Creating sustainable wealth

Strategy and approach to acting as a responsible owner, investor and firm

2023

Federated Hermes Limited

www.hermes-investment.com
For professional investors only

Contents

A mission to deliver sustainable wealth creation

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

Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns and, consistent with client objectives and applicable requirements, to strive to contribute to positive outcomes in the wider world.

Sustainable wealth creation should provide investors with income to spend as they get older; an ability to buy goods and services; and help to build a world in which investors are happy to live.

> **Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns and, consistent with client objectives and applicable requirements, to strive to contribute to positive outcomes in the wider world.**

As such, our strategy is driven by the aim to provide strong risk-adjusted investment performance for clients and in doing so, achieve positive outcomes for society and the environment. As a firm, we seek enduring business growth and profitability, and to make a positive impact as a leader in investment and sustainability. These objectives are firmly aligned with the interests of our clients, the companies in which we invest and engage, and the societies in which they operate.

> **We believe there are four mutually reinforcing strands of being a responsible investment manager; ESG-integrated investments, active ownership and management, advocating in beneficiaries' interest, and behaving as a responsible business.**

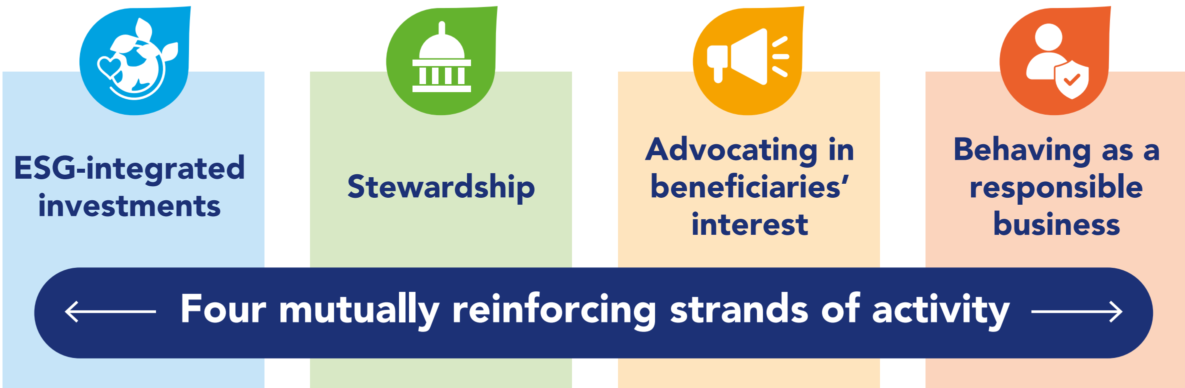
It is this understanding that informs our belief that we have a duty to consider the longer-term risks and opportunities when investing. This means extra work in analysing companies; understanding externalities, governance practices, environmental impacts, treatment of workforces and the influence of operations on local communities. It also means using our influence to improve the behaviour of those companies in which we have invested; the operations of the assets that we directly manage; and advocating for systematic improvements to the financial system in which we participate.

We believe there are four mutually reinforcing strands of being a responsible investment manager; ESG-integrated investments, active ownership and management, advocating in beneficiaries' interest, and behaving as a responsible business. Together, these aim to generate sustainable wealth creation for the end beneficiary investors, encompassing investment returns and their social and environmental impact.

Achieving this mission includes putting the interests of our clients and their ultimate beneficiaries front and centre of all that we do.

The approach set out in this document applies to products managed by Federated Hermes Limited investment teams. This includes all funds in the Federated Hermes Investment Funds plc range.

Figure 1. Our strategy



ESG-integrated investments	Stewardship	Advocating in beneficiaries' interest	Behaving as a responsible business
We aim to integrate consideration of material ESG factors into our investment processes across all strategies and asset classes.	We aim to be active, engaged and responsible owners of those companies and assets in which we are invested and those we directly manage.	We engage with and encourage regulators and standard setters globally to intervene to reduce systemic risks and ensure that the financial system operates in the interests of its ultimate asset owners.	We aim, as a firm, to meet the expectations that we have of others. Each of us individually has a responsibility to lead by example and act ethically and with integrity.

Source: Federated Hermes Limited, as at 31 January 2023.

Realising sustainable wealth creation includes integrating ESG and stewardship

At Federated Hermes Limited (FHL), we believe responsible investment requires integration of material ESG factors in the investment process alongside material traditional performance factors and active ownership of assets through stewardship.

Holding this focus across all of our strategies, while also behaving responsibly as a firm, is integral to delivering sustainable wealth creation.

Figure 2. Creating wealth sustainably

Source: Federated Hermes Limited, as at 31 January 2023.

ESG-integrated investments and stewardship

We do not see the integration of ESG and engagement insights within investment decisions as a separate category of investing.

Instead, we believe material ESG risks and opportunities should inform all investment decisions. That is why we integrate ESG considerations and engagement insights into our investment processes in all of our products, across all asset classes. As our research has demonstrated, investors do not need to sacrifice returns to invest responsibly. On the contrary, our research shows that companies with good governance and social performance indicators tend to outperform others over the medium and long term.[1] In the credit space, our research on ESG risk in CDS spreads and sovereign credit further evidence the importance of ESG in investment decisions.[2]

For this reason, we aim to ensure that investors' capital is deployed to create wealth sustainably, delivering sustainable growth and helping to build a better society and planet for all – dual perspectives that we believe should not be separated, but considered as one.

We do not see the integration of ESG and engagement insights within investment decisions as a separate category of investing.

An environmental, social or governance issue will rarely be the sole or standalone driver behind any investment decision. Instead, material ESG factors are integrated into fundamental analysis and inform the teams' investment decision making.

The impact on the investment decision will vary depending on the mandate of the fund. For a fund that integrates ESG but is not a thematic fund, the presence of ESG risk does not necessarily preclude investment, but rather helps investment teams reach a more holistic view of the risk profile of a company and the actions needed post-acquisition to mitigate risk.

Investment teams may also identify opportunities in companies that are improving their ESG practices, particularly given our strong engagement capabilities. For our funds with a thematic focus and/or our impact funds; the existence of ESG risks and opportunities and the prospect of creating or increasing positive outcomes will be significant where it is one of the main drivers of investment decisions.

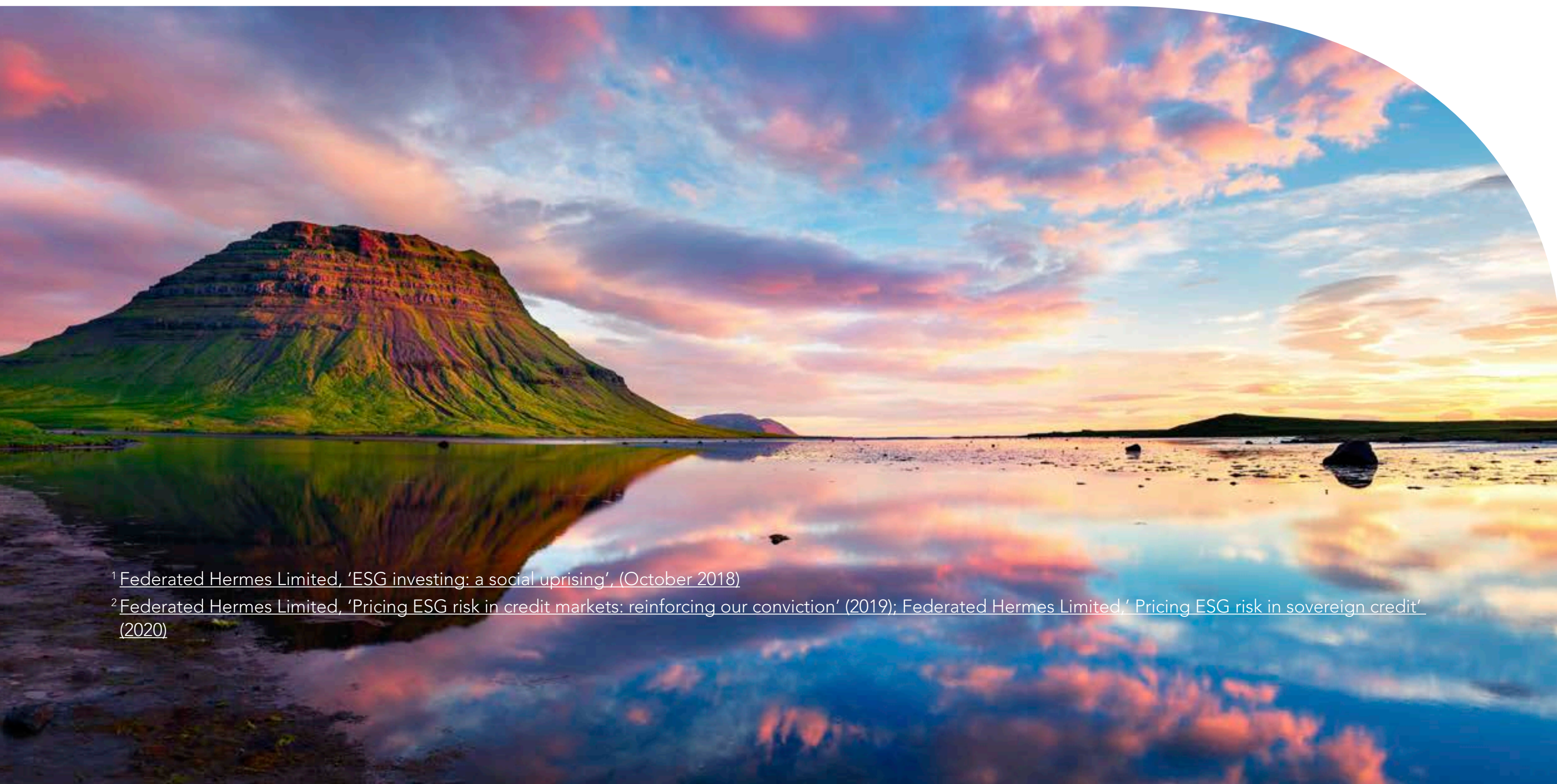
It should also be emphasised that ESG is not a single issue or consideration. Risks, opportunities and impacts within each of the categories 'environmental', 'social' and 'governance' can be specialised and complex as discrete focus areas, as well as interconnected considerations. We break down the three different categories as the following paragraphs describe.

Environmental

We recognise that companies are linked to many environmental impacts to various degrees and, for investors, environmental externalities experienced or generated by a company are likely to impact their portfolios at some point in time.

Environmental factors we may consider include climate change action, natural resource stewardship, and circular economy and zero pollution.

The responses of governments and companies to climate change will create winners and losers, materially impacting both investment returns and wider society. For this reason, climate change is a critical element of our broader strategy to integrate ESG factors and stewardship into all of our funds.



[1] Federated Hermes Limited, 'ESG investing: a social uprising', (October 2018)

[2] Federated Hermes Limited, 'Pricing ESG risk in credit markets: reinforcing our conviction' (2019); Federated Hermes Limited, 'Pricing ESG risk in sovereign credit' (2020)

Consideration of climate risk, where relevant, informs our idea generation, investment decisions and risk monitoring. Given the urgency of mitigating and adapting to climate change, we joined the Net Zero Asset Managers Initiative in 2021. We set out our interim targets and how we are working to meet them in our Climate Action Plan and will report annually on our progress towards them in our Climate-related Financial Disclosures Report.

We are mindful of companies' use of, and dependency on, natural resources, as well as their impact on the environment; these considerations are especially important in relation to our real estate and infrastructure investments which have both potential exposure to risk and negative impacts, and the potential to catalyse and contribute materially to solutions.

Given the urgency of mitigating and adapting to climate change, we joined the Net Zero Asset Managers Initiative in 2021.

Biodiversity loss is recognised as an urgent challenge given the importance of ecosystems for sustaining global food supplies, providing clean water and air, and absorbing harmful carbon dioxide to help mitigate global temperature increases. The halting and reversing of commodity-driven deforestation is also essential if we are to avoid the consequences of severe climate change and biodiversity loss. As such, we are focusing on effective and outcome-driven stewardship and greater collaboration with companies, and the investment industry more broadly.

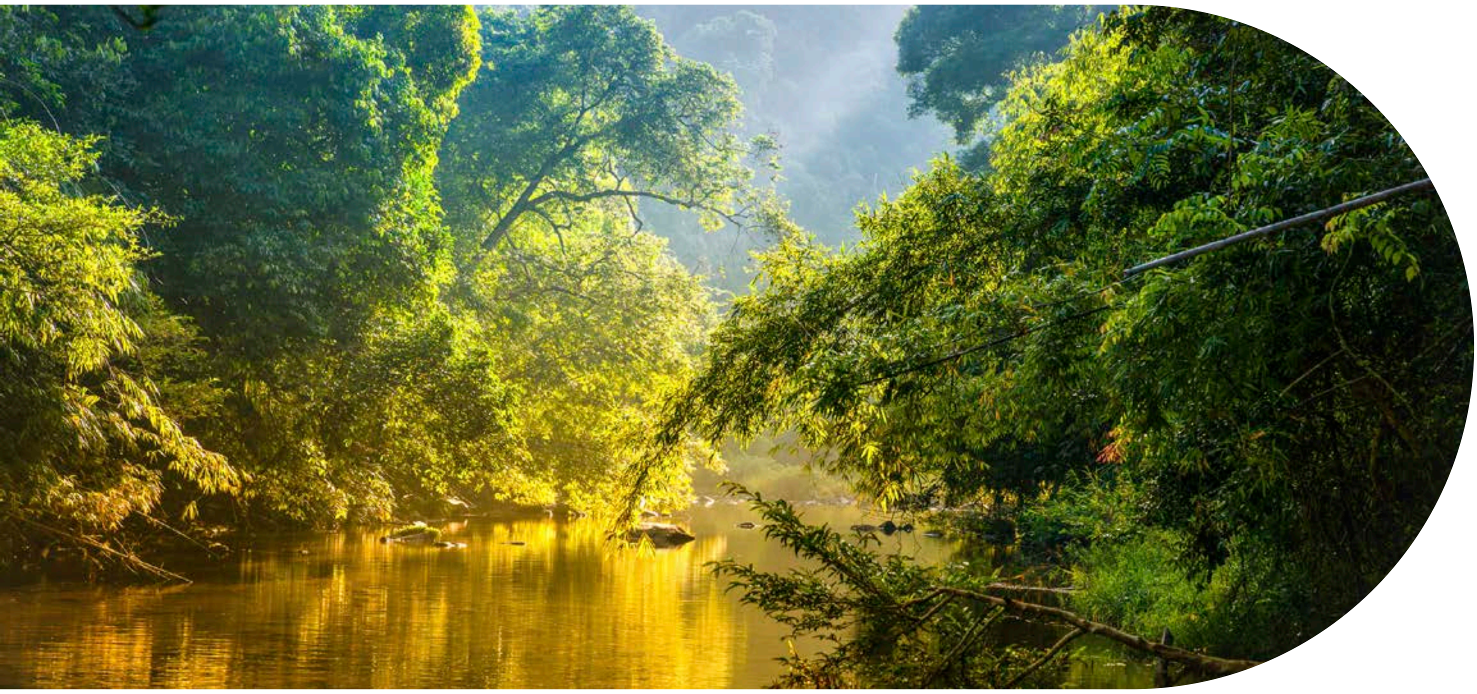
As signatories of the commitment to Eliminating Commodity-Driven Deforestation and the Finance for Biodiversity Pledge, we recognise the urgent need to address nature-related risks if we are to successfully mitigate climate change and biodiversity loss. We have now published our Approach to Deforestation and Deforestation Policy Statement and we continue to encourage companies through engagement to commit to having a net-positive impact on biodiversity throughout their operations and supply chains by 2030.

Social

We recognise that companies are not abstract entities but are composed of people and operate within communities.

Companies have responsibilities towards those individuals whom they employ as well as the communities in which they operate; both are rich sources of capital for a company, but they need to be managed with integrity. As our aforementioned research corroborated, companies with good or improving social characteristics have tended to outperform their lower-ranked peers.[3]

The observance of basic human and labour rights, developing the full potential and productivity of human capital and effectively combating bribery and corruption are essential for the long-term sustainability of companies and ultimately maintaining their licence to operate. FHL recognises the importance of protecting human rights as a critical component of a Just Transition and has joined the collaborative engagement initiative Advance to encourage full implementation of the UN Guiding Principles on Business and Human Rights (UNGPs). We will further develop/enhance our own human rights policy and human rights due diligence process in 2023.



[3] Federated Hermes Limited, 'ESG investing: a social uprising', (October 2018)

Corporate governance

Our research has demonstrated that sound corporate governance is the universal bed rock of risk management.

We recognise good corporate governance as encompassing effective boards composed of individuals representing the diversity of stakeholders the company serves; the alignment of executive remuneration with the creation of long-term value while paying strictly no more than is necessary; developing a corporate culture that puts customers first and treats material stakeholders fairly; and the establishment and protection of all material shareholder rights.

We also include consideration of strategy, company purpose, corporate transparency and risk management frameworks in our analysis of governance factors which can have a material impact on long-term performance and a company's social licence.

Our investment teams across all asset classes assess ownership structures, management credibility, corporate governance standards and the wider behaviour of companies. We are mindful that governance standards vary by market, although they generally tend to be higher in developed than emerging markets, with well-developed company law and corporate governance codes accompanied by protections for minority shareholders, liquid secondary markets and typically entrenched shareholder rights. However, this generalisation is shifting as many emerging markets in particular recognise the benefits of raising governance standards across their markets. We are mindful of the importance of transparency and maintaining legitimacy in public-facing infrastructure investments that provide an essential service.

Through EOS at FHL, our third party client stewardship service, we continue to promote our Guiding Principles for an Effective Board paper in different markets via conferences and local market best practice engagement. The team also advocate for minimum levels of racial and ethnic diversity, in addition to encouraging improved disclosure and ethnicity pay gap reporting, in local corporate governance codes and authoritative guidelines. In an effort to streamline our disclosure in a way that makes it more transparent and useful for companies and clients, EOS have now moved from publishing market-level Corporate Governance Principles to publishing regional Public Vote Guidelines in some markets in 2023.

Our approach to controversial activities

FHL operates a firm-wide exclusion with respect to armament-related activities prohibited by International Law or Conventions and any considered controversial. These include the following:

- Anti-personnel devices
- Cluster munitions
- Chemical and biological weapons
- Nuclear weapons
- White phosphorous-based munitions

As part of our approach to controversial activities, we have identified business activities that have significant risk as these are activities that are unlikely to form a constructive part of a future sustainable economy, for which investor stewardship is not expected to be effective and that we believe will likely cause material financial risk to our clients. We have also identified other controversial activities that may carry material risks to social and natural capital, but where we believe that stewardship can have a positive impact in significantly reducing or eliminating the associated financial risk to our clients. Both categories of activities have been set out in our Approach to Controversial Activities document. This Approach is reviewed at least annually by our Governance Committee. Additionally, we have a range of broader exclusion approaches in place for specific funds and for individual clients.

> **Each of our investment teams has the flexibility to form their own judgements based upon their own detailed analysis.**

As a general rule, we prefer to engage with companies rather than exclude them from our investible universe. In our view, successful engagements can reduce the risks to shareholders, unlock value and reap benefits to wider society. Each of our investment teams has the flexibility to form their own judgements based upon their own detailed analysis. However, each team is expected to have documented their considerations on the most controversial activities and be able to explain any investment decision both internally to our Portfolio Review Committee and, importantly, to clients.

Public markets

ESG Integration

We believe in order to integrate ESG and stewardship authentically, there are three levels of integration; at the issuer, portfolio and our firm level.

Figure 3. Responsible investing in action

Corporate Level Driving responsibility	**Responsibility strategy** A clear vision to mitigate risk and generate long-term sustainable value	**ESG Integration** UNPRI founding signatory; integrate ESG considerations across all asset classes	**Proactive stewardship** Promote sustainable best practices and advocate for positive change	**Firm-wide commitment to integration, advocacy and responsibility**
Portfolio Level Managing responsibly	**Risk management** Measure and manage aggregate exposures to ESG risks	**Tracking ESG Risks** In-house ESG toolkit highlights red flags and engagement progress	**Responsibility office** Regular meetings with active engagers and Responsibility Office to assess ESG risks	**Advanced ESG and engagement tools integrated throughout the investment process**
Security Level Investing responsibly	**Security Selection** Avoid issuers with egregious ESG risks & identify companies undergoing positive change	**Systematic assessment** ESG embedded in fundamental analysis via proprietary data analytics	**Active ownership** Unique ESG insights from global EOS engagement experts	**Combining active fundamental and ESG analysis**

Source: Federated Hermes Limited, as at 31 January 2023.

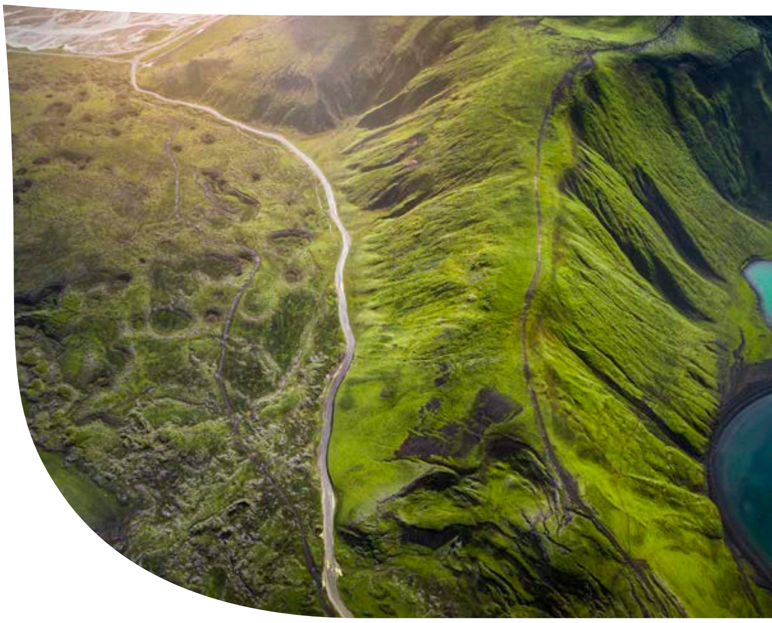
A tailored approach with centralised support: All our investment activity is supported by our dedicated Investment Office and Responsibility Office, both of which report directly to our CEO. Regular meetings are held between the two offices and with the investment teams to ensure proper coordination and integration of ESG factors and engagement insights. However, it is the responsibility of our investment teams to effectively integrate ESG and engagement information into their investment processes and ultimately our fund managers have discretion on investment decisions. This ensures that ESG factors are fully integrated into investment analysis and decision making.

Developing a holistic view: Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, risk and material ESG factors (including from a range of proprietary ESG and engagement tools), and the overlaps between these elements. Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress – is a key input into this process and investment strategy. Such engagement is carried out both by our investment teams and by EOS on their behalf. These factors influence decisions to invest and are also actively monitored after investment, with the potential to influence decisions to increase/decrease our exposure to the asset as well as sell an asset. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and seek to reduce the risk.

Stewardship integration: Our experience suggests that a systematic engagement approach, combined with tried and tested methods of escalation such as collaboration or shareholder meeting interventions, is needed to accelerate change at companies, such as those failing to prepare for the low-carbon transition. Driving change through engagement is one side of the coin – effective integration of stewardship insights is the other.

The principal objective of stewardship is to maintain or enhance the value of an asset. The beneficial outcomes sought through engagement include those of a governance, strategic, environmental or social nature.

In addition, we believe that ESG-aware investors should not rely on data alone, as it is often backward looking and updated infrequently and at a time lag. As such, active ownership is an important pillar of our investment approach. Engagements can deliver useful investment insights (although engagers and analysts must always seek to avoid acquiring any inside information). The voting and engagement activities of our stewardship team can promote positive change within companies, unlocking hidden value and also providing a forward-looking view of ESG and broader performance that can lead to opportunities.



Each investment team is responsible for looking at the financial performance, risk and capital structure of investee companies.

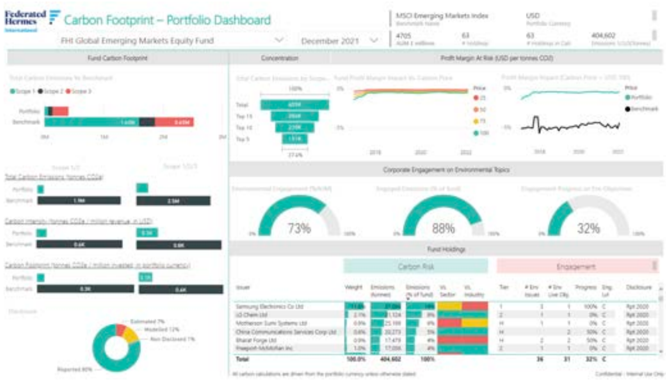
The investment teams assess and continue to monitor strategy, financials, risk, material ESG factors and the overlaps between these elements throughout the life of the holding. The monitoring of strategy, financial and non-financial performance and risk and capital structure is done through carrying out a financial analysis of company reports, attending analyst meetings and investor presentations, using media sources and third-party research and attending engagement meetings. Each investment team is responsible for looking at the financial performance, risk and capital structure of investee companies. All teams also have access to ESG data and proprietary tools, including engagement information. When there is a concern, this will inform engagement and investment decisions.

Proprietary tools

In addition to making use of best-in-class third party research provided by ISS, MSCI, Sustainalytics, Trucost, Net Purpose, and others, our investment teams incorporate ESG factors into their investment process by using a range of in-house proprietary tools which include:

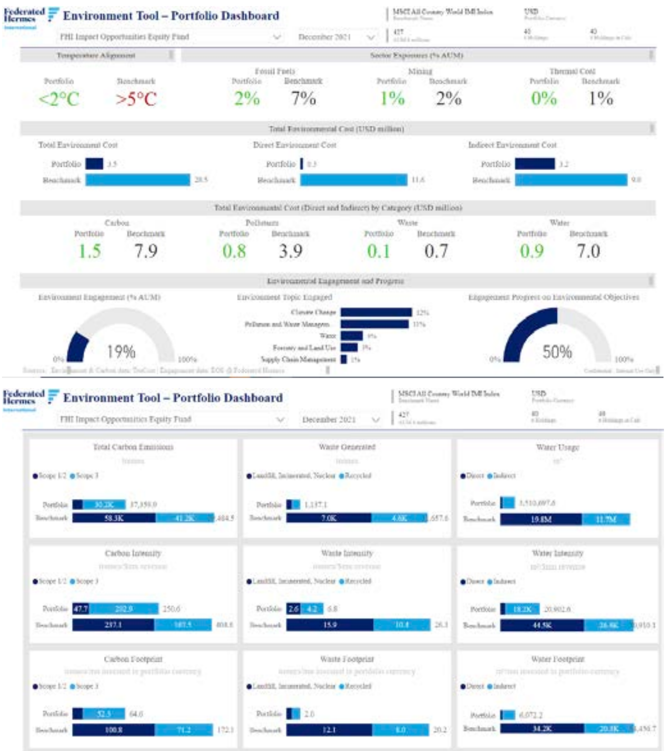
- Our **Carbon Tool** enables fund managers and engagers to identify carbon risks in portfolios and companies that currently exist or may develop in the future. Importantly, the tool incorporates our stewardship activity and intelligence and is able to identify companies that are priorities for engagement and their progress against environmental objectives.
- Our **Environmental Tool** assesses both portfolios and companies on their carbon, water and waste performance. It also looks to quantify the environmental cost of the impact via the following six lenses; carbon, water, waste, air pollutants, land/water pollutants and natural resource use. In addition, we have incorporated the temperature alignment of portfolios and companies alongside exposures to carbon intensive sectors, namely: fossil fuels, mining and thermal coal.
- Our **Corporate Governance Tool** provides a breakdown of corporate governance characteristics, such as information on board independence, diversity and audit tenure. This tool compares the governance of companies to the expectations we have set and flags any companies that do not meet the expected standard.
- Our **ESG Dashboard** includes our proprietary Quantitative ESG (QESG) Score and identifies stocks with positive ESG characteristics and/or stocks demonstrating positive ESG change. The QESG score captures how a company manages its ESG risks.
- The **Portfolio Snapshot** allows us to observe the aggregate ESG risks across our portfolios relative to their benchmarks. It also examines ESG ratings and controversies and identifies contingent risks. Our portfolio managers use this tool to evaluate a strategy's ESG performance over time. It also provides insights into engagement and the progress made, and our voting choices relative to the benchmark.

Figure 4. Carbon footprint – portfolio dashboard



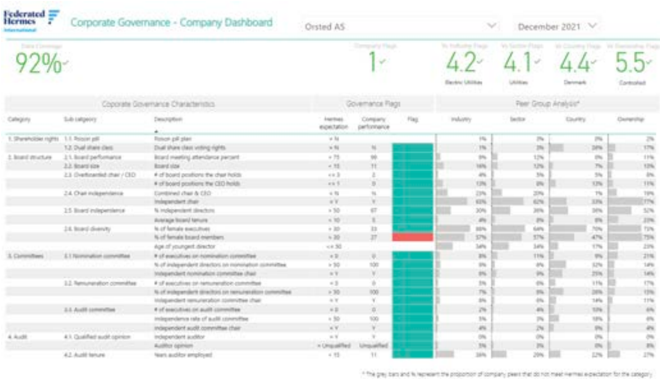
Source: Federated Hermes Limited, as at 31 January 2023. For illustrative purposes only.

Figure 5. Environmental Tool – Portfolio dashboards



Source: Federated Hermes Limited, as at 31 January 2023. For illustrative purposes only.

Figure 6. Corporate governance – company dashboard



Source: Federated Hermes Limited, as at 31 January 2023. For illustrative purposes only.

Figure 7. ESG Dashboard

Source: Federated Hermes Limited, as at 31 January 2023. For illustrative purposes only.

Figure 8. Portfolio Snapshot – ESG and engagement performance

Source: Federated Hermes Limited, as at 31 January 2023. For illustrative purposes only.

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

Engagement

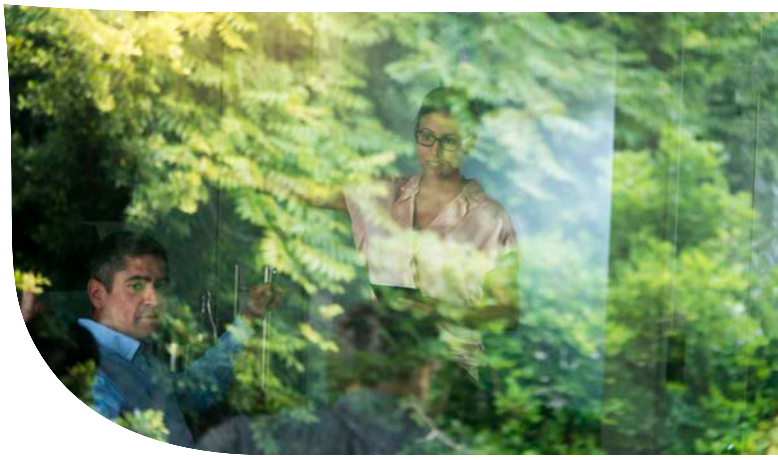
Through EOS – one of the largest stewardship resources of any fund manager in the world – we engage companies on strategic and material ESG concerns to promote investors' long-term performance and fiduciary interests.

We believe that engaging simultaneously on equity and credit creates a common long-term voice, increases access and influence and shared resourcing to pool the priorities of like-minded investors.

Our approach to engagement is driven by our purpose and investment beliefs. We believe that the purpose of investment is to create wealth sustainably over the long-term and that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment. We aim to generate sustainable wealth creation for the end beneficiary investor, encompassing both investment returns and their social and environmental impact.

> **Given the time horizons of our strategies to meet our clients' needs we are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies.**

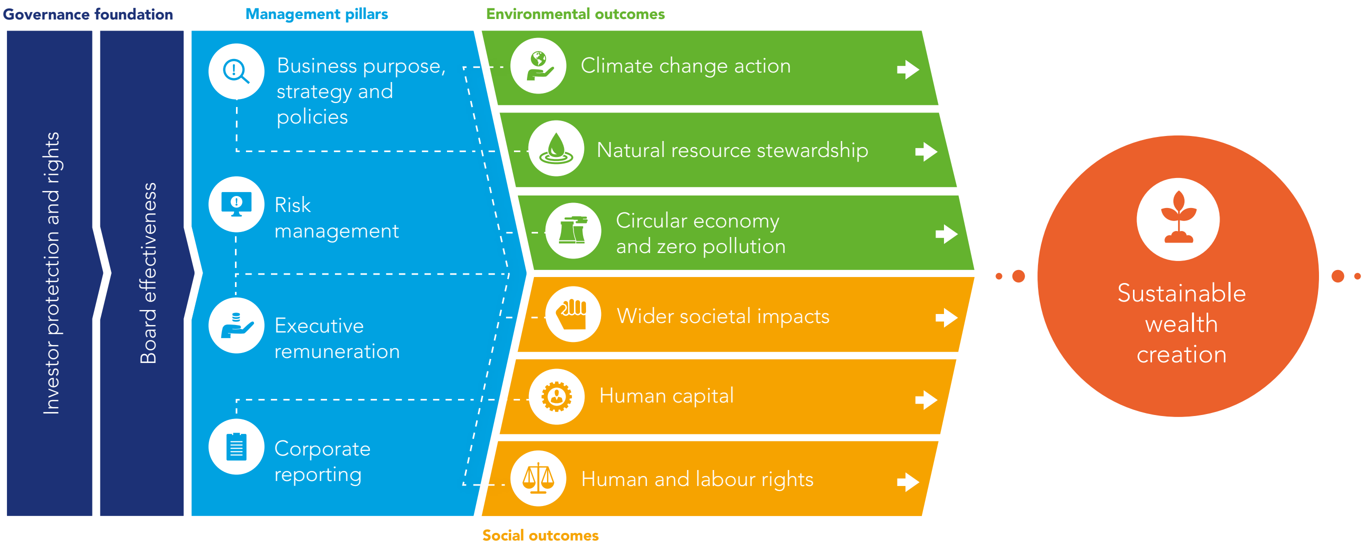
As a result, our engagement is outcomes-driven and focused on ensuring that the companies we invest in are creating wealth sustainably. Given the time horizons of our strategies to meet our clients' needs we are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies. We believe that this approach delivers the best results for our clients and end beneficiaries.



Our Responsible Ownership Principles, which we developed in 2002 and updated in 2010 and 2017, set out a number of expectations which we believe should exist between owners, boards and managers to create a framework for communication and dialogue. Similarly, our Climate Change Expectations for investee companies set out very clearly our rationale for believing climate change is a material issue – and six key expectations of companies that range from setting science-based targets to having a positive public policy position on the issue and committing to disclosing in line with the TCFD.

EOS has established a detailed public markets engagement plan on a rolling three-year basis, with themes ranging from human and labour rights to circular economy and zero pollution. EOS focuses its stewardship on the issues that have the greatest potential for long-term positive outcomes for investors and their beneficiaries. We review our engagement plan every year to ensure it is up to date and reflects client priorities.

Figure 9. Engagement themes: Our stewardship process to achieve long-term sustainable returns on investment



Source: Federated Hermes Limited, as at 31 January 2023.

The EOS engagement selection process is a key structure which enables us to support client stewardship. The companies in our core engagement process are formally identified on an annual basis and intermittently throughout the year based on size of holding, materiality of identified ESG and financial risks, and feasibility of engagement. Each company in our core engagement programme is given an appropriate intensity tier, based on the likely impact of engagement and ultimate benefit to the value of the underlying investment. We then assess the required intensity or depth of the engagement needed to resolve the issues.

Engagements on some objectives may involve only a small number of meetings, although others are more complex and will entail multiple meetings with management and board members over several years.

We set clear and specific objectives within our company engagements to ensure we achieve positive outcomes. An objective is a specific, measurable change defined at the company – an outcome we are seeking to achieve. Each objective is tracked using milestones. Objectives are regularly reviewed until they are completed – when the company has demonstrably implemented the change requested – or discontinued. Objectives may be discontinued if the objective is no longer relevant, or because the engagement is no longer feasible or material.

Engagements on some objectives may involve only a small number of meetings, although others are more complex and will entail multiple meetings with management and board members over several years. Such activity often requires persistence. Our long-term and diverse perspective enables us to persist with the more difficult and time-consuming engagements to bring about changes in either strategy, financial structure, operational or risk management or governance, including in relation to ESG risks. Any change we encourage a board or management team to make will be with the intent of improving a company's long-term performance.

Our dialogue with investee companies is primarily conducted through in-person meetings, calls, letters or emails, either directly or as part of a collaborative group. The nature and frequency of the dialogue depends on the location of the company, stage of engagement, severity of the issue and willingness of the company to engage. As evidenced by research, effective engagement that delivers value, demands a specific skill set that goes far beyond written activity or interaction with lower-level company representatives. Change is brought about by access at the board level gained by engagement professionals who have industry or professional experience, gravitas and specialist skills at challenging senior decision makers.[4] The majority of our dialogues are conducted with the board of directors (primarily the chair, lead independent director and chairs of board committees), corporate secretary, subject specialists or investor relations. Occasionally the dialogue is with executive teams, although only where we believe the concern justifies their time and attention.

Making realistic and realisable demands of companies, informed by hands-on experience of business management and strategy setting, is critical to the success of our engagements. With all engagements, we seek to build a strong relationship with the company and are willing to be patient, remaining focused on achieving goals which are directed towards long-term success.

Escalation

We escalate the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue. Generally, our engagement activity becomes more active where we believe that engagement will lead to an increase in or prevent/limit a decrease in the value of a company over the long-term.

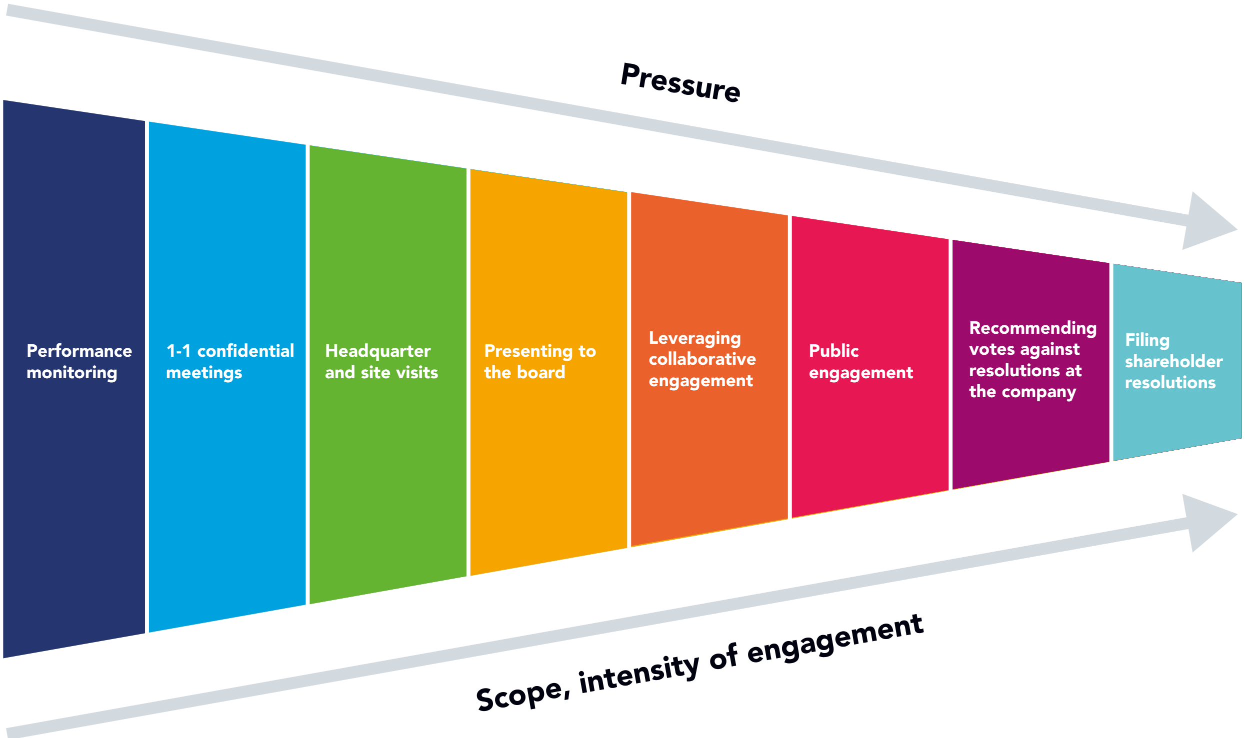
EOS uses the following engagement tools to escalate engagement over time. The graphic demonstrates how different tools are selected as the scope or intensity of the engagement increases in tandem with pressure for change at the company.

Escalating engagement on debt has many similarities to equity, including the use of collaborative engagement, formal letters to the company and public statements. There are, however, some differences. Companies have a recurring presence in the debt capital markets, which gives our public credit teams additional pressure points to influence corporate behaviour. Where a company has been unresponsive to our engagement efforts, we may also contact the banks involved in a new issuance.

For our engagement-focused funds, we may also divest where we deem the engagement has failed, for example, where the company's actions contradict the outcome our engagement has been seeking. However, this is a last resort and only used after allowing sufficient time for the situation to improve.

[4] Federated Hermes Limited, 'New research shows the importance of board', (20th September 2017)

Figure 10. Engagement tools employed by EOS



Source: Federated Hermes Limited, as at 31 January 2023.

Collaboration

We see value in both direct and collaborative engagement, and it is the combination of both which helps us to influence issuers and borrowers and to carry out effective stewardship. Crucially, the primary concept of EOS' stewardship service is to provide a mechanism for like-minded asset owners to pool their resources and, in so doing, create a stronger and more effective stewardship voice.

Where there are shared objectives – in particular the promotion of long-term sustainable value – we use both formal forums and other more informal links to work collaboratively with other investors on a global basis. We are a member of a number of industry bodies and initiatives around the world, through which we conduct collaborative engagement both on thematic issues and with specific issuers.

Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

Voting

Intertwined with our mission to create wealth sustainably over the long-term is the belief that, consistent with client objectives and applicable requirements, investors must be responsible stewards of capital in order to contribute to positive outcomes for our clients and beneficiaries, as well as society and the environment. Investor rights are themselves an asset, and we view the exercise of these rights as part of our fiduciary duty and a responsibility of effective stewardship. We, as shareholders, are granted a wide range of rights which both offer us a level of protection and enable us to fulfil our stewardship responsibilities effectively. In particular, we consider the vote as part of the asset and accept that we have a responsibility to exercise this right in a considered fashion.

EOS' Global Voting Guidelines act as a policy which inform EOS' voting recommendations to our investment teams as well as to EOS clients who request to receive voting recommendations. The FHL Global Voting Policy and Guidelines, which are aligned with EOS' Global Voting Guidelines, inform the voting decisions made by our investment teams. Our Guidelines are informed by a hierarchy of external and internally developed global and regional best-practice guidelines. In 2022, we had 22 EOS-developed regional corporate governance principles, which set out our fundamental expectations of the companies our clients invest in. In an effort to streamline our disclosure in a way that makes it more transparent and useful for companies and clients, EOS have now moved from publishing market-level Corporate Governance Principles to publishing regional Public Vote Guidelines in some markets in 2023. More information can be found in the EOS 2022 Annual Review.

For listed equities, our voting and engagement are co-integrated as part of our overarching approach to stewardship. As such, our voting decisions – as well as EOS' recommendations to third-party clients on voting decisions – are informed by the insights and experience of engagement with the investee company.

We disclose our votes for funds with voting rights the day after the meeting date. In doing so, we are transparently accountable that our dialogue with companies around voting issues is not compromised.

Our range of public market products

Our public markets investment offering is structured on three strategic pillars of **Active ESG**, **Sustainable** and **Impact**.

Each product managed is mapped to the EU Sustainable Finance Disclosure Regulations (SFDR) classifications where applicable and aligned with one of these investment categories to outline the level of ESG integration adopted by that particular strategy and ensures complete transparency with our clients.

Our **Active** ESG products offer best practice integration of ESG analysis and engagement insights, with the objective of delivering long-term outperformance.

Our **Sustainable** products offer thematic exposure to companies we consider to be leaders in offering environmental or social products and services or mitigating their environmental impact. These portfolios also have a clear set of exclusions to ensure that potentially harmful activities cannot be invested in and an additional objective to deliver a reduced environmental footprint vs. their benchmarks.

Our **Impact** products seek to deliver real-world measurable positive change either through investment in companies that provide products and services which help to solve the world's environmental or social challenges or through companies that, with effective investor engagement, can make a greater material positive contribution to the world.

> **We can create solutions with different degrees of sustainable investing depending on the values and priorities of the client.**

While these approaches differ and may appeal to different client types, each is underpinned by our best practice integration of ESG analysis, engagement insights and the delivery of sustainable outcomes through effective stewardship.

We can create solutions with different degrees of sustainable investing depending on the values and priorities of the client. At FHL, the integration of assessed ESG factors and risk into the investment process comes as standard across all of our products.

Figure 11. Offering sustainable solutions

1 Active ESG

Financial

Responsible, active investing for long-term performance.

- Financial objective
- Best-practice integration of ESG analysis and engagement insights
- Some capabilities may enforce exclusions
- Delivery of outcomes through effective stewardship

2 Sustainable

Financial & Sustainability

Thematic and values-based approaches for sustainable outcomes.

- Financial and sustainability objectives
- Best-practice integration of ESG analysis and engagement insights
- Exposure to sustainability themes and to ESG leaders that reflect sustainability values
- Delivery of sustainable outcomes through effective stewardship

3 Impact

Financial & Impact

Mission-led investment strategies to create positive impact.

- Financial and impact objectives
- Best-practice integration of ESG analysis and engagement insights
- Focus on companies generating impact or undergoing positive transformation
- Some capabilities may enforce exclusions that reflect defined sustainability values, impact considerations, or both
- Delivery of positive impact outcomes through active investment and effective stewardship

Source: Federated Hermes Limited, as at 31 January 2023.

Private markets

ESG integration and engagement

In private markets, ESG data is often less readily or publicly available and our teams are heavily reliant on their own due-diligence, data collection and monitoring initiatives. Each team within Private Markets has developed its own tailored framework for assessing ESG risks, opportunities and impacts within its investments.

Private debt

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

Direct lending

For our direct lending team, the key is to identify meaningful ESG risks – both current and potential – before investing. Due to the difficulty of divesting and the capped upside, it is important to manage the downside ex-ante. The direct lending team undertakes enhanced due diligence on industries that are deemed controversial, such as energy, chemicals, forestry and agricultural commodities, manufacturing and mining and metals. They also undertake transaction-specific ESG analysis by carrying out an assessment on ESG risk for every investment opportunity. In addition, the team focuses acutely on the sensitivity of the company's cashflows to sudden damage that could arise from the identified potential ESG risks.

With that in mind, the direct lending team will evaluate if investors are adequately remunerated for the ESG risk(s) of the transaction. We have developed a modelling tool to help us estimate Scope 1 carbon emissions for companies that do not disclose their carbon emissions. The team have been using this to estimate carbon emissions for their holdings to form part of their investment analysis as well as use it as a tool for engagement to improve disclosures by the company.

Asset based lending

As with our direct lending investments, it is important for our asset based lending team to identify risks that may impact on a borrower's ability to repay their loan. We have integrated responsible property investment (RPI) principles and programme into the debt-investment procedures. This is done as follows:

- **Underwriting and due diligence:** The focus of our responsibility programme is on ensuring a strong due-diligence process, including assessments of ESG and climate risks and opportunities before agreeing new loans.
- **Loan origination and documentation:** The business plan agreed is included in the loan documentation at the loan-origination stage. This includes all mitigation activities identified and detailed in the asset business plan, asset refurbishment plans and/or planned and preventive maintenance programmes.
- **Management and monitoring post closure, asset upgrade finance:** We collect and manage the sustainability information we hold on the borrowers and the underlying assets.

Real estate

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

At the transaction stage, we use a number of procedures and tools that have been developed internally and through our sector engagement programme. This includes an initial screening, where the team assesses the risks and opportunities for value-add from ESG characteristics. This is followed by a responsible investment due diligence for any new acquisitions, where surveyors and environmental consultants collect relevant data on the buildings to identify risks and opportunities. As part of our due diligence process, we inquire to understand the level of community and tenant engagement in the assets being considered. The findings from this then inform the asset-management plans and processes.

As part of our due diligence process, we inquire to understand the level of community and tenant engagement in the assets being considered.

Sustainability regulatory risk assessments are then used to identify typical risks that should be incorporated when devising the parameters entered into the investment models (using discounted cash flow analysis). Also, the team analyses the net zero transition risk of the portfolio and the physical risk for all the assets. Typically, the team integrates ESG information that can affect investment fundamentals such as refurbishment budgets, risks of voids, lease lengths and obsolescence. ESG criteria and assessments are integrated into the investment decision papers submitted for approval to the Investment Executive Committee. The Head of Real Estate ESG sits on the Investment Executive Committee to review and ensure that ESG integration is appropriately covered.

ESG and engagement information continue to be integrated into the development and monitoring of our real-estate assets after purchase:

- **Setting ESG requirements:** through our internal responsible property development requirements we have set minimum requirements that assets must meet when undergoing refurbishment or new construction.
- **Monitoring and data collection:** we work with our property managers, facilities managers and consultants to monitor ongoing implementation and improvements. This is reported back to the business on a quarterly basis. Annual key performance indicators (KPIs) are set and progress against them is measured.
- **Engagement:** we work with our property and asset managers on site to engage with the delivery teams, tenants, occupiers and visitors. Site-specific annual surveys and other engagement activities are carried out successfully.

For our real estate team’s indirect and international investments, we carry out active engagement on governance matters and on ESG policies and strategies with property developers, property management teams, tenants, lawyers and agents. We include commitments to develop a joint ESG strategy on acquisitions for jointly managed assets.

The ESG working group oversees all of the above ESG integration activities. This is achieved through a number of different activities, such as coordinating knowledge-share sessions between teams (including EOS), working with the investment teams to develop frameworks to assess different ESG risks and coordinating conversations with EOS to ensure there is good engagement across the strategies.

In situations where we directly manage real-estate assets, we are committed to acting consistently and clearly as stewards of the assets we own. Where we are an indirect owner through a joint venture and with third-party funds we act as stewards of the assets through engagement with the fund’s governance structures.

In our direct real estate funds, we believe that active management delivers stronger returns. A growing preference from owners and occupiers for buildings with better environmental performance will lead to those assets experiencing higher net income growth due to lower depreciation and operational costs.

Moreover, additional benefits from green buildings arise from increasing demand – good air quality and high levels of daylight have been shown to reduce absenteeism, improve productivity and concentration, reduce stress levels and achieve an overall increase in wellbeing. Enabling long retention rates and less voids affecting our investment performance. For these reasons, on our directly managed funds, we integrate environmental and social issues into our active asset management strategy on each of the investment phases of an asset’s life cycle:

We have tailored guides and minimum sustainability requirements for refurbishments and developments to capture ESG related improvement potentials at every stage of a building's life cycle.

We set a commitment to become net zero carbon by 2035 and we have developed a pathway on how to reach this target. To deliver on this, a variety of tools and systems help to fulfil minimum environmental performance requirements and targets as part of the property management processes.

We invest in the local communities in which we operate and we aim to develop meaningful places. We also establish strong relationships with our occupiers with the aim to better integrate ESG into our assets.

In addition, we take an active role in public policy and sector engagement to promote acceptance and implementation of responsible investment principles across the real estate industry. This ensures sector-wide tools are developed enabling industry comparison and better monitoring of funds' performance.

Our dedicated tools include:

- **Responsible Refurbishment Guide and Design Innovation Standard:** tailored guides and minimum sustainability requirements for refurbishments and developments.
- **Net Zero Transition tool:** tool that support our journey to net zero carbon.
- **Social Value tools:** we use two social value tools to identify the local needs of the communities we operate in and to measure and monitor our added social value.
- **Working with occupiers:** green lease clauses since 2008 and active tenant engagement programmes.

For both our direct lending and real estate debt teams, due to the difficulty of divesting and the capped upside, it is important to manage the downside ex-ante to identify risks that may impact on a borrower's ability to repay their loan through the due diligence processes described above.

Infrastructure

Our infrastructure team undertakes direct equity investments into infrastructure businesses and projects, with an investment horizon of up to 20 years. All infrastructure assets have a core social, economic and/or environmental purpose. We have always believed that the essential service and public facing nature of infrastructure assets, the illiquid nature of our investment and our investment horizon make a focus on sustainability essential. Our current portfolio includes renewable energy generation, energy from waste and recycling, UK gas distribution, cross border rail, port and shipping infrastructure and water supply and treatment.

> **We assess sustainability risks, opportunities and impacts annually following acquisition, integrating identified priorities into our strategic asset management objectives alongside all other asset and portfolio level objectives.**

Our ESG integration approach systemises the assessment and management of ESG risks, opportunities and impacts during the investment lifecycle, from due diligence at acquisition through to exit. Sustainability considerations are fully integrated into the day-to-day activities and processes undertaken by all members of the Infrastructure team and overseen by the Infrastructure Investment Committee.

We assess sustainability risks, opportunities and impacts annually following acquisition, integrating identified priorities into our strategic asset management objectives alongside all other asset and portfolio level objectives. To form annual objectives, we leverage the EOS stewardship model, selecting the areas for each asset deemed most material and where we can maximise engagement impact. We monitor and report sustainability focussed KPIs and performance at both asset and portfolio level. These map to the EOS stewardship model, ensuring we are able to measure progress against these areas and identifying where there is a need for further targeted engagement. There is therefore a 'golden thread' that runs through our strategic review and objective setting, engagement and reporting.

As in public markets, we take an active ownership approach at company level, seeking to improve performance, mitigate risks, minimise negative and increase positive impacts through engagement with companies via board and shareholder interactions.

Across our infrastructure investments we hold a range of ownership stakes that include wholly owned, joint control and a significant minority stake. In each case, our ownership grants us certain formal rights which we seek to exercise responsibly consistent with delivering sustainable wealth creation. For the majority of our investments, this entails Board and Committee seats which we populate with experienced members of our team, providing a highly direct means of engagement.

Across our infrastructure investments we hold a range of ownership stakes that include wholly owned, joint control and a significant minority stake.

Consistent with the EOS stewardship model, we particularly recognise that robust and transparent governance is the foundation for effective consideration and management of social and environmental matters. Ensuring that environmental, social and governance considerations are prioritised by company boards and shareholders not only improves the management of long-term risks and opportunities, but can also enhance broader stakeholder relationships, which are essential to making a positive and meaningful contribution to the wider society and maintaining our investments' social licence to operate. Ensuring these considerations are integrated into company strategy is a key focus for the team and we chair, or have been involved in the establishment of, a number of board-level sustainability committees at our portfolio companies in furtherance of this objective.

While the material environmental, social or governance considerations and priorities will vary by investment, we are particularly focussed on climate change and have set a target to align our infrastructure portfolio with the goals of the Paris Agreement by 2025.

Private equity

In private equity too, we embrace ESG in our selection of funds (General Partners) and our direct investments. In addition to the moral imperative, we adopt this approach because we think long term and believe the outlook for portfolio companies will be greatly enhanced through active engagement and management of ESG-related risks and opportunities.

The overarching objective of our Private Equity ESG framework is to ensure that material ESG risks and opportunities, whether they be at a macro, industry or company specific level are identified and effectively managed. To that end, we undertake due diligence on all potential General Partners and direct investments as an integral part of our wider due diligence process. Where our assessment identifies a concern then a plan to address the matter must be in place before any investment decision would be confirmed.

As in public equities, we seek to adopt a 'positive engagement' mind-set rather than a policy of 'screening out' based on ESG performance. The ESG assessment is therefore viewed as an opportunity to de-risk and identify additional opportunities, rather than an obstacle to progressing a deal. Indeed, ESG laggards often offer the greatest opportunity to add value.

Our private equity team are very engaged with several industry bodies on relevant matters, in particular on raising the floor for ESG reporting (Invest Europe Responsibility Roundtable) and on the transition to net zero and climate change integration like the IIGCC and the iCI.

The team partner with General Partners that actively manage their portfolio companies including ESG risks.

Nature-based Solutions

FHL is collaborating with Finance Earth, the UK's leading environmental impact investment advisory firm, on the development of the UK's first fully diversified Nature and Biodiversity Impact Investment strategy, a private markets, blended finance strategy which will receive seed investment from the Department for Environment, Food and Rural Affairs (Defra) and which is designed to help address the climate and biodiversity crises in the UK. The strategy will seek to invest into high-integrity Nature-based Solutions (NbS) across land, coasts, rivers and sea in the UK. It will be directly informed by the UK's leading capabilities across climate science and ecology, and will invest into both NbS real assets (nature restoration projects) and impactful businesses operating across the nature restoration value chain. It aims to produce attractive risk adjusted returns through direct investment into the recovery of nature in the UK and support key targets and objectives set out by the UK government, such as protecting 30% of UK land by 2030, unlocking infrastructure and housing developments and "levelling up" by creating skilled green jobs across rural areas and coastal communities.

Advocating in the interests of beneficiaries

We recognise that as investors we have an opportunity and a responsibility to help address market-wide and systemic risks.

We engage constructively with regulators and policymakers globally to address environmental, social and other market failures that may prevent the financial system from operating in the best interests of its ultimate asset owners. This includes addressing barriers to responsible investment and stewardship. We seek to go beyond the minimum standards set by regulators and to demonstrate and share best practice.

We have a public policy team in the Responsibility Office, who work with experts across our firm to ensure advocacy work is well-informed, relevant and impactful.

Our stewardship service, EOS, also has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard-setters to help shape capital markets. Our investment teams contribute their expertise through collaboration with the Responsibility Office and EOS, as well as direct involvement in external industry initiatives. The result is an advocacy policy that aims to lead rather than follow the policy debate. Given the global nature of our investments, this work spans asset classes and geographies.

We often engage directly with regulators and policymakers and aim to be a progressive and constructive voice in the debate. We engage on regulation relating to the investment industry and the assets in which we invest. This work may be on a country-specific basis or those regulations and codes with a global remit. We provide practical insights about how proposed policies might play out in practice and help to identify suggested alternatives that might better achieve their responsible-investment policy aims. We also respond to consultations from policymakers to provide constructive feedback, using a networked approach to gain relevant input from teams across the business.

Figure 12: Tools of public policy advocacy

Source: Federated Hermes Limited, as at 31 January 2023.

We identify areas for more in-depth advocacy and engagement where we feel significant change is needed and where we can add value. When this is the case, we will identify the relevant policymakers to engage with on the topic.

Our public policy advocacy can cover a range of themes to help shape capital markets in the interests of our clients and end beneficiaries.

> **Our stewardship service, EOS, also has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard-setters to help shape capital markets.**

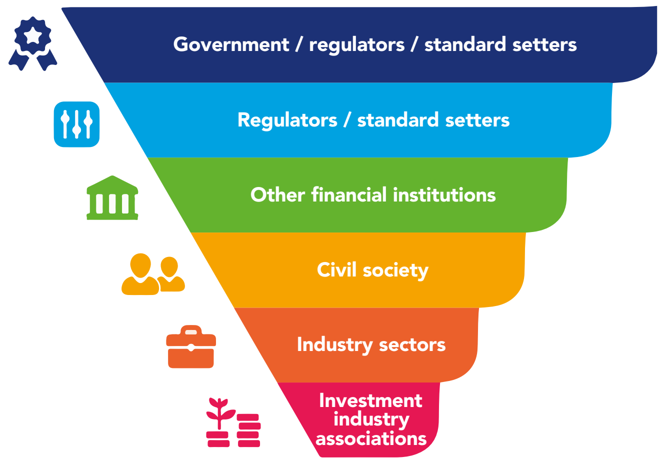
Figure 13. Our public policy advocacy themes

Source: Federated Hermes Limited, as at 31 January 2023.

We contribute to policy discussions both directly and in collaborative forums and initiatives. We are a member of several industry bodies and initiatives around the world and are cofounders of many of them. Through these initiatives we engage with others both within and beyond the investment industry to promote responsible investment, including ways that the industry and our investees can respond to market-wide and systemic issues such as climate change and biodiversity. We seek to take an integrated systems-based approach and prioritise and respond to the risks that are most likely, impactful and interconnected. To truly address systemic risk, collective and coordinated action will be required to provide systemic solutions. Colleagues from across the business – including the Responsibility Office, EOS, Risk and the investment teams – take on advisory roles in many of these organisations to share our practical expertise.

> **To truly address systemic risk, collective and coordinated action will be required to provide systemic solutions.**

Figure 14: We engage with a range of audiences in our public policy advocacy



Source: Federated Hermes Limited, as at 31 January 2023.

We include information on our advocacy activities and involvement in industry initiatives in our annual Stewardship Report.

Behaving as a responsible investment management firm

We are conscious that we should strive to meet the expectations that we have of others.

Governance Oversight

All of our investment activity is supported by our dedicated Investment Office and Responsibility Office both of which report directly to our CEO.

The Investment Office is responsible for the daily oversight of market risk across FHL, as well as the oversight of the underlying portfolio managers' adherence to their pre-defined/client-agreed investment processes. The Investment Office's main remit is to act as an independent investment risk consultant on behalf of our clients. While the Investment Office can challenge our portfolio managers' decisions, positioning and risk exposures, it cannot force change.

The Responsibility Office coordinates and supports the integration of our responsibility approach and activities across the firm, our funds and stewardship services. This includes quarterly meetings with each of the investment teams to review their ESG and engagement integration activities, as well as asset and issuer-specific discussions related to ESG and engagement. The Responsibility Office is also responsible for leading our advocacy work, as well as holding each department accountable for ensuring that we act as a responsible company. By doing so, it keeps the interests of clients and their beneficiaries at the centre of what we do.

> **All of our investment activity is supported by our dedicated Investment Office and Responsibility Office both of which report directly to our CEO.**

Reporting

We are committed to being open and transparent. The Federated Hermes Pledge underpins our firm-wide commitment to always put clients first and to act responsibly.

Reporting is critical to demonstrate our activity on our clients' behalf. We have therefore developed a suite of high-quality, activity-based, qualitative and quantitative communications to support internal and external stakeholder communications.

> **We also report on our water and waste performance for three of our equity strategies with an objective to outperform the benchmark on these factors.**

We are continuously improving our reporting on ESG so that our clients can fully understand our approach to responsible investment and plan to roll out further enhancements on ESG reporting as tools and technologies evolve. For our equity funds, we aim to provide clients with carbon performance and high-level engagement and voting information relevant to the portfolio on at least a quarterly basis. In the future we intend to roll out equivalent reporting on carbon performance and engagement to our public fixed income reporting.

We also report on our water and waste performance for three of our equity strategies with an objective to outperform the benchmark on these factors. We provide detailed quarterly and half-year reporting on both ESG and engagement information to the clients of our SDG Engagement and Impact funds.

We annually publish our Stewardship Report which includes high-level updates on efforts being made towards effective and outcome-driven stewardship, collaborative engagements and responses to market-wide and systemic risks, as well as the engagement, voting recommendations, public policy, screening and advisory work carried out by EOS on behalf of its clients. This report passed the criteria set by the FRC and meant we have retained our status as signatories to the UK Stewardship Code.

Additionally, we publish our Climate-related Financial Disclosures (TCFD) Report, where we lay out our approach to identifying and managing climate-related risks and seizing opportunities as a business. These include how we are involved at the policy level in developing climate-related initiatives and how we ensure that everyone in the business factors the weight of the climate emergency into the work that they do.

We regularly publish detailed case studies that cover a range of asset classes, alongside thought pieces, blogs and podcasts on topical and emerging ESG issues. We also make publicly available a quarterly EOS engagement and voting recommendations report covering thematic ESG topics and EOS' annual report, which includes statistics, case studies and public-policy information.

Managing stewardship conflicts in the interests of clients

FHL and its subsidiaries acknowledges its position as a fiduciary for its clients and seeks always to act in their best interests. Accordingly, the firm takes all reasonable steps to identify actual or potential conflicts of interest and maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients.

EOS provides services not only to Federated Hermes Inc (FHI), but also to other institutional investors, including a number of pension funds sponsored by corporations, governments and other organisations, as well as fund manager clients. These services include voting recommendations and engagement with companies in which the FHL's clients are equity shareholders and/or bond investors.

As a result, the following real or perceived conflicts may arise:

- We may engage with or vote the shares of a company which is the sponsor of one of our pension fund clients or is a company within the same group as one of our clients or prospects.
- We may engage with a government or government body which is the sponsor or associate of the sponsor of one of our clients or prospects.
- We may engage with a company which is a tenant of our real estate division's property investments.
- We may engage with a company which has a strong commercial relationship, including as a service provider, with the FHL business and/or with clients or prospects.
- We may vote on a corporate transaction, the outcome of which would benefit one client or prospect more than another.
- We may engage with a company which certain clients or prospects are equity holders and others are bond holders.
- We may hold meetings with companies for the dual purpose of delivering both our fund management and engagement services.
- We may otherwise act on behalf of clients who have differing interests in the outcome of our activities.

A specific Stewardship Conflict of Interest Policy has been developed which outlines how in all of our activities we seek to promote the long-term success of the companies in which we and our clients have invested. As such, we engage with market regulators and other actors to influence public policy and regulation to enable this outcome.

In those limited circumstances where a conflict over our approach to providing voting recommendations (aside from that directed by client specific policies), voting decisions or engagement arises which is not able to be resolved – the matter will be escalated to an 'escalation group' whose composition is the same as our Governance Committee.

The group is guided in reaching its decisions by our mission to deliver long-term sustainable wealth creation, our published Responsible Ownership Principles, voting policies and other appropriate industry endorsed guidance. If there is no majority view on the group then the CEO will make a final decision.

A strong culture of responsibility

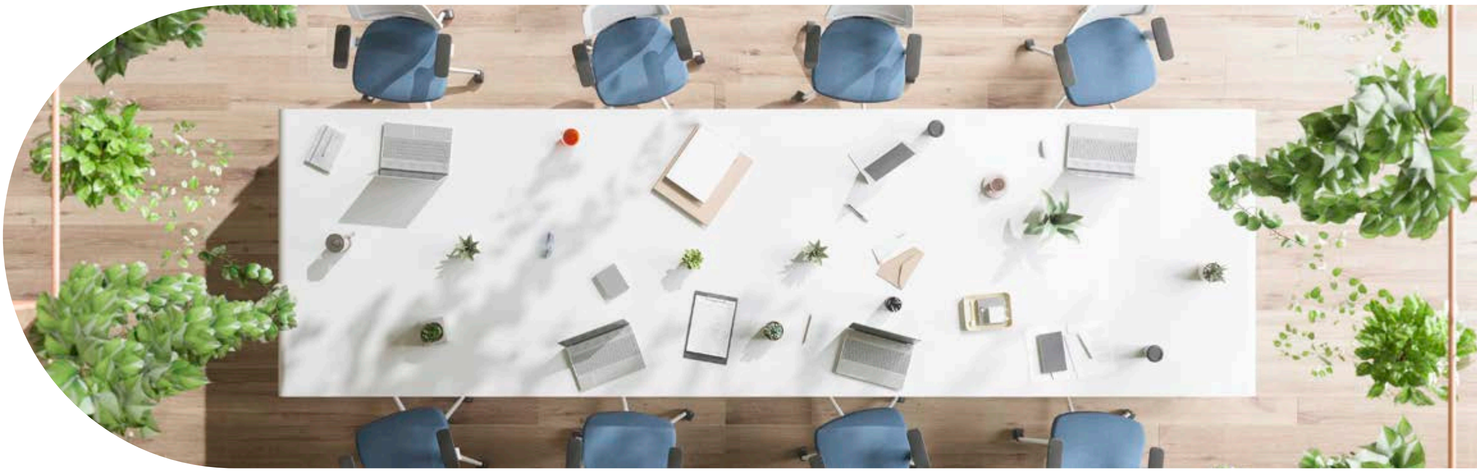
We are proud to have a strong culture of responsibility and aspire to both maintain and further foster this client-focused approach.

The Federated Hermes Pledge, created in 2015, expresses the commitment of each of us individually to always put the interests of our clients and their beneficiaries at the heart of what we do.

I pledge to fulfil, to the best of my ability and judgment and in accordance with my role, this covenant:

- I will act ethically, responsibly and with integrity
- I will put the interests of our clients first, consistent with our fiduciary responsibilities
- I will encourage responsible behaviour in the firms in which we invest and on which we engage
- I will act with consideration for our community and the environment both now and in the future. I will encourage others to do the same
- I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society
- I will treat my clients, my colleagues and all other stakeholders with dignity and respect and as I would wish to be treated
- I will deal with our regulators in an open, co-operative and timely way
- I will communicate clearly and honestly with all parties inside and outside our firm
- I will manage conflicts of interest fairly between all parties

Additionally, we are committed to being open and transparent with our clients about how we manage their funds and in particular provide them with full transparency of any costs and charges in their fund.



Performance Management

Through pay awards, we look to ensure that the aspirations we articulate in the Federated Hermes Pledge are reinforced. As such, our philosophy is to reward individual contribution, as demonstrated by the delivery of sustainable results aligned with our business strategy, values and behaviours, and which serve the best interests of our clients, their investors and our shareholder while enabling the business to grow to its potential.[5] We are committed to our business purpose of sustainable wealth creation that enriches investors, and, where possible, society and the environment while being at the forefront of developing industry best practice.

Our behaviour framework explicitly sets out the behaviours that are the visible manifestations of our Federated Hermes Pledge. All individuals are rated equally on their behaviours and on their technical performance as part of the performance-management process, to encourage a focus on meeting the needs of our clients, their investors and our shareholder and supporting our commitments to society and to the environment.

Ensuring an alignment of interests

In order to reinforce the alignment of interests with our clients, senior investment managers notionally co-invest in the funds they manage, and their bonuses are linked to long-term performance. Our senior management also participates in a long-term incentive scheme which rewards the building of a sustainable and profitable business.

Coordinated approach with independent oversight

Ultimately, to achieve our objectives we look to create a thoughtful environment where orthodoxies are challenged in the way that we invest, in the way that we engage and in the way that we work.

While the responsibility for implementing our approach resides with all FHL personnel, we have a number of structures, teams and governance processes which ensure that across the firm we discharge our responsibilities in a consistent and effective manner.

- **Portfolio Review Committee:** supports the Senior Management Team (SMT) by assessing and managing the investment teams, their corresponding processes and related activities. It reviews investment performance across all of our firm's portfolios and carries out monthly deep dives into specific investment strategies.
- **Governance Committee:** an oversight committee responsible for overseeing the formulation and delivery of our engagement, voting and climate policy. The committee is accountable to and reports to our CEO. The members include the Head of Responsibility, Head of Investment, Head of International Client Group, Legal Director, Head of Government Affairs and Managing Director, Private Markets.
- **Responsibility Working Group ('RWG'):** the RWG is made up of senior representatives from across the business and is chaired by our Head of Responsibility. Meeting every quarter, this group discusses a comprehensive range of topics that relate to the delivery of sustainable wealth creation for our clients and beneficiaries and shares best practice across the organisation.
- **Climate and Nature Working Group ('CNWG'):** The CNWG reports to the RWG and meets every quarter to develop and implement a formal business-wide climate-change strategy. This includes overseeing progress in meeting our commitments and developing a new climate and nature risk management approach and enhanced product and engagement offerings.
- **Business Development Forum:** is responsible for approving or rejecting new products. Its members consider how desirable and suitable a product is from a commercial, customer and portfolio-management perspective. This includes looking at how it is aligned with our responsible investment and ownership approach. The forum is also responsible for setting fees and pricing and reviewing ongoing product and range suitability, target markets and profitability.
- **Dedicated Responsibility Office:** acts as a hub of expertise and support to assist every employee in our business to work towards our core purpose of delivering sustainable wealth creation over the long term. The Responsibility Office coordinates and supports the integration of our responsibility approach and activities across our funds and stewardship services. It is also responsible for leading our advocacy work, as well as holding each department accountable for ensuring that we act as a responsible company.

[5] For more information, please see our Remuneration Policy: https://www.hermes-investment.com/uk/en/intermediary/ie-remuneration-policy/

FHL Ownership and Governance

In August 2021, Federated Hermes, Inc. (FHI) purchased the remaining 29.5% interest of FHL held by the BT Pension Scheme ("BTPS"). Following the transaction, FHI owned approximately 90% of FHL's shares, with the remainder held by senior members of FHL staff through the Federated Hermes Limited Long Term Incentive Plan (LTIP) scheme.

On 14 March 2022, FHI completed the acquisition of the remaining 10% stake in FHL, effected by way of a tender offer, with the FHL LTIP plan generally being replaced with the equivalent award of restricted stock in FHI. Following this acquisition, FHL became a wholly owned subsidiary of FHI.

FHI and FHL are united by a shared commitment to client-centric responsible investment and long-term business growth. FHL and its subsidiaries fall within FHI's governance framework.

FHL has a statutory Board of Directors which currently comprises six directors, headed by an independent non-executive director, and it is the steward for the FHL business. The FHL Senior Management Team (SMT) reviews the firm's climate management approach – which applies mainly to our investment practice but also to management of risk as a corporate entity – on an annual basis and is kept up to date on the progress of implementation through updates from the Head of Policy & Integration and Head of Responsibility.

Good corporate citizens

In addition to our behaviours as individual employees and the delivery of strong investment performance for our clients, we also believe we should lead by example as a firm. FHL strives therefore to make a difference, not only through our investment solutions, but in how we contribute to both the financial system and wider community. In evidence of our commitment, we are proud to have achieved the revised ISO 14001 in recognition of our efforts to manage our own operations as environmentally efficiently as we can.

Similarly, in recognition of the value of a diverse workforce and in particular the benefits of having a diversity of experience among senior management, we were a founding signatory to the Women in Finance Charter and have set ourselves firm-wide, board-level and senior-management-level gender diversity targets. In addition, Unity, our internal employee network, supports the implementation of the Diversity, Equity and Inclusion Strategy and oversees the function and growth of eight Employee Network Groups. These include the Gender, LGBTQ+, Race & Ethnicity, Disability, Mental Wellness, Families, Multi-Generations, and Returners Employee Networks. They aim to strengthen workplace relationships, foster a sense of belonging, promote personal and professional growth, and ultimately, nurture the entire company community.

FHL has a statutory Board of Directors which currently comprises six directors, headed by an independent non-executive director, and it is the steward for the FHL business.

Our activities in the local community continue to be supported by our staff. These projects include a number of schools programmes focussing on reading and numeracy, social mobility and employability skills, renovating local schools and gardens, and supporting those more vulnerable in our immediate vicinity in recognition of the huge disparities in wealth on our doorstep.

Notable partnerships include:

Trees for Cities

FHL offsets its operational emissions and business travel (by air and rail) emissions by working with Trees for Cities. For every tonne of GHG emissions that we generate, we purchase verified carbon offsets from Trees for Cities, which guarantees an equivalent amount of GHG emissions is reduced from the atmosphere.

East End Community Foundation (EECF)

The EECF has been dedicated to increasing opportunities for people living in London's East End for 25 years. FHL is working with them on a number of initiatives to help raise educational achievement, enhance employability and increase social cohesion.

Urban Synergy Mentoring

In response to the Black Lives Matter movement, we have continued with a third year donation to Urban Synergy, an early intervention mentoring charity that helps hundreds of young people between 11-18 years of age reach their full potential.

Giki Zero

Giki Zero Pro is an employee sustainability programme that helps FHL colleagues who want to reduce their carbon footprint and helps to engage staff on ESG issues and measure the impact of their actions within the environment.

Responsibility in action: policies and activities

Responsibility is intertwined in the way we invest, manage our assets and behave as a business.

ESG-integrated investments	Active ownership and management	Advocacy	A responsible firm
Corporate Governance			
An effective board			
Companies should be headed by an effective board responsible for setting the strategy, direction and risk appetite of the company. Boards should comprise a diverse range of competencies, knowledge, perspectives and experiences to enable them to effectively carry out their duties and responsibilities			
Our research has demonstrated that corporate governance issues is commonly the most material of the ESG triumvirate – our proprietary QESG score is weighted towards governance factors and various board metrics are incorporated into our ESG dashboard such as board composition and the split of the CEO and Chair roles. Our corporate governance tool allows us to assess companies against best practice standards and how they compare against their peer group.	Across asset classes we engage with company boards to ensure their diversity is representative of the stakeholders they serve; they consider more internationally diverse board appointments, enabled by more effective remote working practices; and that they continue to monitor and assess the prevailing company culture to ensure it is in line with the company's purpose, strategy and values.	We are active members of a plethora of groups worldwide promoting a high standard of corporate governance. In addition to responding to policy consultations we proactively advocate for change where we feel it necessary, for example around improvements to audit and accounting standards. We promote our Guiding Principles for an Effective Board paper. We support initiatives to improve board diversity, encourage improved disclosure (including gender and ethnicity pay gap reporting) in local corporate governance codes and authoritative guidelines. EOS have now moved from publishing market-level Corporate Governance Principles to publishing regional Public Vote Guidelines in some markets in 2023.	The SMT is responsible for the governance of the organisation and ensuring its effective operation and endeavours to consider all stakeholders when establishing objectives and policies. Among the SMT's responsibilities is ensuring adherence to and implementation of the FHL group's objectives and strategy and optimising the FHL group's performance and operations.
Pay aligned to long-term success			
It is important that companies design and implement remuneration policies that adequately align management teams with the objective of achieving long-term sustainable business success.			
We undertake rigorous assessments of company's pay practices in order to gain reassurance that management are being incentivised to deliver long-term sustainable performance alignment with the interests of long-term shareholders.	In recent years we have roughly doubled our rate of opposition to remuneration proposals in certain markets and increased our engagement with chairs of remuneration committees in an effort to seek more acceptable remuneration structures and outcomes.	We regularly meet with policy makers and standard setters and respond to consultations in order to convey our views and influence the policy discourse. In 2016 we published Remuneration Principles: Clarifying Expectations in order to be clearer in our diagnosis of the problems and to advocate our proposed solutions. We work with industry groups to set base practice guidelines.	Our incentive pay strategies for management and key decision makers in the firm focus on long-term incentive awards. Through our focus on behaviours as well as technical performance, we encourage all employees to act like long-term stakeholders, create sustainable wealth for our clients and their investors and support our responsible performance culture to create a sustainable business, discouraging excessive or concentrated risk taking and avoid conflicts of interest.
Culture			
An increasingly critical role for boards and management teams is establishing and maintaining a corporate culture which leads to appropriate behaviours			
We conduct an assessment including a view as to whether the Board and CEO is setting the right tone from the top of the organisation and whether it is being reflected on the ground. This is particularly critical in certain sectors and with respect to highly acquisitive companies.	Culture generally manifests itself in corporate conduct and the behaviour of employees. Where the wrong culture and conduct exists, this can negatively affect stakeholder relationships, the reputation of a company and, in the worst cases, lead to fines and other costs. In our engagements with companies we challenge them to evidence their desired culture in their organisational structure, processes and controls.	In addition to pressing for enhanced levels of disclosure of workforce related metrics, we regularly speak at conferences and respond to consultations to emphasise the importance of corporate culture to long-term success. Additionally, our CEO is a board member of the Financial Services Culture Board which promotes high standards of behaviour and competence across the UK banking industry. He is also a member of the Integrated Reporting and Connectivity Council, which provides guidance to the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB).	Responsibility, appropriate conduct and a principled approach to treating investors fairly, are integral to our culture. This culture is underpinned by the Federated Hermes Pledge. Individuals' annual appraisals give equal emphasis to behaviours as technical performance. To enhance our employee feedback tools, we introduced the Peakon employee survey. This technology platform converts confidential employee feedback into insights that our senior leadership team can put to work, to create a more responsive, fulfilling, and productive workplace.

ESG-integrated investments	Active ownership and management	Advocacy	A responsible firm
Environmental			
Climate change, water usage, pollution, land use, biodiversity			
Organisations need to ensure their operations take account of environmental constraints and the possible rising price of carbon or other factors where regulations are in place or are being considered			
We utilise data from various sources in order to understand a company's impact on the environment and exposure to risks arising from climate change. We look in particular at a company's carbon footprint and sensitivity to different climate scenarios. We measure the carbon, water and waste footprint of our portfolios to give us a better starting point to assess the best options to manage environmental risk in the context of our funds' specific investment strategies. As part of our net zero commitment, we also look to identify companies that are setting credible Paris aligned short, medium and long-term targets.	We are committed to engaging with all of the highest emitting companies across each of our public markets portfolios in order to drive up disclosure levels, promote scenario testing and ensure operations are as energy efficient as is practicable. Additionally, we have actively managed down the energy efficiency of our real-estate assets for many years with detailed disclosures provided annually of performance against targets. We are signatories of the Eliminating Commodity-Driven Deforestation commitment launched at COP26. We are also signatories of the Finance for Biodiversity Pledge. We are a member of the Net Zero Asset Managers initiative and have published a Climate Action Plan with interim targets. We report progress annually.	We believe that policymakers have a key role to play in determining the investment risks and opportunities created by climate change, and carry out extensive advocacy work on environmental issues. We have advocated for range of policy measures aligned to the goals of the Paris Agreement, including support of ambitious targets for greenhouse gas reduction by national governments, enhanced mandatory climate disclosure regimes and accelerated investment in the transition. We also engage on the topics of natural resource stewardship and the circular economy/zero pollution.	In addition to our ISO 14001 accreditation and in continuation of our corporate citizenship approach, we offset our own operational and travel carbon emissions by partnering with Trees for Cities. We publish climate-related financial disclosures annually in line with the recommendations of the Task Force on Climate- Related Financial Disclosures (TCFD).
Social			
Labour rights and human capital management			
An organisation's people and culture are fundamental to driving business performance. Good human capital management practices such as the provision of fair living wages, good health and safety practices and investment in training and development programmes are demonstrably linked to more stable and productive workforces and ultimately long-term value creation.			
All our public markets investment teams have access to our ESG Dashboard through which information on metrics such as employee turnover, health & safety performance and fatalities are provided. Investment teams supplement this information with company specific research utilising a range of sources to understand a company's approach towards its workforce and any potential impact on, for example, productivity.	We encourage companies to enhance disclosures with respect to their workforce. In addition, we produce a Controversial Companies Report which highlights to clients companies which are considered as being in violation of internationally recognised guidelines such as the UN Global Compact's principles on human and labour rights.	We support government backed initiatives to increase the diversity of executive management. We also support stakeholder collaboration to define useful standards for human capital management. On human and labour rights, our focus areas for public policy engagement include tackling modern slavery, guidance on how companies can implement higher wages aligned to living wage commitments and promoting supply chain transparency.	Our personnel, as our intellectual and human capital, are a fundamental component of our business. We are an accredited London Living Wage employer and signatory to the UN Global Compact. Our Modern Slavery statement details our commitment to running our business responsibly. As part of our firm-wide diversity, equity and inclusion ("DEI") approach, we have a long-standing commitment to increasing diversity and inclusion in our business and acknowledge that we need to make further progress.
Community relations			
Companies can provide positive economic impacts in the regions in which they operate through among other things job creation, payment of taxes and the provision of local infrastructure. There is increased scrutiny on the way organisations operate; as such they need to manage their relations with their local communities as it is their goodwill on which they are often dependent.			
The investment teams as part of their analysis look to assess a company's impact on social capital which includes impact on local communities. We look to assess a company's performance on this through different sources including commitments made by the firm via policies as well as qualitative analysis using information obtained through direct interaction with the company. By their nature infrastructure businesses delivering essential services involve a broad range of different stakeholders including local communities. We believe that considering all stakeholders' interests leads to the creation of greater and more sustainable value.	Companies have enormous impacts on society and we believe they can only create and preserve long-term value for investors if they provide goods and services that satisfy societal needs. We encourage companies take an ethical lens to corporate decision-making, develop responsible sales practices which avoid societal harm, and pay fair taxes.	We support the development of market best practices recommended by reputable corporate ethics organisations and anti-bribery and corruption organisations. We advocate public policy efforts at an international level and individual country levels to achieve greater tax transparency.	We have a strong corporate citizenship programme that is focused on helping the communities in which we live and work. Our staff volunteer through our corporate programme or with other charities that are close to their hearts, taking part in lunchtime reading sessions with young people, renovating local schools and gardens, or supporting those more vulnerable within our immediate vicinity. We seek to act as a responsible global corporate taxpayer in compliance with applicable tax law and regulations, and seek to minimise the risk of uncertainty or disputes in tax matters. An important part of the governance process is the maintenance of a constructive and transparent relationship with His Majesty's Revenue and Customs (HMRC).

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

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, where possible, to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes Investment Management are now undertaken by Federated Hermes Limited (or one of its subsidiaries). We still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important strategies from the entire group.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

For more information, visit **www.hermes-investment.com** or connect with us on social media:

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