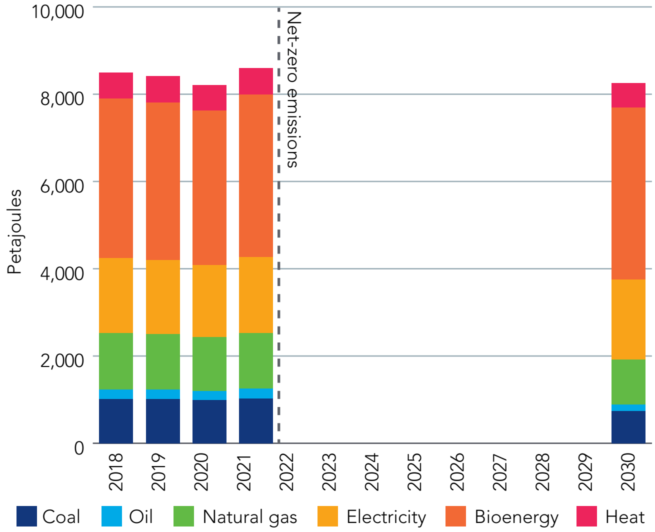
While the pulp and paper sector is ahead of other basic industries on decarbonisation on various fronts, including its relatively high use of renewable energy and recycled by-products in its production processes, it generates roughly 1.3% of the world's greenhouse gas emissions[2]. This is mainly due to the vast amounts of energy required for pulp and paper production, occurring primarily in the form of heat used to dry paper in its intermediate forms[3].

The sector benefits from its ability to re-use the waste generated from its operations in the form of biofuels produced on-site, with around 43% of the pulp and paper sector's energy consumption coming from bioenergy in 2021[4]. However, around 30% of the sector's energy needs continue to be met by fossil fuels, and the International Energy Agency reports that this figure has remained steady since 2018[5]. To align with a 1.5°C scenario, it states that the industry must make a concerted shift away from fossil energies, focusing instead on increased use of bioenergy and technological innovations, such as technology that recovers waste heat to re-use as energy, to significantly lower emissions[6].

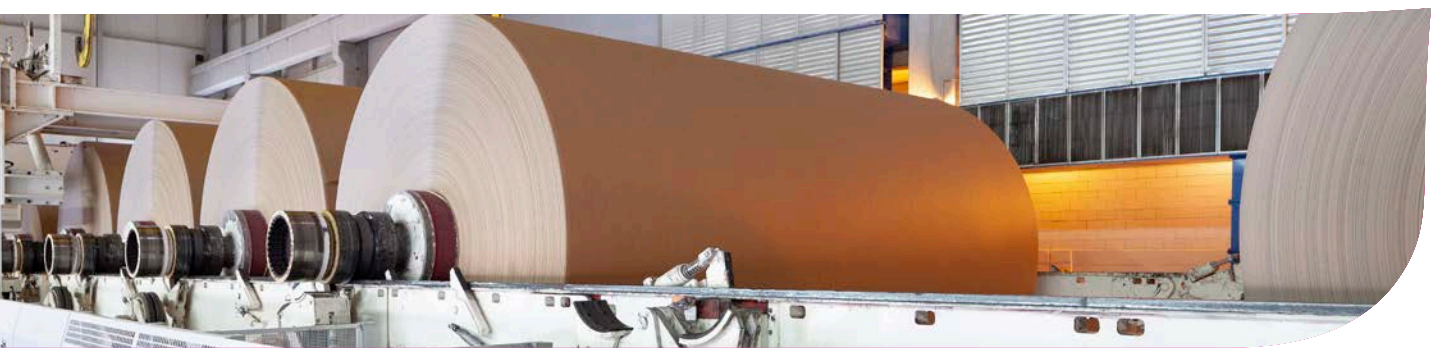
Pulp and paper companies can also significantly cut their emissions through increased use of recycled, rather than virgin, wood fibres. Not only does this eliminate the emissions generated from sending waste paper to landfill or incineration, it also evades the emissions created from primary paper production. However, this process may require the acquisition of renewable energy from alternative sources, as primary production is often powered using bioenergy produced from wood waste generated during the production process itself[7].

Finally, many companies in this sector source their wood inputs from forests they themselves own or manage, and therefore have the ability to curate natural carbon sinks, sequestering carbon emissions through sustainable forest management. Some companies have developed methodologies to calculate the balance between emissions generated from their production processes and the carbon sequestered by their forests, even aiming for a negative balance between the two. It is important, however, that companies do not consider this as an alternative to the decarbonisation of their operations, as forests can only act as meaningful carbon sinks up to a certain limit[8].

Figure 9: Bioenergy must increase from 43% to 50% of the pulp and paper sector's energy mix by 2030 in the IEA's Net Zero Scenario



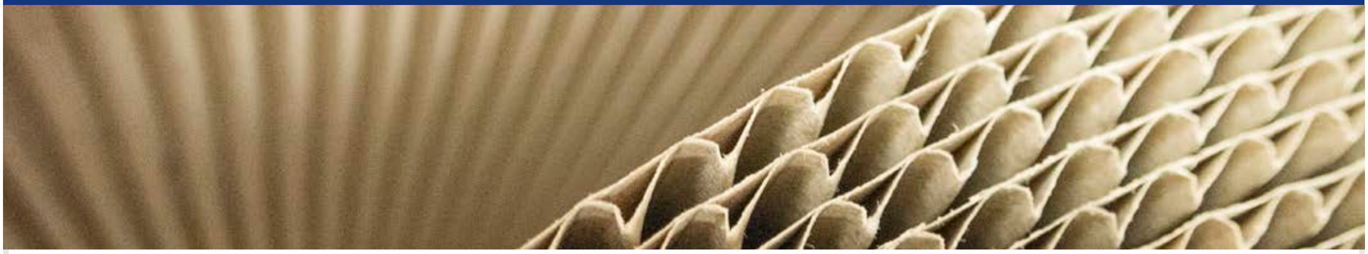
Source: IEA 2022



[2] *Limited climate benefits of global recycling of pulp and paper*, by Stijn van Ewijk, Julia Stegemann and Paul Ekins, published by Nature Sustainability in 2020.
[3] *Pulp and Paper: Tracking report*, published by the IEA in 2022.
[4] *Ibid.*
[5] *Ibid.*
[6] *Ibid.*
[7] *Ibid.*
[8] *There aren't enough trees in the world to offset society's carbon emissions – and there never will be*, by Bonnie Waring, published by The Conversation in 2021.

SECTOR CASE STUDY

Smurfit Kappa – Climate Change Impact (CCI) score: 2



Smurfit Kappa, one of the world's largest paper-based packaging businesses, is targeting a circular business model, prioritising the use of recycled inputs in its production processes and providing renewable, recyclable and biodegradable packaging solutions to its global clientele. Recycled fibre accounts for 76% of its raw material volume, and it is close to achieving its target to reduce its landfilled waste intensity 30% by 2025 from 2013 levels, reporting a 29.2% decrease in 2021.

The company announced a target to reduce its Scope 1 and 2 emissions[9] intensity by 38% by 2030 in 2022, receiving validation by the Science-Based Targets initiative (SBTi) under a well-below 2°C warming scenario.

While this was a step in the right direction, the company still lags leading peers on setting an absolute rather than intensity-based target, and on aligning its targets to a 1.5°C pathway.

Furthermore, the company does not have a target covering its Scope 3 emissions. However, this appears to be a focus for the company in the medium-term, and current efforts are focused on developing robust data-collection systems for its upstream and downstream emissions, which will eventually enable a target to be set.

A particular focus has been emissions from transport; the company integrates emissions data into its decision-making process regarding logistics via a centralised database. Expanding the granularity of Scope 3 data to other areas of the company's supply chain, as well as developing a strong supplier engagement programme to bring down value chain emissions, will be key for achieving CCI leadership.

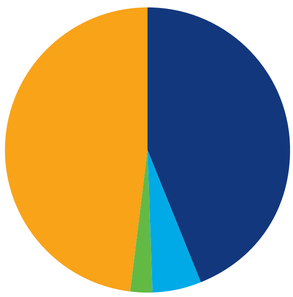
Another key area for improvement is the company's uptake of renewable energy in its operations.

Its current renewable energy consumption stands at almost 50%, which is below the level of its higher-scoring CCI peers. The company's operations in Colombia and Germany have been a key inhibiting factor on the greening of its energy mix. While its German operations have more potential to shift towards renewables, options are limited for its Colombian operations, due to the region's strong dependence on coal and the lack of widespread local energy alternatives. Consequently, coal currently represents 5.5% of the company's energy mix. We have set an engagement objective with the company on this issue, encouraging it to set an end-date for the use of coal combustion in its operations.

From engagement, we learned the company has plans to replace coal with biomass in three remaining countries using coal-fired boilers by 2030, which is expected to bring a substantial reduction in coal dependence and related emissions. In June 2022, it completed one of these conversions at its Zülpich mill in Germany, enabling a 25% reduction in the mill's carbon footprint. The €100m conversion of its Yumbo paper mill in Colombia is expected to be completed in 2024.

We will continue to monitor progress and engage with the company on its displacement of fossil fuels within its global energy mix, especially in hard-to-abate regions, including its Colombian operations. A continued positive trajectory on this front will be key for reaching CCI 1 status, alongside upgrading the ambition of its targets to cover the entirety of its value chain and align to a 1.5°C scenario.

Figure 10: Direct fuel consumption, all operations



- Natural gas – **44.1%**
- Coal – **5.5%**
- Other fossil fuels – **2.6%**
- Biofuels – **47.8%**

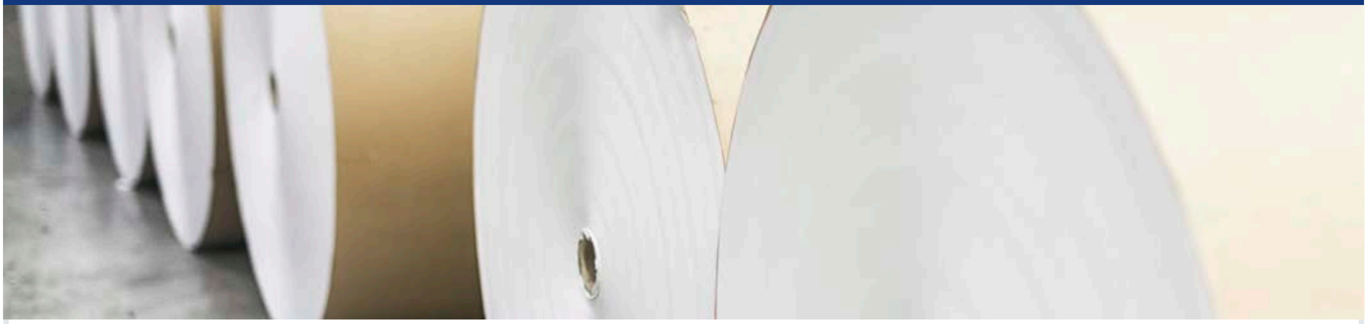
Source: https://www.smurfitkappa.com/-/m/files/publications---global/sustainability-reports/smurfit_kappa_sustainable_development_report_2021.pdf?rev=1cd32d4fdadd42b2ac053fad974b5fc9

This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

[9] Scope 1: Emissions released directly from operations. Scope 2: Emissions from procured electricity.

SECTOR CASE STUDY

Sappi – Climate Change Impact (CCI) score: 3



South African pulp and paper manufacturer, Sappi, announced SBTi-verified targets aligned to a well-below 2°C pathway in July 2022. This was a significant step forward in the company's decarbonisation strategy, bringing it in line with higher-scoring peers in our portfolio regarding the level of ambition of its stated emissions-reduction targets.

Not only do the targets include an aim to reduce its Scope 1 and 2 emissions intensity 41.5% by 2030, it is also committed to ensuring that 44% of its supplier-spend follows its lead by setting SBTi-aligned targets by 2026.

While we certainly saw this as a significant step forward for the company, we refrained from upgrading its CCI score due to persisting uncertainties regarding the company's ability to follow through on its stated sustainability ambitions, as a result of below-expectations performance on a range of metrics disclosed in 2021.

As of the company's most recent report, it is not on track to achieve its targets for increased renewable energy sourcing, decreased overall energy consumption, decreasing its reliance on fossil fuels and creating products with sustainability benefits, all of which form critical parts of its roadmap to decarbonisation.

The company's South African operations seem to be a major inhibiting factor, due to the coal-heavy energy grid and various plant disruptions in recent years due to Covid-19 shutdowns and government intervention.

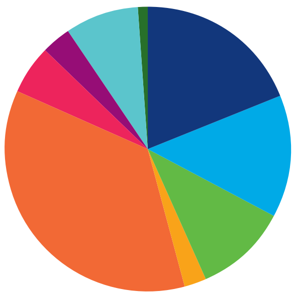
While the company has been able to phase out the use of coal at the majority of its European and North American operations, purchased coal continues to cover 18% of its overall fuel needs, far above the coal reliance of most its peers, mainly due to the lack of alternative energy options on offer for its South African footprint.

However, following a positive engagement with the company and news about renovating one of its major mills in South Africa, our outlook on Sappi's future decarbonisation performance is improving. During an engagement with the company, it explained it believes disruptions in South Africa have come to an end, leading to a smoother emissions reduction trajectory from here.

Crucially, it is prioritising renewable energy self-generation to decrease its reliance on the national grid, explaining that its SBTi-aligned roadmap does not depend on improvements to the national grid to achieve its planned emissions reductions. Furthermore, recently completed environmental upgrades as part of the expansion of its South African Saiccor Mill are expected to significantly reduce the mill's reliance on coal and, subsequently, its carbon footprint.

Evidence of meaningful progress on these initiatives, as well as improved performance on the company's stated targets in its next round of disclosures, could trigger an upgrade of Sappi's score to CCI 2, as its newly upgraded ambition levels would be complemented by increased conviction of its ability to follow through on promises.

Figure 11: Fuel sources (%)



- Purchased coal – **18.94%**
- Purchased natural gas – **13.96%**
- Non-renewable energy in purchased power – **10.71%**
- Other fossil fuel – **2.24%**
- Own black liquor – **35.93%**
- Own biomass (mostly bark) – **5.67%**
- Purchased biomass – **3.28%**
- Renewable and nuclear energy in purchased power – **8.37%**
- Other renewable fuel – **0.91%**

Source: https://cdn-s3.sappi.com/s3fs-public/2021-Sappi-Group-Sustainability-Report-5.pdf

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Case studies: Utilities

Electricity and heat production make up almost a third of world greenhouse gas emissions[10]. The decarbonisation of the utilities sector will, therefore, be a key determinant of achieving the Paris Agreements goal of a 1.5°C scenario by 2100.

Recent energy demand volatility, however, has destabilised efforts to halt the rise in global CO_2 emissions. Global emissions rebounded to above pre-pandemic levels in 2021 with electricity demand leaning heavily on coal power in China and India[11]. However, the IEA recently signalled 2022 as a turning point after analysis in their World Energy Outlook showed an acceleration in the transition to clean energy production[12].

Low-carbon energy security has played a significant role in this acceleration and will remain a key driver for the sector to transition away from fossil-fuels and to decouple rising energy demand from rising greenhouse gas emission.

Many utility companies have responded by outlining energy transitions away from fossil fuel assets.

Companies rewarded by the CCI score include those with clear coal exit policies and emissions-reduction targets that are aligned with a 1.5°C scenario. Investment in low-carbon technology is another clear indicator of contributing to mitigating climate change. Examples include multi-GW pipelines of renewable energy projects and the development of green hydrogen and carbon capture, utilisation and storage (CCUS) technology.

Grid optimisation is another key enabler to reach a net-zero economy with grids in many places currently unable to cope with the projected additions of clean energy capacity[13].

Companies placing a strategic priority on climate-friendly practices can expect to not only mitigate the physical risks presented by climate change but also benefit from transitional opportunities in the long-term, with regulations increasingly subsidising low-carbon energy while, in-turn, raising the cost of high-carbon practices.

[10] *World Greenhouse Gas Emissions: 2019*, published by World Resources Institute, Jun 2022.
[11] *Global CO_2 emissions rebounded to their highest level in history in 2021*, published by IEA, March 2022.
[12] *World Energy Outlook 2022*, published by IEA Oct 2022.
[13] *Creaky U.S. power grid threatens progress on renewables, EVs*, published by Reuters May 2022.

SECTOR CASE STUDY

Orsted: Climate Change Impact (CCI) score: 1

Orsted is a Danish power generation and utility company that produces electricity across 14 countries in Europe, USA and Taiwan. Total gross gigawatts total in operation stands at 13.6GW[14], of which 92% of energy generation comes from renewable-energy sources. The company continues to be a leading example for facilitating the energy transition, having made its own significant transition from a majority fossil fuel company to announcing it will exit coal power by Q2 2023 while simultaneously expanding its renewable energy with a target to reach 50GW installed renewable capacity by 2030[15].

For its remaining carbon-emitting assets, Orsted is developing carbon capture technology, aiming to capture and store 400,000 tonnes of carbon in 2025 from its wood chip/straw heat and power plants to store in the North Sea[16].

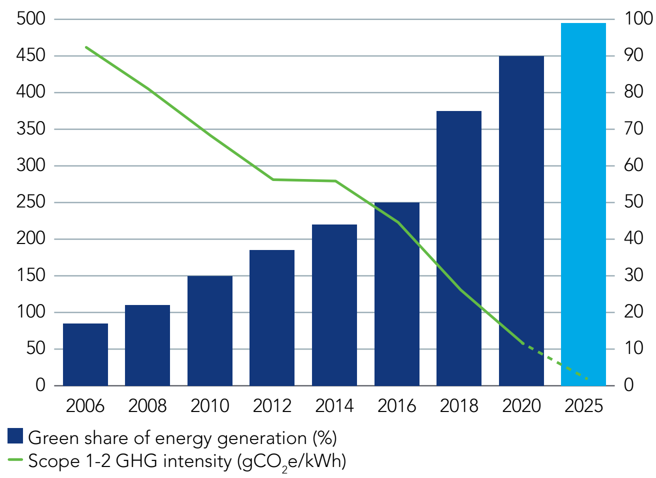
In line with its bold commitments, it has set complementary decarbonisation targets which include achieving net-zero carbon emission from its operations by 2025, and net zero across Scope 1, 2 and 3 emissions by 2040.

Beyond its own emissions, Orsted aims to tackle value-chain emissions by engaging with suppliers to set targets approved by the SBTi, encouraging the use of 100% green electricity in their operations by 2025 and developing a net-zero steel map for the procurement of its wind turbines.

Orsted's climate-related ambitions are supported by a track record of delivering its decarbonisation strategy. Consistent reductions in emissions intensity of its electricity generation and year-on-year growth in renewable energy capacity[17] have been achieved as the company winds down its fossil fuel exposure while in addition to delivering its pipeline of renewable energy projects. The company also responds well to engagement, remaining receptive to feedback we have given on sustainability topics ranging from its decarbonisation strategy to workforce diversity inclusion. This ensures a strong likelihood the company will continue its path to delivering the energy transition strategy it has set itself.

Orsted continues to offer a leading example to utility sector peers and carbon-intensive industries of how to successfully perform vast asset rotations to achieve a cleaner, more sustainable portfolio that will contribute towards reducing energy sector emissions and mitigating the effects of climate change. Beyond its own transformation, the company's green electricity will help many other businesses decarbonise as they electrify processes and switch to procuring green energy.

Figure 12: Targets and indicators



Source: Powering the world with green energy, published by Ørsted Oct 2022

To remain aligned to a net zero scenario, the IEA expects gas-fired generation to peak in 2030 followed by a managed decline through 2040 as renewable energy and carbon-neutral gas-fired generation increases.

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[14] *Interim ESG performance report, First half year 2022*, published by Ørsted.
[15] *Ibid.*
[16] *Ørsted to capture and store 400,000 tonnes of carbon in 2025*, published by Ørsted Jun 2022
[17] *Powering the world with green energy*, published by Ørsted Oct 2022.

SECTOR CASE STUDY

Calpine: Climate Change Impact (CCI) score: 5

Calpine is yet to set out a clear plan to decarbonise an asset portfolio that generates 97% of energy from natural gas[18]. Despite this source of fuel offering a less carbon-intensive form of combustion then its fossil fuel counterparts, the burning of natural gas remains a key contributor to overall greenhouse gas emissions as demonstrated by the USA where it contributed to 34% of total CO2 emissions in 2021[19]. To remain aligned to a net zero scenario, the IEA expects gas-fired generation to peak in 2030 followed by a managed decline through 2040[20] as renewable energy and carbon-neutral gas-fired generation increases. Incumbents in the utilities sector are looking to align with the IEA's projections by investing in low-carbon technology and setting clear decarbonisation targets. In this, Calpine remains an outlier, offering no forward projection on the emissions profile of its assets.

To compound this, the company is also behind on emissions performance and data disclosures. Scope 1 and 2 emissions disclosures are now standard practice across industries, globally, with Scope 3 emissions from upstream and downstream value chain operations increasingly being included. This data reveals the decarbonisation performance of a company and whether it is delivering on its carbon-reduction initiatives. Calpine fails to disclose beyond Scope 1 emissions and its historic performance shows a rise in these emissions over the past two years.

The company does mention efforts to decarbonise, stating its intention to develop and deploy carbon capture, utilisation and storage technology, however it remains vague on the progress of this initiative and fails to acknowledge supply-chain emissions.

In a sector making advanced strides to mitigate climate change, Calpine lags the efforts of its peers. There is little confidence in the company delivering the required strategy to help mitigate the effects of climate change. As a result, it receives a low Climate Change Impact score and is not included in the portfolio.

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The company does mention efforts to decarbonise, stating its intention to develop and deploy carbon capture, utilisation and storage technology, however it remains vague on the progress of this initiative and fails to acknowledge supply-chain emissions.

[18] *Our Fleet*, published by Calpine, Oct 2022
[19] *Where greenhouse gases come from*, published by US Energy Information Administration (EIA), June 2022
[20] *Gas – Fuels & Technologies*, published by the IEA.

Schedule of Rates of Return and Statistics

Composite: **Federated Hermes Climate Change High Yield Credit Hedged to USD**

Index: **ICE BofA Global High Yield Constrained (USD Hdgd)**

Periods ending: **30 September 2022**

	Returns (%)		
	Composite Gross Return	Index	Composite Net Return
Q3 22	(3.16)	(1.02)	(3.32)
YTD	(17.75)	(15.74)	(18.15)
1 Year	(17.89)	(16.02)	(18.42)
Oct-21 – Sep-22 (Annlzd)^^	(17.89)	(16.02)	(18.42)

Annual Returns (%)									
Year	Composite Gross Return	Composite Net Return	Benchmark Return	*Composite 3-Yr Std Dev	*Benchmark 3-Yr Std Dev	Number of Portfolios	**Dispersion	Composite Assets (mil)	Firm Assets (bil)
2021	(0.17)	(0.34)	(0.33)	N/A	N/A	<5	N/A	93.2	634.2

^^Represents composite inception period. See BELOW for additional notes to the schedule of rates of return and statistics

*Represents the 3-year annualized standard deviation for both the gross composite and the index returns. Statistic is used to measure the volatility of composite returns.
**Standard deviation is calculated using gross returns. Standard deviation is not applicable (N/A) for any period if fewer than five accounts are in the composite for that period.

The composite includes all discretionary portfolios following the Climate Change High Yield Credit Hedged to USD strategy run by the Federated Hermes Global Credit team (London Office) and has an inception date of 1 October 2021. The objective of the strategy is to exceed the return of the benchmark over a rolling five-year period whilst delivering a carbon footprint lower than the benchmark through investment in debt securities of companies that are adapting their business models to reduce their environmental impact on Climate Change. The strategy may invest in a broad range of assets, either directly or through the use of derivatives, (including, but not limited to, equities, equity-related securities, eligible CIS and/or financial indices, futures, options, swaps, debt, fx and money markets). The strategy through its investments in FDIs may be leveraged. The composite's benchmark is the ICE BofA Global High Yield Constrained Hedged to USD Index, which is designed to measure the debt market performance of global high yield debt. The benchmark contains primarily USD and EUR issues. The index is rebalanced on the last calendar day of the month and the return is calculated on a total return basis. This composite was created in November 2021. Performance shown for 2021 is for a partial period starting 1 October 2021. Federated Hermes claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS® standards. Federated Hermes has been independently verified for the period of January 1, 1992, through June 30, 2022. The verification report is available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The management fee schedule for this strategy is 0.65% per annum. Gross of fees returns have been calculated gross of management/custodial fees and net of reclaimable withholding taxes, but after all trading commissions.

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