

Hermes Investment Management Limited

MIFIDPRU 8 Disclosure

Reporting Period: 01 January 2022 to 31 December 2022

Based on Financial Data as at 31 December 2022

Contents

1. Overview	3
2. Governance Arrangements.....	4
3. Risk Management Framework.....	5
4. Capital Adequacy.....	10
5. Remuneration Policies and Practices.....	13

1. Overview

1.1 Introduction

Hermes Investment Management Limited's ("HIML" or the "Firm") principal activity is investment management with the primary purpose of helping beneficiaries invest and retire better by providing world-class active investment management services. The Firm is guided by its conviction that responsible investment is the best way to create long-term sustainable wealth for our clients. HIML also acts as the sub-delegated investment manager for a number of the Federated Hermes Limited Group ("FHL Group") entities; notably, Hermes Fund Managers Ireland Limited and to a lesser extent Hermes Real Estate Investment Management Limited and Hermes Alternative Investment Management Limited.

HIML is authorised and regulated by the Financial Conduct Authority ("FCA"), and is subject to rules made by the FCA (the FCA Rules). The FCA Rules require firms to ensure they maintain adequate financial resources and take reasonable care to organise and control their affairs responsibly and effectively, with adequate risk management systems. Those principles are supplemented by detailed requirements, which for HIML, include those under the Investment Firms Prudential Regime ("IFPR").

1.2 Purpose and Frequency of Disclosure

This IFPR report sets out the disclosures for HIML as a non-small and non-interconnected ('Non-SNI') MIFIDPRU investment firm based on financial data as at 31 December 2022. Unless otherwise stated, the financial information and related disclosures are based on financial data as at, and for the year ending, 31 December 2022 and on the Internal Capital Adequacy and Risk Assessment ("ICARA") based on that data, which was finalised as at 1 September 2022. It has also been produced solely for the purposes of satisfying the IFPR disclosure requirements.

The disclosures are not subject to audit and do not constitute any form of audited financial statement. Therefore, the information set out should not be relied upon in making judgments about the Firm.

Frequency of Disclosure

The Firm will review and publish the IFPR disclosures annually on the date on which it publishes its annual financial statements for the prior financial year¹ and will consider making more frequent public disclosures where particular circumstances warrant it. For instance, in the event that a major change to HIML's business model (e.g. M&A) has taken place. Each year's financial statements are made in respect of the period to the prior 31 December.

This document can be accessed on the Firm's website at [Policies & Disclosures](#).

1.3 UK Consolidation Group

HIML is part of a larger group of companies that are required to be treated as a consolidated group for the purposes of prudential supervision under MIFIDPRU (the "UK Consolidation Group"). The UK Consolidation Group consists of a number of regulated and non-regulated entities that are structured under two parent undertakings, Federated Holdings (UK) II Limited and Federated Holdings (UK) Limited. Each parent undertaking is a private limited company incorporated under the laws of England and Wales.

1.4 Recent Significant Changes

On 4 October 2022, FHL's (HIML's immediate parent) Articles of Association were amended to reflect the wholly-owned status of the FHL Group and remove provisions relating to previous shareholders. Following this amendment, a review of

¹ In line with MiFIDPRU 8.1.10R

the governance arrangements was carried out, which resulted in the restructure of FHL's governance processes to align with those of Federated Hermes, Inc. ("FHI"). Furthermore, changes to the membership of the HIML Board came into effect in January 2023.

2. Governance Arrangements

2.1 Board of Directors and Governance Committees

At 31 December 2022, the HIML Board comprised of four Executive Directors with one also a Director of FHL. The table below details the HIML Directors and their role within the wider FHL organisation:

HIML Board of Directors

S Nusseibeh, CBE, Chief Executive and FHL Director

I Kennedy, Chief Operating Officer

C Taylor, CEO Real Estate & Head of Private Markets

E Murray, Head of Investment

K Davies, Chief Risk and Compliance Officer (*Resigned 21 September 2022. New Chief Regulatory Officer & Head of Government Affairs appointed in January 2023*)

H Steel, Head of Business Development and FHL Director (*Resigned 6 December 2022*)

Given HIML forms part of the FHL Group which manages its operations on a group-level basis, all of HIML's activities are covered by FHL's Group policies and oversight. FHL has a group-wide Risk Management Framework ("RMF") in place for which the FHL Board has ultimate responsibility. Refer to FHL's 2022 corporate annual report for further details.

Number of Directorships

The following table sets out the directorships held by the members of the HIML Board. It excludes directorships held in organisations which do not pursue predominantly commercial objectives (e.g. charitable organisations) and directorships of entities within the FHL group.

Member of the HIML Board	Number of directorships (excluding excepted appointments)
Chief Executive and FHL Director	0
Chief Operating Officer	0
CEO Real Estate & Head of Private Markets	0
Head of Investment	0
Chief Risk and Compliance Officer (<i>Resigned 21 September 2022. New Chief Regulatory Officer & Head of Government Affairs appointed in January 2023</i>)	1
Head of Business Development and FHL Director (<i>Resigned 6 December 2022</i>)	0

2.2 Culture and Diversity

Culture is a strategic priority of the FHL and subsidiary Boards, which recognises the importance in the way the Firm conducts business. Alongside FHL's code of business conduct and ethics, the culture framework includes principles and values that define how business should be conducted in order to achieve strategic objectives and support FHL's long-term

resiliency and sustainability. Its components also promote sound risk management by requiring a focus on longer-term goals and sustainability, the avoidance of excessive risk taking and emphasising acceptable behaviours, in which all employees play a key role and are responsible for.

Diversity Policy

FHL has a statement relating to diversity on its Board. The statement's objectives are both to satisfy the legal and regulatory requirements relevant to issues of diversity, and to demonstrate FHL's commitment to promoting Board diversity. The statement recognises that diversity leads to a broader range of experience, knowledge, skills and values, and that this will help to enhance the functioning of the Board and reduce risks from 'group-think', facilitating constructive challenge and sound decision making. The statement also states that the Board will ensure that individuals are selected, promoted and otherwise treated according to their relevant individual abilities and merits. The statement notes that one of the factors that the Board takes into account when considering appointments, is whether the Board is diverse with respect to education, professional background, socio-economic background and the Equality Act 2010 Protected Characteristics (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation) There are no numerical targets in the statement relating to diverse Board members for subsidiary Boards, however, targets do exist for the FHL Board.

Further information regarding FHL's DE&I approach can be found on FHL's website at [Diversity, equity and inclusion](#).

3. Risk Management Framework

3.1 System of Risk Governance

As noted above, given HIML forms part of the FHL Group, HIML's operations and business activities are managed on a group basis by the immediate parent company, FHL. HIML also has no contracted employees as all staff are contractually employed by FHL. FHL, and its subsidiaries, have in place a system of governance that promotes and embeds: 1) a clear ownership of risk; 2) processes that link risk management to business objectives; and 3) proactive Boards and Senior Management Team ("SMT") who provide oversight of risks. Mechanisms and methodologies to review, discuss and communicate risks are in place together with risk policies and standards to enable risks to be identified, measured and assessed, managed and controlled, monitored and reported.

Risk governance arrangements are based on the 'three lines of defence' model, comprising risk taking and management (1LOD), risk control and oversight (2LOD), and independent assurance (3LOD).

First line of defence (risk taking and management)

- Identify, own, manage and report risks;
- Execute business plan and strategy;
- Establish and maintain controls;
- Stress/scenario modelling;
- Operate within systems and controls; and
- Ongoing self-assessment of control environment effectiveness.

Second line of defence (risk control and oversight)

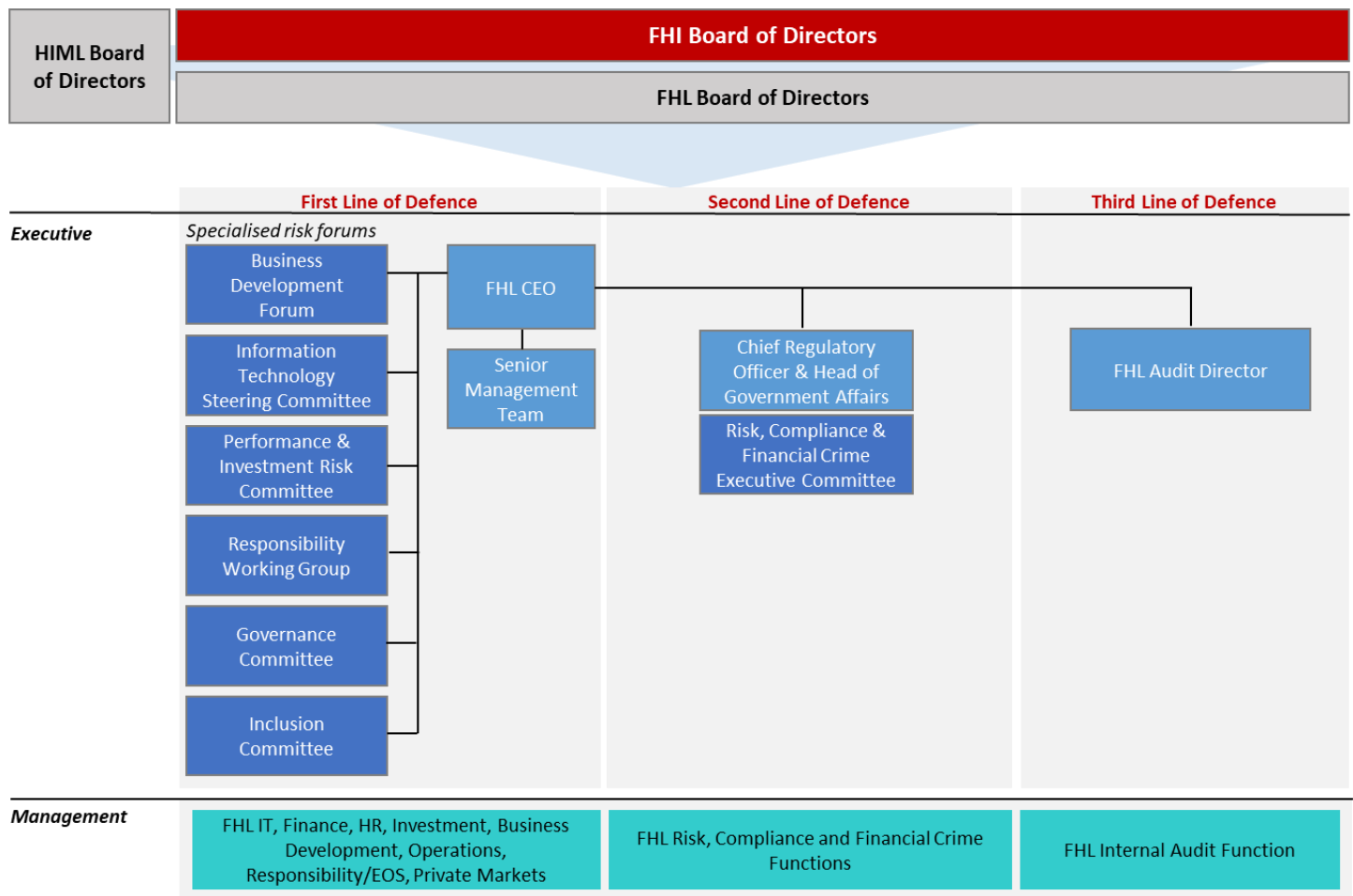
- Owner of the Risk Management Framework;
- Stress/scenario setting and oversight;
- Regulatory liaison;
- Advice and guidance;
- Risk, Compliance and Financial Crime monitoring and assurance activities; and
- Risk, Compliance and Financial Crime reporting

Third line of defence (independent assurance)

- Independent assurance of first line of defence and second line of defence; and
- Independent thematic reviews and risk and controls assessment.

For the HIML Board to fulfil its duties, it applies FHL’s governance framework as shown in the schematic below. All members of the HIML Board are members of FHL’s SMT. Day-to-day management of HIML has been delegated by the HIML Board to the FHL CEO, who has established the SMT, as well as several specialized risk forums (i.e. steering committees, working groups etc.) to further support the governance framework.

Overall, the HIML Board is responsible for: 1) Setting the Firm’s strategy and risk appetite: ensuring alignment with HIML’s strategic objectives; 2) Oversight of senior management: to ensure they are carrying out their duties effectively and are accountable for the performance of their areas of responsibility; 3) Risk management: oversees the Firm’s risk management framework, ensuring its adequate and effective and that risks are properly identified, assessed, controlled, monitored and reported; 4) Compliance: Ensure the Firm complies with all applicable laws, regulations and standards and that it has effective systems and controls in place to manage regulatory compliance; 5) Internal controls: Oversee the design and implementation of effective internal controls, ensuring they are adequate to manage the Firm’s risks and that they are regularly reviewed and tested; 6) Financial reporting: oversee the preparation and dissemination of accurate and timely financial information, ensuring it is presented in a clear and understandable manner; and 7) Conduct and culture: Set the tone from the top, promoting a culture of ethical behaviour and responsible conduct throughout the Firm.



The FHL and HIML Boards, along with the specialised risk forums (which are primarily chaired by an SMT member) meet on a quarterly basis, with the SMT meeting weekly in order to ensure the effective operation of day-to-day risk management. Further sub-working groups and governance forums also exist that support the oversight of the specialised risk forums. HIML’s exposure to its key risk drivers is monitored and managed by FHL’s Risk, Compliance and Financial Crime

functions, who are responsible for reviewing, assessing, providing oversight and reporting across the Firm’s risk exposures and regulatory compliance.

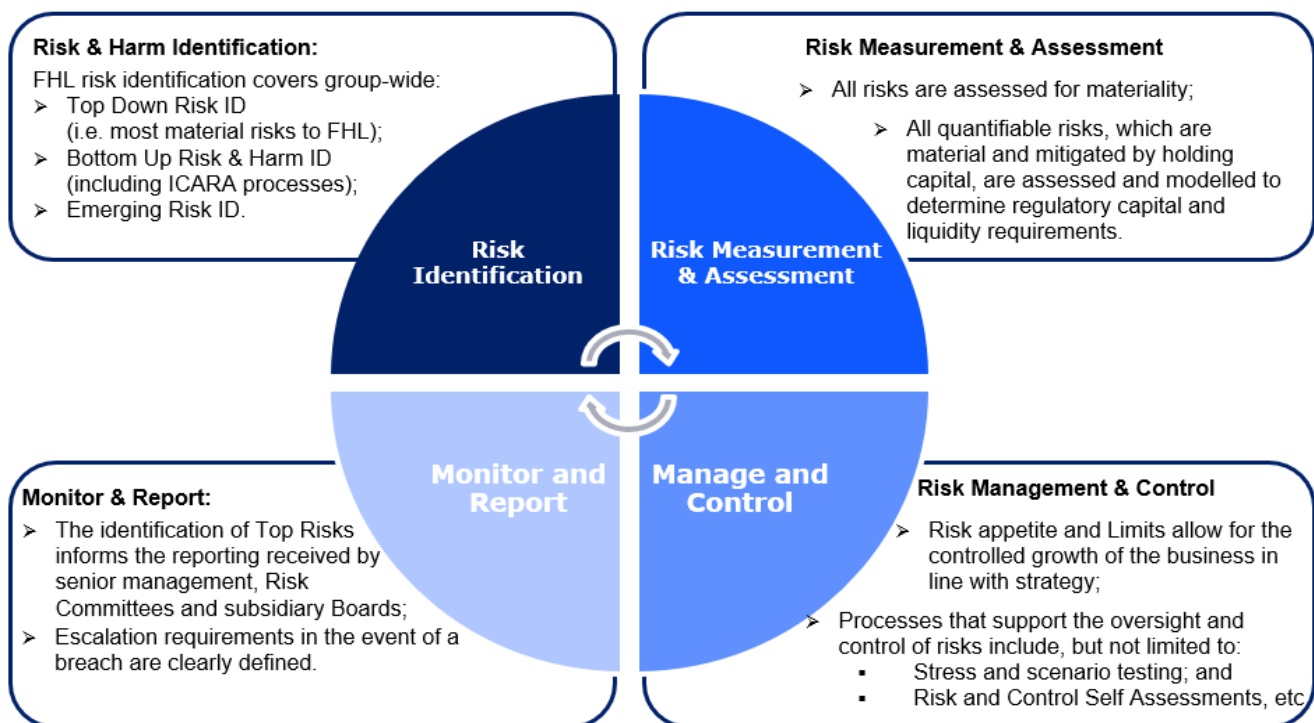
The FHL Risk function, which was under the responsibility of the Chief Risk & Compliance Officer until 21 September 2022 (and followed by the Chief Regulatory Officer & Head of Government Affairs), is charged with oversight, review and supervision of the identification, measurement, management, reporting and monitoring of risk to which HIML is exposed, including ensuring appropriate risk management processes exist so that all key risks are identified, assessed and appropriately managed by the SMT and the HIML Board. The Risk, Compliance and Financial Crime functions make up the second line of defence (“2LOD”), are established at senior management level, have adequate authority and responsibility to fulfil their functions and are independent of the first line of defence (“1LOD”).

Risk’s control and oversight responsibilities include:

- Assisting the Boards to formulate and implement the Risk Appetite Framework, RMF, risk mitigation plans, risk policies, risk reporting and risk identification processes;
- Reviewing and assessing the risk-taking activities of the 1LOD, where appropriate; and
- Conducting risk assurance reviews and/or deep dives in key risk areas, where appropriate.

A number of core risk policies and standards/frameworks support the RMF to enable risks to the Firm be identified, measured/assessed, managed, monitored and reported. The HIML Board of Directors supported by the specialised risk forums are ultimately responsible for the management and supervision of HIML. In order to support this, the Board applies FHL Group’s RMF which is owned by the FHL Board. This details the Firm’s risk governance, risk management processes and risk appetite. FHL’s risk governance comprises the FHL and subsidiary Boards’ organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies that have been established to make decisions and control activities on risk-related matters.

The RMF sets out the overall approach to manage the internal and external risks to which the Firm is currently exposed or may be exposed in the future. It specifies the methodologies employed to identify, assess, monitor, manage and report risk on a continuous basis, which forms the basis of the Firm’s core risk management processes as shown in the schematic below.



3.2 Risk Appetite

The FHL Group has been, and will continue to be, cautious with regard to risk taking. Both the FHL and HIML Boards believe that the governance arrangements and controls that it has put in place will reduce the likelihood of adverse outcomes and material risks crystallising. This is based on the strong risk management culture and corporate governance practices in place across the FHL Group, including:

- A robust RMF with clear accountabilities for people and committees/forums and a strong culture for risk management across the three lines of defence;
- Segregation of duties in terms of roles and functions and reporting lines;
- Appropriate governance to provide effective and appropriate oversight and challenge of risks;
- Clear and effective systems and controls;
- Clear and effective documented policies and procedures;
- Independent Risk Management, Compliance and Internal Audit functions;
- Identification and reporting of material risks;
- Setting of clear risk tolerances, where appropriate;
- Identification and management of conflicts of interests; and
- Timely and accurate management information supplied to management.

Historically, risk appetite has been determined at the FHL Group level, as this has traditionally been the way in which risk has been managed in practice. As a result, the risk appetite for HIML was derived from FHL Group's Risk Appetite Framework ("RAF"). HIML's financial and non-financial risk appetite, Limits, Triggers and Key Risk Indicators were recalibrated from FHL's RAF, such that they align with HIML's risk strategy, business activities and long-term objectives.

3.3 Potential for Harm and Mitigation

HIML's operations and business activities are managed on a group basis by the immediate parent company, FHL. HIML has no contracted employees as all staff are contractually employed by FHL.

Financial Risks: Market, Credit and Liquidity

- *Market Risk:* Market risk is the risk that the value of HIML's assets or liabilities will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange ("FX") rates. Given HIML does not trade on its own account, it does not have any significant market risk exposure. The main source of market risk is exposure to changes in FX, which arises as a result of income and expenses in foreign currencies. There is also indirect exposure to a fall in markets on management and performance fees. FHL Group and the Firm manage and control market risk exposures according to FHL Group's market risk appetite and the Market Risk Policy.
- *Credit/Counterparty risk:* Counterparty risk, a type of credit risk, is the probability that a counterparty to a transaction defaults on its contractual obligation(s) causing the other counterparty to suffer a loss. Given this, HIML's main sources of counterparty exposure arises from client investment holdings, including derivative exposures and issuer risk. HIML manages its exposure to credit risk by monitoring exposures to individual counterparties and sectors, and their creditworthiness. FHL Group and the Firm manage and control credit risk exposures according to the FHL Group's counterparty risk appetite, Counterparty Credit Risk Policy and oversight provided by the ICARA Working Group.
- *Liquidity risk:* HIML's liquidity risk arises from the need to have sufficient liquid assets to meet financial obligations as they fall due, considered under both business-as-usual and stressed conditions. HIML is the largest revenue generating entity in the FHL Group. As such, HIML receives the majority of the FHL Group's cash inflows and remits a large portion of this to FHL via intercompany transfers. For those assets retained, HIML maintains a portfolio of highly liquid assets comprising cash held in current accounts and money market funds, both of which have daily liquidity. This enables the Firm to respond quickly and effectively to meet commitments, both expected and unforeseen. In addition, HIML maintains a range of contingency funding sources by virtue of being part of the FHL Group, including

access to up streamed liquidity and potential access to wholesale markets. FHL Group and the Firm manage and control liquidity risk exposures according to HIML's liquidity risk appetite and according to Liquidity Risk Policy.

As part of the complete assessment of potential harms through the ICARA process, HIML has separately identified potential financial / balance sheet harms (market and credit) representative of the balance sheet of HIML that additional Own Funds should be held against.

Non-Financial Risks: Operational, Regulatory and Reputational

With respect to non-financial risks, HIML's key risks include operational, regulatory and reputational risks, namely:

- *Operational risks:* Operational risk is the risk of loss (or unintended gain) arising from inadequate or failed internal processes, personnel or systems, or from external events. This may arise from employee error, model error, system failures, fraud or other events which disrupt business processes or have a detrimental impact to clients. Therefore, in the course of doing business, HIML is exposed to operational risks which could arise from a combination of inadequate or failed internal and external processes (e.g. trading/FX and pricing errors, data protection breaches, third-party disruption etc.), IT/systems issues or human error – all of which create a challenging operating environment. HIML manages its operational risk exposures via a number of risk management processes and policies. Namely, the risk and control self-assessments ("RCSAs"), continued application of business continuity procedures and disaster recovery testing, well defined risk event notification process, scenario analysis, comprehensive non-financial risk appetite framework and adhering to a number of FHL Group policies (e.g. operational, outsourcing and supplier risk, information security, data protection and Financial Crime etc);
- *Regulatory risks:* Regulatory risk refers to the potential impact of changes in regulations, laws or policies on the operations, profitability and reputation of the Firm. HIML operates under evolving requirements set out by diverse regulatory, legal and tax regimes which may impact the Firm or the way in which it conducts business. This covers a broad range of risks including changes in government policy and legislation, and new regulations. In addition to the risks arising from regulatory change, the breadth of regulatory arrangements presents the risk that regulatory requirements are not fully met and could result in significant regulatory or governance breaches (e.g. failure in AML controls resulting in fines). FHL Group and the Firm manage and control regulatory risk exposures through FHL's ongoing engagement with national regulators, government policy teams and international standard setters; and compliance oversight to ensure HIML's adherence with FHL Compliance policies, in-force regulations and management of new regulatory developments. Furthermore, the first line of defence regulatory change team assists HIML in proactively adapting and complying with regulatory developments;
- *Reputational risk:* Reputational risk is the risk that the Firm's activities, behaviours and/or communications do not align with stakeholder expectations in ways which adversely impact stakeholder trust or the Firm's reputation – potentially leading to a decline in revenue, increased costs, loss of key clients, personnel and/or regulatory action. Given this, there are many sources of reputational risk, however a growing driver can be the Firm's sustainability credentials. As such, HIML's reputation can be damaged if the Firm does not define its sustainability approach in line with stakeholder expectations, does not authentically deliver or communicate it, or if external stakeholders (maliciously or otherwise) seek to misinterpret the Firm's sustainability position. HIML has in place, a number of risk management processes and controls to identify potential threats to the Firm's reputation such as financial crime screening, adverse media monitoring, regular monitoring of progress delivering against ESG commitments and the implementation of the FHL reputational risk policy and reputational and ESG risk appetite.

Refer to FHL's 2022 Corporate Annual Report for further detail on risk mitigation.

With respect to the possible harm to Firm, Client or Market, the most notable harm is that to the Firm. Whereby, non-financial risk events could result in a material expense to HIML if the Firm is required to invest heavily in redeeming its reputation in the market, restoring clients back to their correct financial position, and investing in its systems and controls to reduce the likelihood of a repeat event.

4. Capital Adequacy

4.1 Own Funds Resources

The figures in this section are based on the Firm's most recent audited financial position as at 31 December 2022.

As at 31 December 2022, the Firm held own funds of £95.6m, entirely made up of Common Equity Tier 1 (CET 1) capital, other reserves and audited retained earnings. CET 1 capital consists of fully issued ordinary shares, satisfying all criteria for a CET 1 instrument in accordance with IFPR. As at 31 December 2022, the Firm's own funds requirement is £29.0m with an own funds surplus of £66.6m. The Board has concluded that the Firm is well capitalised and holds significant levels of liquidity.

The composition and features of the Firm's own funds are described in the table below, which also provides a reconciliation with the balance sheet in the Firm's audited financial statements as at 31 December 2022.

Composition of regulatory own funds			
	Item	Amount (£'000)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	95,648	
2	TIER 1 CAPITAL	95,648	
3	COMMON EQUITY TIER 1 CAPITAL	95,648	
4	Fully paid up capital instruments	35,000	Note 12
5	Share premium	-	
6	Retained earnings	50,995	Statement of Changes in Equity
7	Accumulated other comprehensive income	-	
8	Other reserves	9,653	Statement of Changes in Equity
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	ADDITIONAL TIER 1 CAPITAL	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	TIER 2 CAPITAL	-	

Composition of regulatory own funds			
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

a	b	c
Balance sheet as in published /audited financial statements £'000	Under regulatory scope of consolidation	Cross- reference to template OF1
As at period end	As at period end	

Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements

1	Debtors - amounts after one year	4,146	n/a	
2	Debtors - amounts falling due within one year	127,217	n/a	
3	Cash at bank	65,963	n/a	
	Total Assets	197,326		

Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements

1	Creditors – amounts falling due within one year	95,522	n/a	
2	Creditors – amounts falling due after more than one year	6,156	n/a	
	Total Liabilities	101,678		

Shareholders' Equity

1	Called up share capital	35,000	n/a	Item 4
2	Profit and loss account	50,995	n/a	Item 6
3	Other reserves	9,653	n/a	Item 8
	Total Shareholders' equity	95,648		

4.2 Own Funds Requirements

It is HIML's policy to maintain sufficient own funds to meet its own funds requirement and ongoing working capital requirements. This enables the Firm to mitigate potential future risk exposures that may arise in pursuit of achieving its strategic objectives. HIML's financial position as at 31 December 2022 results in an own funds requirement of £29.0m.

Under the Overall Financial Adequacy Rule, the Firm is required to maintain own funds in excess of the higher of:

- Its permanent minimum capital requirement;
- The higher of its fixed overheads requirement and the amount required to effect an orderly wind down of Firm; and
- Its K-factor requirement plus any amounts required to mitigate the risk of harm arising as a result of Firm's ongoing operations.

HIML's fixed overhead requirement, as at 31 December 2022, was £29.0m.

HIML's K-factor requirement is the sum of all applicable individual K-factors. However, as at the reference date, 31 December 2022, the only applicable K-factors were K-AUM and K-DTF. K-AUM was calculated as at 31 December 2022 as £2.9m. K-DTF was also calculated as at 31 December 2022 as £0.1m.

Own Funds requirements at 31 December 2022	Total £'000
K-AUM, K-CMH and K-ASA	2,936
K-DTF and K-COH	116
K-NPR, K-CMG, K-TCD and K-CON	-
Total K-factor requirement	3,052
Fixed overhead requirement	28,979

4.3 Internal Capital Adequacy and Risk Assessment (ICARA)

The Board has, through the ICARA process, considered the level of own funds and liquid resources that the Firm needs to hold to remain financially viable throughout the economic cycle to:

- Address any material potential harm that may result from ongoing activities, and
- To ensure that the Firm's business could be wound down in an orderly manner, minimising harm to clients and to other market participants. This is known as the overall financial adequacy rule.

In addressing this rule, the Firm has considered what the residual harm is when severe financial and non-financial scenarios posing harm crystallise by assessing how effective the mitigating controls are likely to be in reducing or eradicating the inherent harm.

In the Firm's first-year approach to the ICARA, its process in this regard has leveraged Federated Hermes' RCSA framework to identify the material non-financial risks. That framework is composed of non-financial risks that relate to different processes, business activities and systems that spans across FHL and HIML. As part of the Firm's assessment of its compliance with the overall financial adequacy rule, the Firm's Risk function identified which risks and potential harms from the RCSA framework relate to the Firm and should be assessed in its harm assessment. Management have concluded that the identified scenarios are reflective of the activities of the Firm and provide a suitably robust assessment of relevant harms in connection with the overall financial adequacy rule, as it applies to the Firm. As part of the complete assessment of potential harms, the Firm has also separately identified potential financial/balance sheet harms resulting from market risk (i.e. the risk that the value of assets and liabilities will fluctuate, for example as a result of changes in foreign exchange rates) and credit risk (i.e. the risk of loss arising from the default of a counterparty).

A recovery plan has also been completed and in the event of a stressed scenario, the Chief Regulatory Officer & Head of Government Affairs, along with other appropriate SMT stakeholders, are collectively responsible for identifying the appropriate recovery actions. Once approval for the recovery action is confirmed by the Risk, Compliance & Financial Crime Executive Committee and other senior management, the governance process is escalated to the Board of Directors for final approval before implementation. Recovery planning helps to ensure that, if necessary, the Firm can take appropriate action to restore own funds and/or liquid resources to avoid breaching threshold requirements.

The Firm assessed in detail the cost of an orderly wind down of its operations and the cancellation of its regulatory permissions as part of its ICARA process. A comprehensive Group and Firm level wind-down plan was prepared which would enable HIML to cease its regulated activities and achieve cancellation of its regulatory permissions in ways that minimalised the adverse impact on stakeholders. For this purpose, the Firm has assumed that the event that causes the Firm to wind down is so severe that the Firm must initiate an immediate wind down of its operations, assumed 1 January. To undertake an orderly wind down, an 18 month period has been modelled; this reflects the complex organisational structure and client base at Federated Hermes. Impact on the Firm's cash flow and own funds has been assessed based on anticipated revenues, cost savings, incurred costs of winding down the business and other costs. Assumptions have been made for the purpose of calculating the wind-down costs, and these have been agreed by a firm-wide forum of key stakeholders. Appropriate triggers have been identified which would lead to Board consideration of activating the wind down plan, which are continually monitored.

The ICARA is seen as an ongoing process within the Firm, with the Board and Management involved in ongoing discussions and challenge. The Firm will formally review its ICARA process on an annual basis, or more frequently should a material change in the Firm's business model or operating model arise.

5. Remuneration Policies and Practices

5.1 Summary of the Firm's Approach to Remuneration for all Staff

The Remuneration Policy and practices of FHL apply to its subsidiaries, including HIML.

Participation in any incentive plan is discretionary and individual participation is based on their contribution to both financial and non-financial measures. Financial measures include profitability, liquidity, capital adequacy and margin. Non-financial measures include demonstration of corporate behaviours, and successfully delivering agreed objectives which are used to adjust the overall discretionary bonus awarded up or down. In addition to individual contribution, consideration is given to group performance, compliance with regulatory requirements, team performance and market factors. Variable compensation driven by financial performance is reviewed against behaviours (conduct, risk and compliance) and non-financial criteria (both current and future) to assess whether these remain appropriate.

Below sets out a high-level description of our approach to measuring the performance of individuals including both financial and non-financial metrics, and explains how this assessment influences an individual's remuneration:

- The Performance Management Process requires all managers to review the performance and behaviours of their employees and to assign a rating to reflect their contribution throughout the year. The rating scale is 1-4 for performance and A-D for behaviour; A1 being highest. Both performance and behaviour are equally weighted;
- All roles are benchmarked against the market to ensure that their remuneration is comparable; and
- A rigorous review is undertaken to ensure a strong correlation between positive assessments and positive remuneration outcomes; and negative assessments and negative remuneration outcomes.

Throughout the different remuneration processes, there are layers of signoff and review, which include the FHL SMT, FHI Executive, and the FHL Board (where appropriate). The elements of compensation support the objectives – balancing risk with reward; and these discussions are underpinned by a robust assessment process; which is done on an individual, team and Firm-wide basis.

5.2 Summary of the Objectives of the Firm's Financial Incentives

FHL, on behalf of the Firm, ensures that remuneration policies are in line with business strategy, objectives, values and long-term interests on the following basis:

- To encourage employees to deliver on the business' purpose of sustainable wealth creation that enriches investors, society, and the environment;
- To be aligned with business strategy, objectives, values and the long-term interests of the Firm and its clients as reflected in the FHL Pledge;
- To provide competitive total remuneration potential, designed to attract, retain, motivate and reward employees to deliver outstanding long-term performance and corporate behaviours;
- To promote sound and effective risk management;
- To ensure remuneration is linked to investment, business and personal performance and corporate behaviours for all employees, and where appropriate measured over the short, medium and long term;
- To differentiate and reward strong performance and demonstration of behaviours and to proactively manage poor performance and behaviours not aligned to our values;
- To deliver reward programmes which are transparent, simple to administer and affordable; and
- To deliver compensation and benefit strategies which have the oversight and approval of FHL, on behalf of the Firm.

Employees are eligible to receive remuneration in the following methods:

Fixed Remuneration

Fixed remuneration applies to all employees and includes salary, retirement and other benefits. FHL, on behalf of the Firm aims to provide competitive fixed pay at a level that reflects market compensation for the role and supports the recruitment and retention of talented people required to deliver the business strategy. Retirement and other corporate benefits apply to all employees.

Variable Remuneration

Discretionary Annual Cash Bonus: The aim of the discretionary bonus scheme is to focus participants (all employees employed by 1 October in the given performance year, unless previously agreed) on the in-year results that need to be achieved to meet the business annual objectives in the context of the agreed strategy and demonstration of corporate behaviours. The scheme has a co-investment/deferral structure. The level of deferral is dependent on the quantum of the bonus; all participants are subject to the same deferral policy. The award vests in equal tranches over three years. The deferred element is notionally co-invested such that it tracks the performance of certain funds. Investment Professionals are required to notionally co-invest at least 50% of their deferred bonus against the funds they manage thereby aligning their interests to those of the shareholders and investors. The remaining percentage will be invested in a basket of funds managed

by FHL. Non-investment professionals notionally co-invest 100% of their deferred bonus into a basket of funds managed by FHL.

Bonus Restricted Stock Program (BRS): Only the FHL CEO is eligible to participate in the BRS. A portion of the FHL CEO's deferred bonus is paid in the form of restricted shares of FHI Class B Common Stock.

Long-Term Incentive Plan (LTIP): The Long-Term Incentive Plan offers selected employees the chance to acquire beneficial ownership of Class B Common Stock in FHI. The aim of the LTIP is to align these employees with the long-term interest of our clients and shareholder and incentivise the delivery of FHI's long-term strategy. Awards under this scheme fully vest after five years and pay-out in full after a further three years. LTIP awards are subject to malus and clawback.

Stock Incentive Plan: Only the FHL CEO is eligible to participate in the FHI. Stock Incentive Plan, comprising an award of Class B Common Stock that vests after five years subject to FHI Operating Profit performance conditions being met.

Other Forms of Remuneration

The following components of remuneration, all variable in nature, are awarded only in particular, circumstances:

Guaranteed Variable Remuneration: In limited and exceptional circumstances and generally only in the first year of employment, reliant on FHL and the Firm having a sound capital base and where permitted under MIFIDPRU, FHL, on behalf of the Firm may agree to make an award of guaranteed variable remuneration in line with the Code.

Replacement Awards: Replacement awards (or buy-outs) are not FHL's standard compensation practice; however, on the occasions where a replacement award is considered, FHL will take steps to determine an appropriate amount. Replacement awards have the same and no more generous terms (including in relation to the amounts and vesting schedule) than the previous employer and they are subject to malus and clawback.

Retention Awards: Retention awards are used in limited and exceptional circumstances, reliant on FHL and the Firm having a sound capital base and where permitted by the Code. Retention awards are paid at a specified time, as agreed prior to the issue of any award, and are subject to meeting the specified retention criteria and are subject to malus and clawback.

Severance Pay: If any individual's employment contract is terminated early, when making any payment in severance of that contract, FHL is mindful that such payment reflects performance achieved over time and that it does not reward failure or misconduct. Any payments in the event of termination takes account of the individual circumstances, including the reason for termination, any contractual obligations (notice period) and the rules of the applicable incentive plan and pension scheme rules. Benefits may also be provided in connection with termination of employment and may include but are not limited to, outplacement and legal fees and payments in respect of accrued holiday. FHL on behalf of the Firm retains discretion to alter the provisions contained in the relevant plan rules on a case-by-case basis, following a review of the circumstances to ensure fairness. Under certain circumstances, it may be appropriate to enter into a legally binding agreement when an individual's employment is terminated.

5.3 Summary of the Decision-Making Procedures and Governance Surrounding the Development of the Remuneration Policies and Practices

Remuneration policies and practices are regularly reviewed by the FHL SMT, FHI Executive and the FHL Board (where appropriate) to ensure plans are designed to motivate and retain high calibre executive directors, senior management, and employees of FHL and its subsidiaries.

5.4 Types of Staff Identified as Material Risk Takers

Material Risk Takers (MRTs) may be employed by or considered employees of other entities, including other entities within the FHL Group. FHL, on behalf of the Firm maintains a separate framework for the identification of MRTs which is reviewed annually. Broadly MRTs can be interpreted to mean:

- Members of the Board;
- Senior Management (SMT);
- Employees responsible for risk management and compliance functions; and
- Employees whose professional activities can exert material influence on the risk profile of the Firm.

FHL, on behalf of the Firm has undertaken a comprehensive review to identify those persons which it considers to be MRTs for the purposes of the Code. In doing so, consideration has been given to all employees who have a material impact on the Firm's risk profile, including any employee who performs a significant influence function, or a Senior Manager Function under the Senior Managers & Certification Regime (SMCR) for the Firm, senior managers, and other risk takers. In seeking to identify MRTs, consideration has also been given to those employees that might exercise significant influence in relation to any material risks identified in the Firm's ICARA. This includes voting members of key risk and investment committees.

Once the list is established, it is reviewed by the Chief Regulatory Officer & Head of Government Affairs following which it is presented to FHL SMT for approval showing changes to the previous year. 41 employees were identified as MRTs and notified of their status in 2022.

5.5 Key Characteristics of HIML's Remuneration Policies and Practices

We ensure that remuneration decisions take into account the implications for risk and risk management of the firm, on the following basis.

The Heads of Legal, Risk & Compliance and Internal Audit provide the FHL SMT and FHI Executive updates on any errors or breaches that may have occurred throughout the performance period. At the end of the period, the Control Functions are re-engaged by HR to ensure that any errors or breaches have been taken into account for making remuneration decisions. Where appropriate, a report of errors or breaches is provided to the FHL SMT and FHI Executive for consideration in remuneration proposals. Variable pay awards are conditional on FHL and the Firm achieving sustainable and risk-adjusted (including ex-ante and ex-post adjustments) performance and therefore are subject to forfeiture or reduction at FHL's discretion.

The FHI Executive has the ability to apply discretion to adjust the bonus pool and any individual payments (including those paid out in individual incentive schemes), to challenge bonus recommendations and approve or not approve recommendations put before them.

Malus and clawback apply to all variable pay awards and guaranteed variable remuneration. The FHL SMT and FHI Executive will consider the application of malus and / or clawback in situations where the individual has i) participated in or was responsible for conduct which resulted in significant losses to the Firm; and/or ii) failed to meet appropriate standards of fitness and propriety.

Malus will be applied when, as a minimum:

- There is reasonable evidence of employee misbehaviour or material error;
- The Firm or the relevant business unit suffers a material downturn in its financial performance; or
- The Firm or the relevant business unit suffers a material failure of risk management.

Clawback will be applied in cases of fraud or other conduct with intent or gross negligence which lead to significant losses. Clawback or malus (as appropriate) applies for a minimum of three years from the date the award is granted or the FHL SMT and FHI Executive becomes aware of any conduct or circumstances that the FHL SMT and FHI Executive determines make it appropriate to make an adjustment to an award.

Prescribed Quantitative Disclosures Under MiFIDPRU8.6.8R

Certain quantitative information regarding remuneration paid to the Firm's MRTs in respect of the performance year from 1 January 2022 to 31 December 2022 is set out below.

All amounts are in pounds sterling.

As at 31 December 2022, the Firm had 41 MRTs, assessed on an individual firm basis, as identified pursuant to SYSC 19G.5 for the purposes of applicable remuneration rules.

Table 1 - Quantitative disclosure under MiFIDPRU8.6.8R(2)

Total amount remuneration paid to the entire staff of HIML	£83,786,725
Of which:	
Total fixed remuneration	£44,929,466
Total variable remuneration	£38,857,259

Table 2 – Quantitative disclosure under MiFIDPRU8.6.8R(4)

I	Total amount of remuneration paid to senior management	£9,519,736
	Of which:	
	Total fixed remuneration	£3,221,181
	Total variable remuneration	£6,298,555
II	Total amount of remuneration paid to other MRTs	£21,650,476
	Of which:	
	Total fixed remuneration	£6,704,557
	Total variable remuneration	£14,945,919
III	Total amount of remuneration paid to other staff	£52,616,513
	Of which:	
	Total fixed remuneration	£35,003,728
	Total variable remuneration	£17,612,785

Table 2 - Quantitative disclosure under MiFIDPRU8.6.8R(5)

I	Total amount of guaranteed variable remuneration paid to:	£1,610,000
	Senior management	£0.00
	Other MRTs	£1,610,000
	Number of beneficiaries	0.00
II	Total amount of severance payments paid to:	
	Senior management	0.00
	Other MRTs	0.00
	Number of beneficiaries	0.00
III	Amount of the highest severance payment paid to an individual MRT	0.00

No severance payments have been made to Senior Management or Other MRTs of HIML during the 2022 performance year.