Federated Hermes SDG Engagement High Yield Credit

Annual Report 2022

March 2023

Federated Hermes Limited

www.hermes-investment.com

For professional investors only

SDG Engagement High Yield Credit: 2022 highlights

Across 2022, we drove **445 engagements** at **124 companies** in the portfolio, achieving **100% portfolio engagement** & significant growth from **388 engagements** in 2021

Since our inaugural 2020 year, the intensity of corporate interaction has continued to increase, reaching **3.5** average engagements per issuer

277 objectives and **636 issues** active in the strategy at end of 2022

The systemic challenge of **Climate Change made up 33% of active objectives in 2022**

48 objectives focus on Human Capital Management, Diversity & Human Rights – second only to climate

88% of all objectives were engaged on in 2022

65% of all objectives progressed one milestone or more in 2022

33 objectives completed in 2022 – our strongest outcome to date

We expect to be in this position in year three of a strategy that emphasises the value of well-informed, long-term dialogue with companies, focused on change that takes time and effort

We added **64 SDG-related objectives** to our efforts in 2022

82% of all objectives now focus on outcomes contributing to at least one SDG

Top SDGs aligned with objectives active in the strategy

SDG	Objectives
12 Responsible consumption and production	**129 objectives**
7 Affordable and clean energy	**43 objectives**
13 Climate action	**70 objectives**
5 Gender equality	**34 objectives**
9 Industry, innovation and infrastructure	**63 objectives**
8 Decent work and economic growth	**34 objectives**
10 Reduced inequalities	**52 objectives**

Key opportunities for future impact

7 Affordable and clean energy · 9 Industry, innovation and infrastructure · 13 Climate action

- Sustainable production, consumption & resource efficiency in value chains we invest across
- Carbon emissions abatement & climate action at most companies we invest in
- Innovation, R&D, strategy & macro demand trends for deeply sustainable products & services

8 Decent work and economic growth · 10 Reduced inequalities

- Increasing inclusion, diversity & quality of employment in company workforces
- Wider socioeconomic impact in supply chains, customer bases, communities & societies

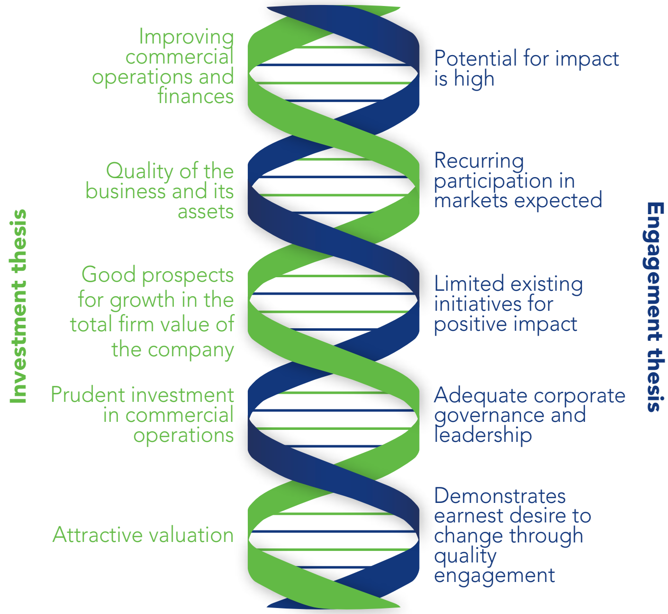
Contents

SECTION 1

Introduction

The SDG Engagement High Yield Credit (SDGHY) strategy seeks to deliver on colinear objectives (see Figure 1): strong financial performance for investors, and future, positive social and environmental impact that contributes to achieving the United Nations' Sustainable Development Goals (SDGs).

Figure 1. Investing with co-linear objectives



Source: Federated Hermes, as at 30 June 2021.

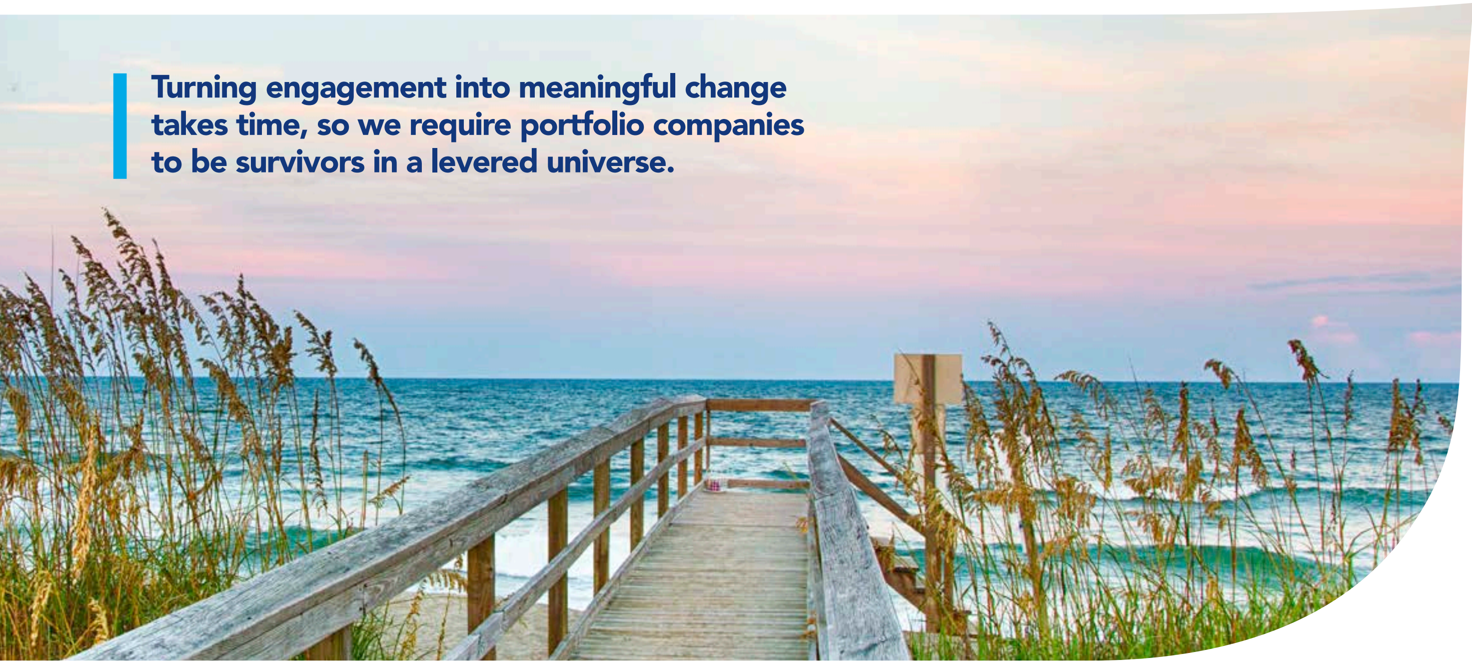
We believe an investor's financial stake-holding allows, if not obliges, them to engage in constructive dialogue with companies. Turning engagement into meaningful change takes time, so we require portfolio companies to be survivors in a levered universe. Within the global hard currency, high-yield market, we favour companies with:

- A recurring presence in capital markets
- A stable investor base
- An ethos of transparency in disclosures and reporting
- The necessary credit strength to participate in long-term dialogue and evolve their businesses to the benefit of a range of stakeholders.

SDG scores: a building block for portfolio construction

Assessing a company's contribution to achieving the SDGs is no easy task and the difficulty is compounded by the nature of some companies within the high-yield universe. The businesses in which we invest do not always lead their sector in disclosing how their products, services, operations or strategic investments can drive a positive SDG-related impact. Some impacts that we believe are possible cannot be fully assessed without substantive engagement. To do this, it is essential to hold a financial stake. To invest, we must establish an outlook for potential change in our pre-engagement assessment of each company. Ultimately, this manifests as an SDG score of one to five (one representing a high likelihood of delivering positive, substantive outcomes in line with one or several SDGs). This score helps us assign appropriate weight to each company within our portfolio[1]. Together, our SDG scores and hypotheses help us to assess companies across six factors and are integral to our investment approach (see Figure 2).

Turning engagement into meaningful change takes time, so we require portfolio companies to be survivors in a levered universe.



[1] A summary of our scoring framework is provided in the appendix.

Figure 2. SDG-aligned engagement – our six assessment factors

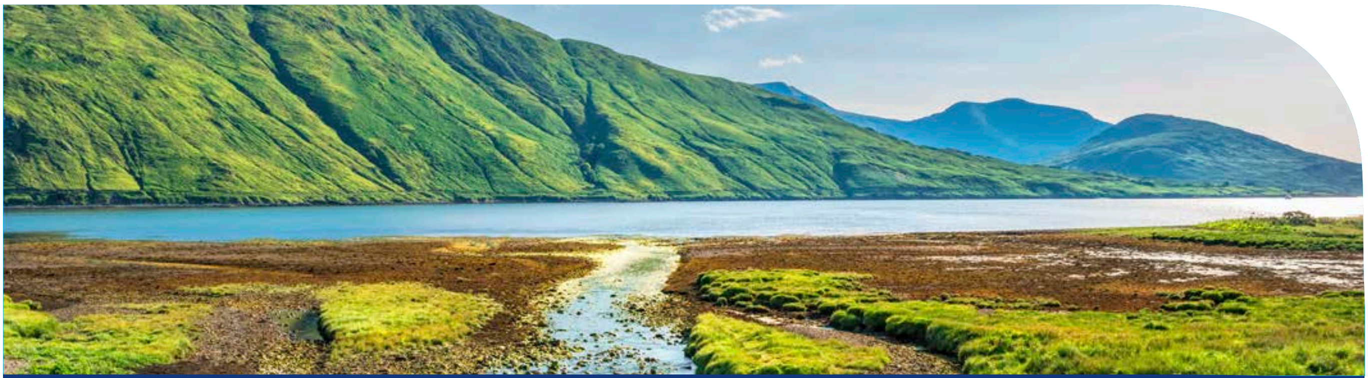
Source: Federated Hermes.

Our sixth analysis component outlined above, Engagement Insight, is unique. Thanks to the 15-year history and reputation of our stewardship team, EOS at Federated Hermes[2], we are able to draw on established relationships and insights through a long track record of engaging with many companies. Indeed, a substantial portion of EOS's corporate engagement relationships have run for a decade or longer. Through our links with EOS we are in a better place to understand influential qualitative factors, such as management team culture or the company's view on material risks and opportunities.

Why proxy and voting-based engagement matters for creditors

Throughout this paper, readers will see references to equity-style engagement actions and activity, such as proxy season. In sustainability, the interests of shareholders and creditors are aligned. As such, where relevant, we engage and act on behalf of all financial stakeholders. We see this as a more effective path to creating positive change since it allows us to wield more influence than would otherwise be the case.

[2] Visit the EOS website to find out more.



Lessons learned: Evolving impact identification and SDG scoring processes in 2023

Since 2020, we've built insight on how to uncover the SDG impact potential of companies, and we've learned what styles of engagement may be needed to understand or influence progression to potential milestones. We also now have a deeper understanding of when companies do (or don't) exhibit observable hallmarks of impact potential before or during early engagement. This is complemented by our enhanced understanding of specific SDG-related opportunities in different sectors.

In 2023, we will redesign our six-factor framework, outlined in Figure 2 above, to become more specific and targeted in identifying SDG-aligned potential, using SDG targets and, where possible, underlying SDG indicators. Our aim is to define the most material SDG impact potential and quantifiable underlying indicators in an instantly identifiable fashion within the six factors. We will outline the most significant 'delta of impact' potential in a summary covering the core of our hypothesis for each issuer. This will continue to inform the 'thread' of dialogue with companies, shared by lead engagers in fixed income and our colleagues in EOS.

Importantly, , where feasible, this 'SDG 2.0' scoring approach will begin to identify quantitative indicators of impact. The advantage here is that it will provide a starting point that we may be able to use in future years to report a selection of quantified SDG-related outcomes resulting from corporate activity. In line with this, later in this report, we have begun to cite SDG targets and indicators selectively, such as SDG 13.2 (Integrate climate change measures into national policies, strategies and planning) and its indicator 13.2.2 (Total greenhouse gas emissions per year).

External developments have influenced us to evolve analysis to be more quantitative where possible. This has been one of the strategy's challenges – in moving from a qualitative to a blended approach to impact potential 'with numbers'. Data availability at the portfolio level has improved due to developments within the fixed income market itself but also because companies we engage now produce quantified nonfinancial reports themselves (which remains an area of focus in objectives). However, reliable and comparable data on real-world SDG impacts of fixed income issuers still remains a partial barrier to broad, reliable quantified impact reporting in 2023.

Measuring our progress and impact using milestones and objectives

Establishing a causal link between efforts and real world outcomes is difficult in most situations. There are occasions when a company directly credits our intervention for actions it has taken, but we often need to rely on other measures of success.

We use a four-stage milestone system (see Figure 3) to track the progress of our engagements relative to the objectives set for each company. When we set an objective, we also identify the milestones that need to be achieved. Progress is regularly assessed and evaluated against the original engagement proposal.

There are occasions when a company directly credits our intervention for actions it has taken, but for the most part we need to rely on other measures of success.

Figure 3. Engagement milestone system

SECTION 2

Investment review

Mitch Reznick, CFA
Head of Sustainable Fixed Income

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Head of Credit

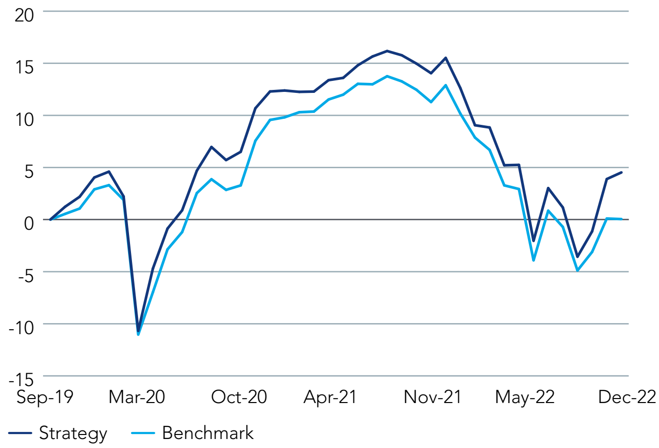
Nachu Chockalingam, CFA
Senior Portfolio Manager

The SDG Engagement High Yield Credit Strategy (SDGHY) is governed by two self-reinforcing objectives: one financial, and one sustainable. We seek to deliver superior risk-adjusted financial returns in excess of the Strategy's benchmark. At the same time, our financial stake provides license to engage with our portfolio companies on the future potential for positive impact. Our hypotheses for future impact are informed by the seventeen United Nations Sustainable Development Goals (UN SDGs).

Since inception, the Strategy has returned 4.52% (cumulative) in US$ terms, gross of fees, 447bps ahead of its benchmark index for the period. In 2022, our Strategy returned -9.51% in US$ terms, gross of fees, 186bps ahead of its benchmark index for the period.[3] In 2022, our Strategy returned -9.51% in US$ terms, gross of fees, 186bps ahead of its benchmark index for the period. Through 2022, performance progressively improved for the Strategy, with a very strong fourth quarter, which essentially drove full-year outperformance. As interest rate volatility subsided, the Strategy benefitted from more rate-sensitive components of high yield, with BB-rated issues and longer duration assets outperforming – this was particularly noticeable in subordinated financials and corporate hybrids. In the fourth quarter of 2022, the Strategy also benefited from regional return differences with its overweighting in Western Europe and the UK being rewarded; they outperformed the US as more of a 'soft landing' narrative in the former regions took hold.

Figure 4: The SDG Engagement High Yield strategy versus the benchmark since inception

NB: This chart and table illustrate performance at a strategy level. For the performance of individual share classes on a net basis, please visit The Federated Hermes website. https://www.hermes-investment.com/uk/en/intermediary/investments/

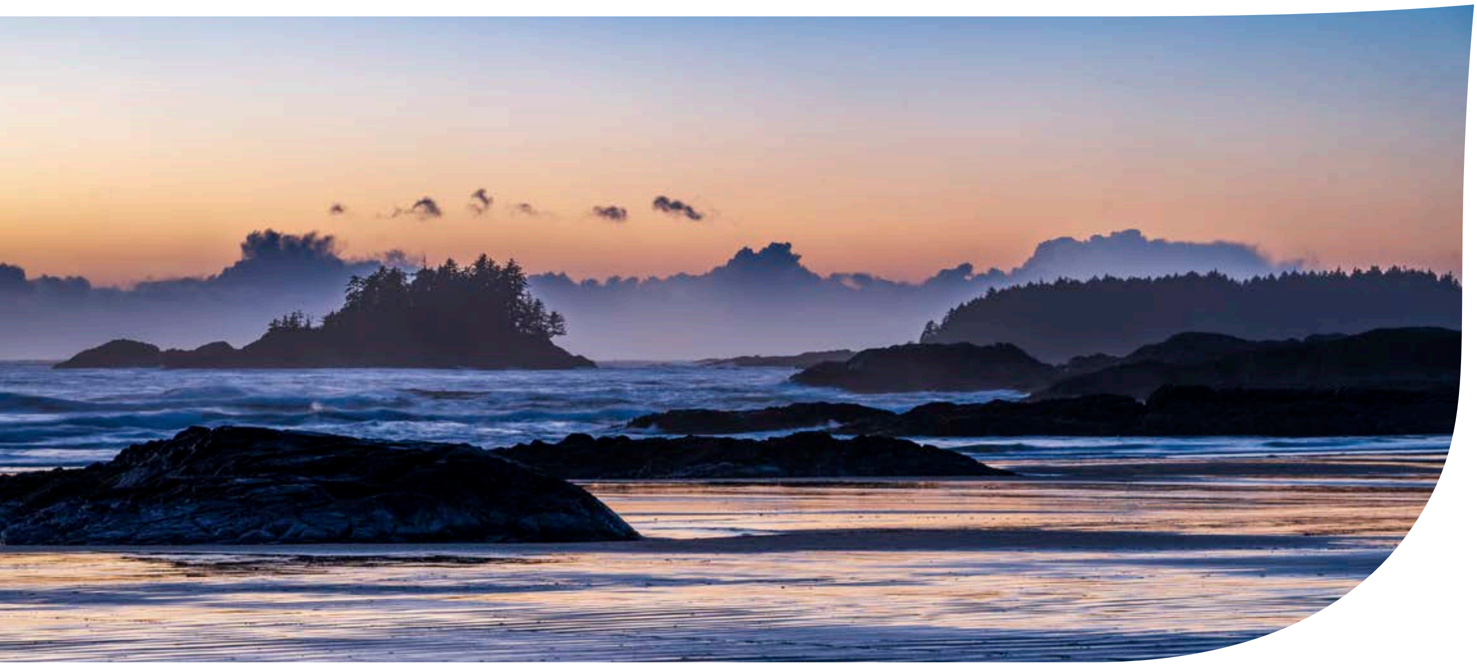


Rolling year performance (%)

	31/12/21 to 31/12/22	31/12/20 to 31/12/21	31/12/19 to 31/12/20	31/12/18 to 31/12/19	31/12/17 to 31/12/18
SDG Engagement HY Credit Strategy	-9.5	2.87	7.94	–	–

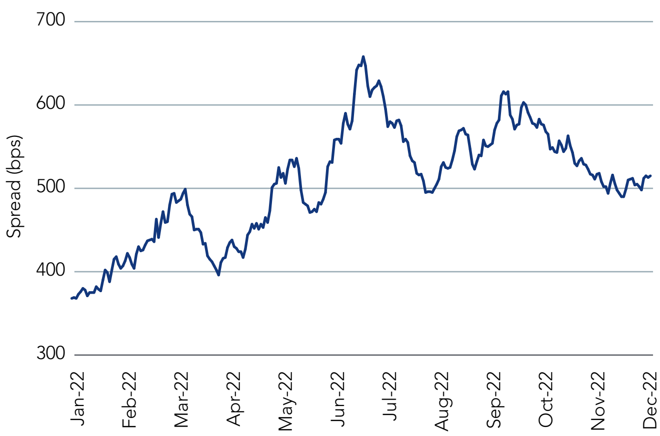
Source: Federated Hermes as at 31 December 2022. Performance shown is the Federated Hermes Int'l SDG Engagement High Yield Credit Hedged to USD Strategy. In US$, gross of fees. Inception date: 30 September 2019. Benchmark: ICE BofAML Global High Yield Constrained Index hedged to US$. Data is supplemental to the GIPS® report that can be found in the Appendix. **Past performance is not a reliable indicator of future returns.**

[3] Source: Federated Hermes as at 31 December 2022. Performance shown is the Federated Hermes Int'l SDG Engagement High Yield Credit Hedged to US$ Strategy. In US$, gross of fees. Inception date: 30 September 2019. Benchmark: ICE BofAML Global High Yield Constrained Index hedged to US$. Data is supplemental to the GIPS® report that can be found in the Appendix. **Past performance is not a reliable indicator of future returns.**



The Strategy's benchmark spreads started the year off at tights of 370bps and progressively widened to reach a peak of 660bps in early July, before staying rangebound in the second half of the year. From a performance perspective, 2022 was one of the most volatile years for almost all risk assets, with many drivers affecting returns and investor sentiment. Central bank policy, the war in Ukraine and the consequent impact on energy prices and China's zero-Covid stance were some of the challenges investors faced. The December 2022 inflation readings in the US and eurozone showed inflation is slowing, which strengthened market hopes that central banks can end their hiking cycles soon. Despite market performance, fundamentals in credit markets remain supportive: leverage levels are near record lows and defaults remain subdued. The technical picture also appears reasonable, with limited net new financing expected given that many issuers had already pre-financed 2023 maturities. Likewise, M&A and shareholder friendly activities, which may require financing, also seem limited.

Figure 5. Global high yield spreads during 2022



Source: Bloomberg 31 December 2022.
Past performance is not a reliable indictor of future returns.

Turning to our ambitions for the impact potential of the Strategy, both our credit analysts and engagement specialists had a fruitful year, with many engagements progressing. As well as providing crucial portfolio-positioning insight, the team supporting the Strategy drove over 252 engagement actions in 2022, an effort we have detailed at length in the next section. Our dedicated lead engagers also established dialogue with new issuers in the portfolio for the first time, including Masmovil (telecommunications), Greenko (renewable utilities) and Medline (healthcare).

We believe that a wide range of companies in our Strategy have the potential to benefit society and the natural environment – their key challenge is in the progressive development of clean, future-resilient and more equitable next-generation industries and value chains. In short, it is the job of many of these companies to provide the building blocks for economies and essentials for everyday life and employment. Operations, products and services or entire value chains for companies in the strategy need to further transform to contribute, directly or indirectly, to the aims of a cross-section of environmentally- and socially-focused SDGs.

We believe that a wide range of companies in our Strategy have the potential to benefit society and the natural environment – their key challenge is in the progressive development of clean, future-resilient and more equitable next-generation industries and value chains.

SECTION 3

Engagement Review

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Engagement Manager, SFI

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Engagement & ESG Associate, SFI

Sophie Demare,
Engagement & ESG Associate, SFI

Our third year of engagement continues to build on relationships and dialogue established from the launch of our strategy, as demonstrated by increased and intensified portfolio engagement activity

This year featured 445 engagement actions with 100% of the portfolio of 124 companies held at 31 December 2022. This is a significant increase from the 388 engagements carried out at 138 companies in 2021.

Since our inaugural 2020 year, the intensity of our interactions has continued to rise, reaching 3.5 average engagements per issuer in 2022. Again, the contrast here is with 2021 where engagements represented around 2.8 actions per issuer. This increased intensity is partly due to our expanded sustainable fixed income (SFI) team focused entirely on stewardship specific to the strategy, with 252 actions compared with 216 in 2021.

In addition, we are aided by the efforts of 22 EOS senior professionals who, across 2022, carried out an additional 193 engagements. The EOS stewardship platform remains a powerful, important part of our ability to deliver substantive dialogue which addresses ESG and impact matters comprehensively.

The intensity of our interactions has continued to rise, reaching

3.5 average engagements per issuer in 2022.

Activity Highlights

74 new objectives and **137** new issues identified for engagement in 2022

277 objectives and **636** issues active in the strategy at end of 2022

Around **2.2** objectives and **5.1** issues active at each company we engage, reflecting the maturity of the engagement programme

88% objectives and **81%** of issues engaged on at least once in 2022

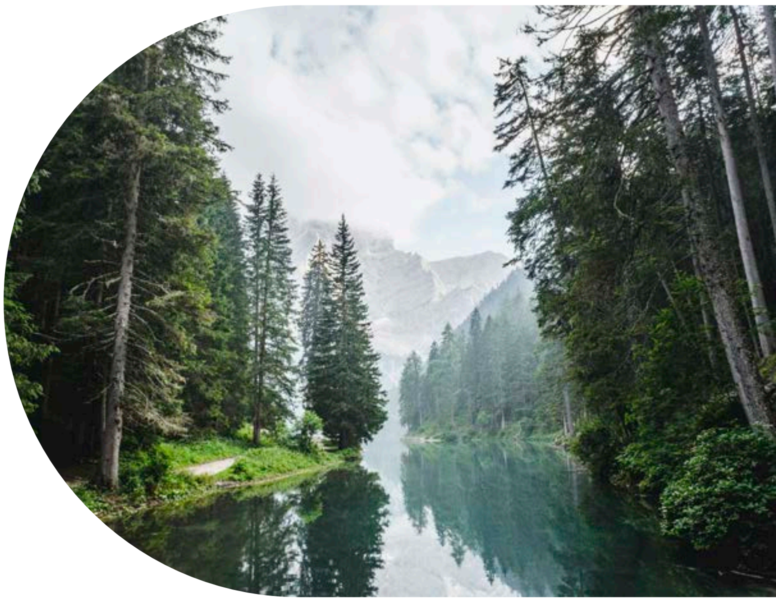
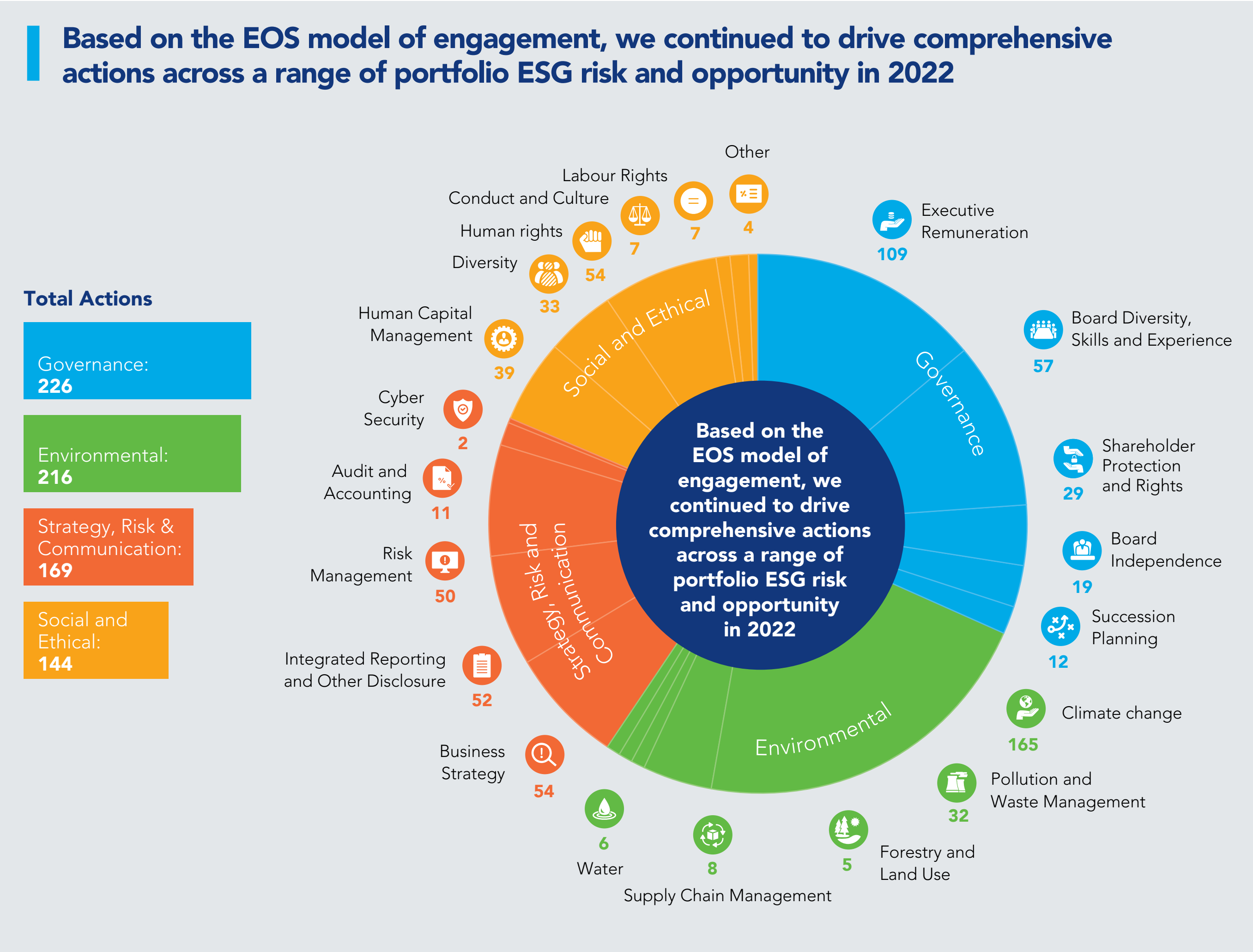


Figure 6. Engagement actions in 2022, by theme and subtheme



Source: Federated Hermes, as at 31 December 2022. The sum of actions by theme and subtheme is greater than total overall actions, as engagement on several subthemes during a single action occurs. Within the Social theme, 'Other' refers to two actions on Tax and two engagement actions on Bribery and Corruption subthemes.

Our materiality-driven approach, which considers ESG risks and opportunities, plus potential avenues for future SDG impact unique to each company, demonstrated results similar to previous years (see Figure 6). This is characterised by a diverse, balanced mix of engagement across **Governance, Environmental, Social and Ethical**, and **Strategy, Risk and Communication** themes.

Compared to 2021, two notable shifts in our overall approach to ESG themes and subthemes stand out.

As the next section attests in detail, 18 objectives for improving reporting were engaged on in 2022. All but two objectives are advanced into milestones two through four. This is a result of years of engagement (and 52 integrated reporting and other disclosure actions in 2022) that aim for quality and comparability of nonfinancial data. Such data further validates our SDG hypotheses on whether positive impact is reported or realised at a company level.

First, intensity of dialogue in **Strategy, Risk and Communication**, featured in 169 actions, down from 242 (see Figure 6). Since we gleaned substantial insight on companies' *business strategy* in the first two years of our engagements, a decline from 84 to 54 actions is expected. Similarly, the quality of nonfinancial disclosure, which aids us in identifying and assessing impact and sustainability strategies, targets and results, broadly improved across the portfolio. As a result, we have engaged less intensively on *integrated reporting and other disclosure*, with 52 actions relative to 72 in 2021.

Second, we increased intensity of **Social and Ethical** dialogue from 141 to 144 actions in 2022. We substantively increased focus in this theme from 2020 to 2021, growing from 69 to 141 actions. In last year's report, we highlighted the urgency of social challenges and SDG-related opportunities material to the portfolio and our rationale for focusing here; and we are pleased to report that our engagement intensity in social themes has continued. Notably, there was strong engagement on *human capital management* and *diversity* subthemes. Focus in this arena was also bolstered by 54 human rights engagements, almost tripling the intensity of this dialogue over 2021. The next section features detail on SDG-relevant objectives we advanced which relate to **social & ethical** engagement.

19 *human rights* engagement actions focused on companies affected by the Russian invasion of Ukraine, given the potential exposure of vulnerable staff or operations, as well as responsibilities and choices companies must confront to respect human rights and safety of employees, suppliers or customers.

Our engagement objectives: Highlights of progress

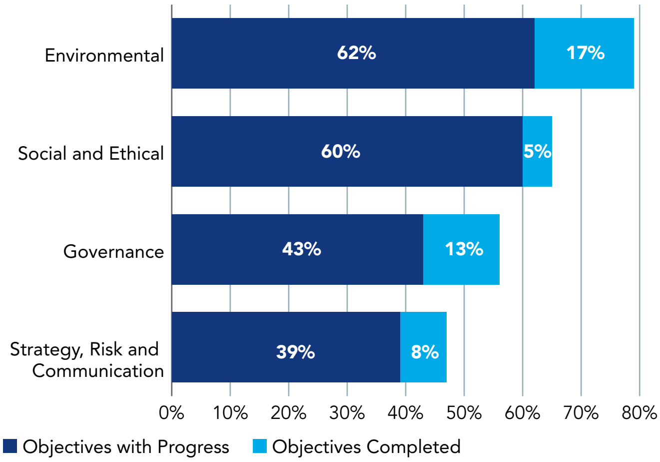
The objectives we set for meaningful change, and engagement milestones we track along the way to achievement, remain a core thread for the unique engagement approach we take with each company (See Figure 7).

In 2022, we continued to intensify engagement focus on objectives for change. Before turning to SDG impact in the next section, it's worth highlighting developments from a strong year of objective-driven engagement.

Most importantly, we completed 33 objectives in 2022 – our strongest annual outcome. We expect to be in this position in year three of a strategy that emphasises the value of well-informed, long-term dialogue with companies, focused on change that takes time and effort. Indeed, this is the hallmark of our strategy. Progressed objectives, in the context of how they may impact the SDGs, are detailed later in this report.

Figure 7. Proportion of objectives progressed or completed in 2022

Forthright engagement on environmental themes continues to advance or complete the most objectives in the portfolio.



Source: Federated Hermes, 31 December 2022.
Objectives completed subtracted from objectives with progress to provide combined total proportions.

We completed **33** objectives in 2022 – our strongest annual outcome

277 objectives now active at 124 companies – increasing intensity to 2.2 objectives per company, on average

74 new objectives created to drive additional outcomes-based engagement across 2022

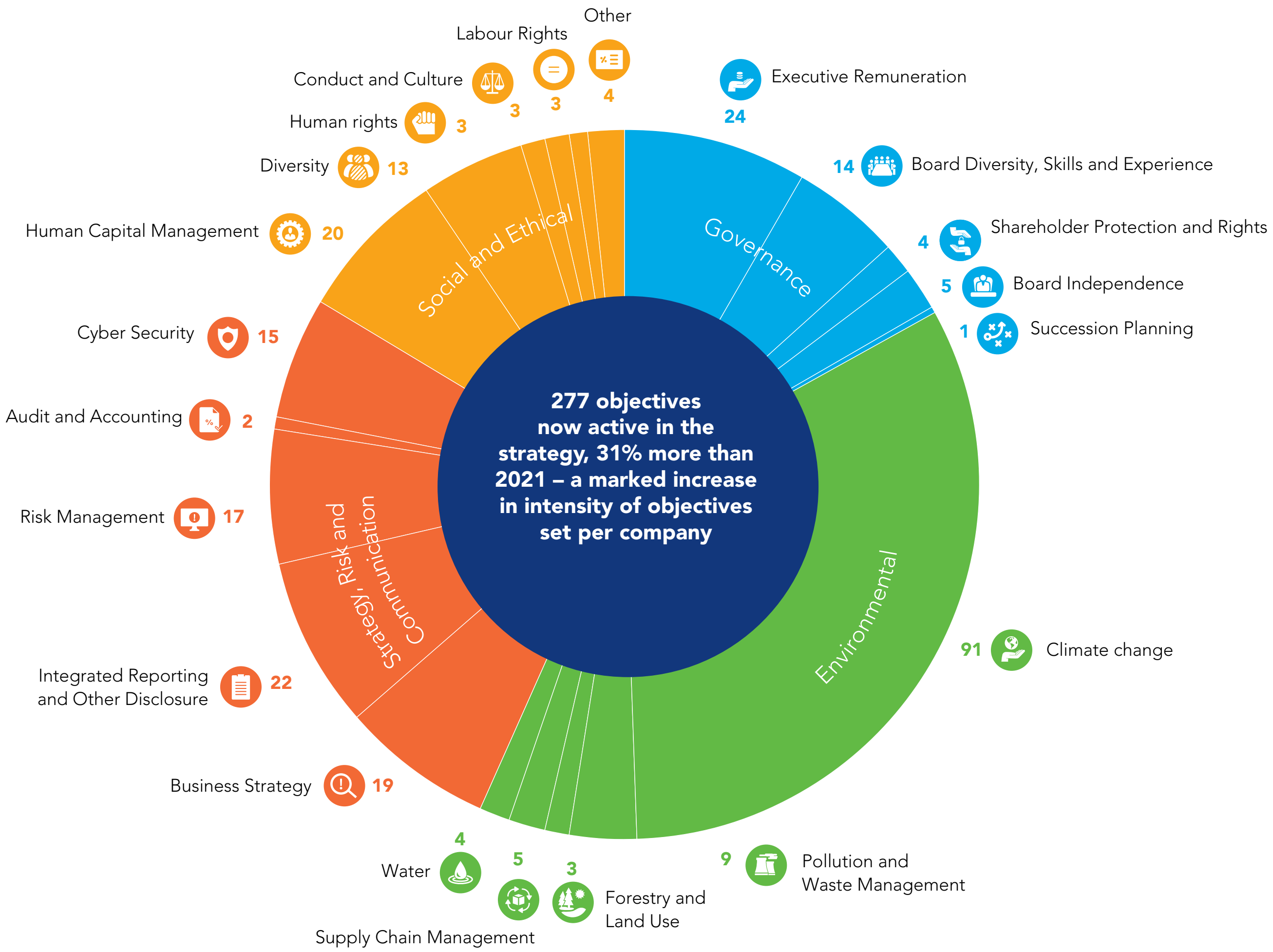
88% of all objectives engaged on in 2022

65% of all objectives progressed one milestone or more in 2022

The systemic challenge of **Climate Change** made up **33% of active objectives in 2022**

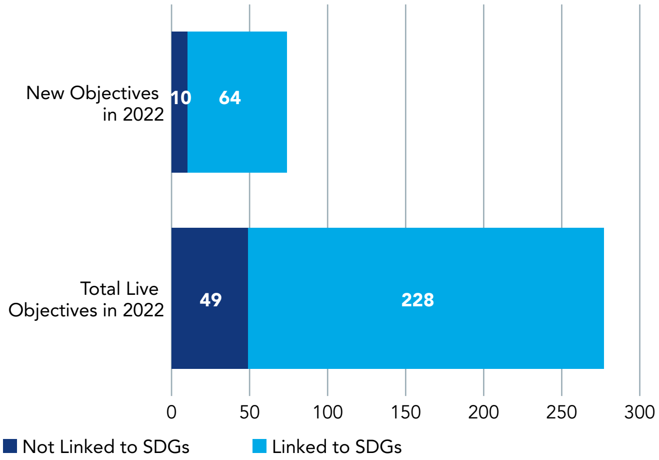
Taken together, **48 objectives** focus on **Human Capital Management, Diversity & Human Rights** – second only to climate in objectives-driven engagement

Figure 8. Live Objectives by Subtheme in 2022



Source: Federated Hermes, 31 December 2022.

Figure 9. Live objectives linked to SDGs in 2022

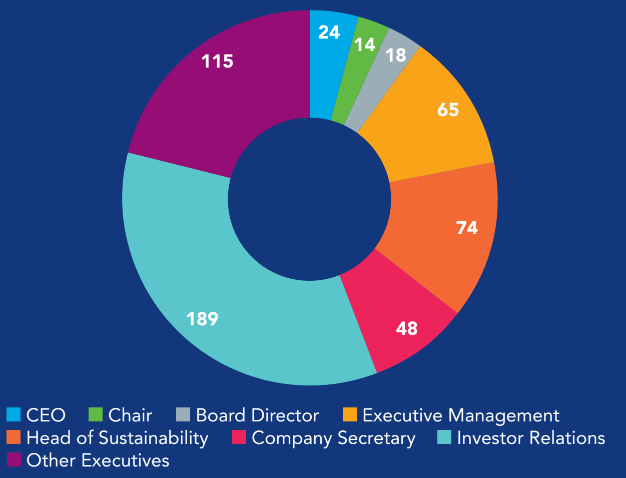


Source: Federated Hermes, 31 December 2022.

Before turning to highlights of SDG-driven engagement, it is worth noting that materiality-driven ESG stewardship must, as necessary, address challenges or opportunities where there is no direct or indirect link to the SDGs or underlying indicators.

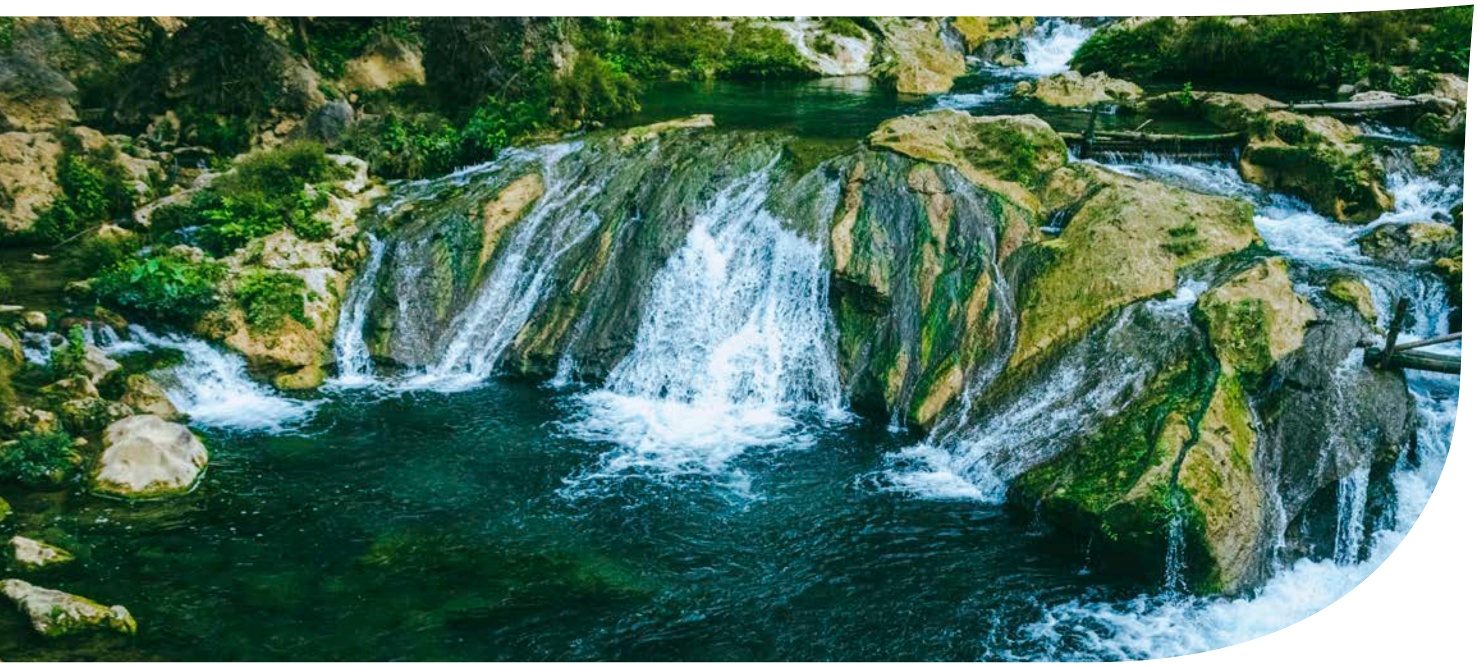
In 2022, Figure 10 shows 49 of 228 objectives we are pursuing do not relate to SDGs, but are relevant to matters which could affect the value of investments or the success of the company's SDG hypothesis. Of the 49, objectives focused on responsible, investor-aligned *executive remuneration* make up 22 – by far the largest set. A further nine objectives relate to improving *board diversity, skills and experience* or greater *board independence*.

Figure 10: Participation in engagements by seniority in 2022



Source: Federated Hermes, 31 December 2022. NB: The sum of participants is greater than engagements conducted in 2022, as multiple types of participants often take part in individual engagements.

We are pleased with the shift in seniority and access achieved in our third year of engagement (see Figure 11) an anticipated outcome from long-term, open dialogue. We enjoyed a similar level of interaction with board directors and chairs as in the prior year, but in 2022 **we increased dialogue with executive management by 55%** (42 to 65 instances) and with CEOs from 18 to 24 instances. Similarly, **our engagement with Heads of Sustainability grew from 45 to 74 instances**. All told, **80% of 445 engagements we conducted had participation with stakeholders beyond investor relations**.



Our engagement objectives and highlights of SDG impact

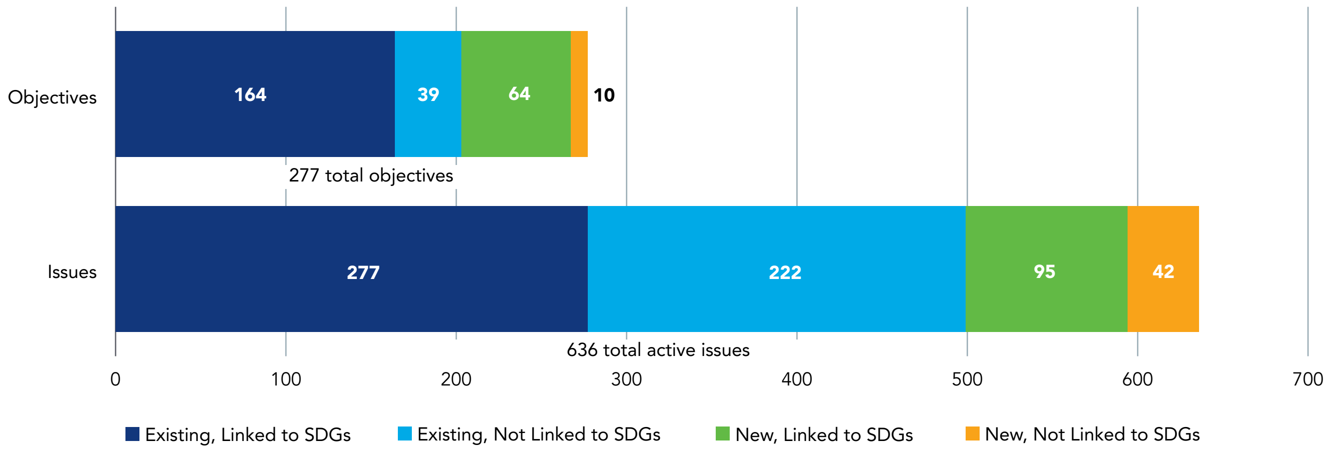
Engagement on the SDGs in our strategy in 2022 is a story of continuity and renewal. Of 277 live objectives in the portfolio at the end of the year (see Figure 12), 228 are focused on direct or indirect material impact on one or more SDGs (the remainder are explained later in this report).

Of these 228, we added 64 SDG-related objectives to our efforts in 2022. Both figures represent a high in the intensity of SDG-tied engagement, and we are pleased with efforts in driving the progression of existing objectives, and identifying new engagement opportunities through our bottom-up, holistic approach at each issuer.

Notably, issues-based engagement exhibits a telling pattern when it comes to how we focus on SDGs. Of the 636 active issues, 58% related to at least one SDG, with the remaining issues not linked directly. This contracts markedly with objectives, where 82% are linked to an SDG. This is because issues-based engagement tends to focus on matters which require monitoring, rather than engagement to influence concrete change over a number of years. The rightful home of SDG-driven engagement is usually in objectives which aim for an x-to-y outcome; this is what our data on SDG-linked objectives demonstrates.

Our efforts in 2022 exhibited greater dialogue and progression focused on SDGs. For example, 89% of SDG-related objectives were engaged on in 2022, relative to 84% on objectives not tied to SDGs. Similarly, 68% of objectives with identified SDG potential progressed in 2022, relative to 51% of objectives without this. Overall, 181 SDG-related objectives progressed in 2022, reflecting the evolution of more focused SDG-related engagement.

Figure 11. Existing and new objectives in 2022 linked to the SDGs



Source: Federated Hermes, 31 December 2022.

SDG Engagement in 2022: where we're focused

While the intensity of SDG-related objective engagement increased in 2022, the themes we engaged on are similar to previous years. As detailed among top SDGs we link to objectives, and actions we carried out, we think these are the most material areas of potential SDG impact in the high yield universe.

7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION

- Sustainable production, consumption and resource efficiency in value chains we invest across
- Carbon emissions abatement and climate action at most companies we invest in
- Innovation, R&D, strategy and macro demand trends for deeply sustainable products and services

5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES

- Increasing inclusion, diversity and quality of employment in company workforces
- Wider socioeconomic impact in supply chains, customer bases, communities and societies

Figure 12: Live engagement objectives by SDG, 2022

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

129 **Seeking impact where it matters in high yield:** In 2022, we improved accuracy of the underlying SDG indicators mapped to the outcomes implied in many objectives. Our focus further shifted to **SDG 12** outcomes (sustainable consumption and production) in 129 objectives, because of the need for value chains in the high yield universe to transform to sustainably manage and use natural resources (12.2), reduce waste generation (12.4), and to have sustainability information in reporting (12.6).

13 CLIMATE ACTION

70 **Climate Action remains a hallmark:** The systemic risk posed by climate change, and the cross-cutting nature of action required, continues to drive intense objective-setting for **SDG 13**. Since **SDG 9.4.1** has the indicator of 'CO2 emission per unit of value added,' which companies can directly act on and measure, objectives directly tied to **SDG 13** have decreased in line with our drive to pinpoint accuracy. Integration of climate change measures into policies and strategies (13.2) directly relate to future-focused climate action planning we engage on, so we have 70 objectives relating to this.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

63 **Potent potential in SDG 9:** Like SDG 12, high-yielding sectors and value chains often contribute to targets of **SDG 9**, including inclusive, sustainable industrialisation (9.2), upgrading infrastructure and retrofitting industries through resource-use efficiency and adoption of environmentally sound technologies (9.4), plus increasing access to information and communications technology, and universal internet access (9.c). It is no surprise **SDG 9** is amongst our most-engaged SDG with 63 objectives, commonly paired with its closely-related SDG 12 sibling.

10 REDUCED INEQUALITIES; 5 GENDER EQUALITY

52 / 34 **Driving equity & inclusion within & beyond workforces:** Our focus on **SDGs 5 and 10**, with a combined 86 linked objectives, seeks to close gender and wider inequality gaps in workforces and local communities or societies. For example, **SDG 5** targets participation of women in leadership at all levels of economic life (5.5), something most companies can directly impact within its workforce and influence in value chains. In **SDG 10**, one goal is to empower and promote social, economic and political inclusion of all (10.2) – which can be driven within company walls, supply chains, and in a number of sectors such as banking, through the business model – as the final section explores further.

7 AFFORDABLE AND CLEAN ENERGY

43 **Clean energy is both a business model and an enabler of climate action: SDG 7** targets increasing the share of renewables in the energy mix by 2030 (7.2) and to double the rate of improvement in energy efficiency (7.3), among others. **SDG 7** features in 43 objectives for our portfolio, since it is one of the direct impacts virtually any company we engage with is able to have. This is of importance to utilities, basic materials and industrials, given their role in generating or consuming large quantities of energy with an imperative to transition to renewable sources.

8 DECENT WORK AND ECONOMIC GROWTH

34 **Providing decent work and equality of opportunity:** SDG 8 (decent work and economic growth) focuses on productivity, entrepreneurship and SME growth (8.3), decent work for all women and men (8.5), and safe and secure working environments (8.8), and offers companies a direct route to impact. This features in 34 objectives.

Source: Federated Hermes, 31 December 2022. The sum of objectives by SDG is greater than total objectives in the portfolio, as many objectives feature cross-cutting impact or dialogue related to more than one SDG. For example, SDGs 7, 12 and 13 strongly interrelate; if a company which generates renewable electricity, or provides equipment or services for low-carbon energy, it will impact these clean and affordable energy, sustainable production and climate action-focused SDGs simultaneously.

SDG Engagement in 2022: How we did It

Figure 13: Engagement actions by SDG, 2022

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

208 **Rigorous planning to reduce full scope emissions:** We engaged Iron Mountain twice in Q1 2022, in writing and dialogue, addressing the need to calculate and address Scope 3 emissions (**SDGs 9.4.1 & 13.2.2**) and report in line with TCFD recommendations (**SDG 12.6**). Our written feedback was followed by discussion of its Scope 3 quantification work, and when it plans to disclose and set targets for this part of its emissions footprint. Our written feedback on improving disclosure in line with the TCFD was positively received and has been used to flag the importance of climate risk to the board.

13 CLIMATE ACTION

142 **Getting to science-based assurance for emissions abatement:** Through two Q4 2022 discussions with the CEO and management of Novelis, we engaged on potential of a science-based target (**SDGs 9.4.1 & 13.2.2**), something we began to engage on in 2021. The company has joined a coalition focused on near-zero carbon aluminium, and indicated it is considering science-based targets as part of emissions reduction planning. The company is excited about its carbon-neutral (Scopes 1 & 2) facilityin Alabama, which began construction and will be powered with renewable energy.

10 REDUCED INEQUALITIES

142 **Demonstrating social impact through core services:** Itaú Unibanco has demonstrated its ability to increase financial health and generate positive social outcomes for SMEs, entrepreneurs and other groups with unequal access to finance (**SDGs 10.1, 10.2, 10.3, 1.4.1**); its capabilities and data may allow it to produce outcomes-based reporting. This would demonstrate how it is making a measurable difference to beneficiaries through banking. We initiated dialogue on thisin Q4 2022, gaining comfort on its focus on quantified outcomes.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

117 **Sustainable, SDG-positive growth ambition:** During Q3 2022, we met Klabin for an innovation centre tour and to discuss changing biomaterial economy opportunities (SDG 9.4). As a result of global plastics-to-alternatives trends and regulation, it increased its growth forecasts for biomaterials in 2022, well beyond 2021 projections. We continue to engage to understand the R&D strategy in detail, and we may seek to set an objective to have the company regularly quantify its shift from pulp and paper applications to sustainable biomaterial opportunities over time. The company already has commercially-centric sustainability goals related to R&D and innovation.

7 AFFORDABLE AND CLEAN ENERGY

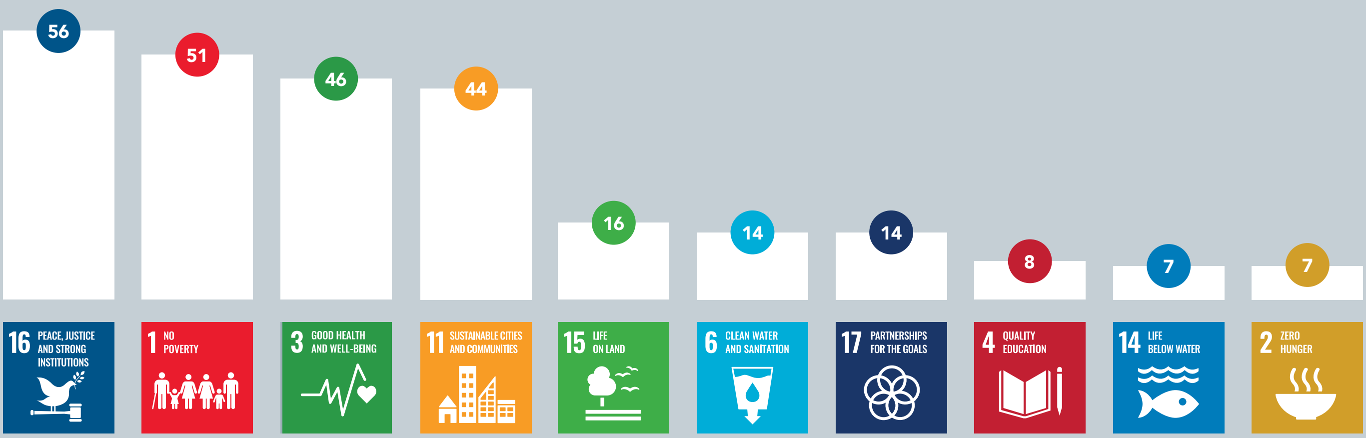
116 **Focusing sustainability strategy on product achievement:** During engagement with Ford Motor Company in Q1-2 2022, we continued to explore the execution of its EV strategy (**SDGs 7.1.2 & 9.4.1**). In our objective, we want the company to demonstrate success through at least 10% EV vehicles in its sold product mix by 2024 (from ~2% in 2020). Ideally, we would like to see the company disclosing interim EV targets before 2030 for its whole product mix. The company indicated it will consider how to provide meaningful disclosure on how sales of EVs are impacting fleet emissions over the next five years. This includes manufacturing capacity of 600,000 EVs in Europe by 2026, a doubling or tripling of selected EV manufacturing in North America in 2022-23, and more than two million EVs to be sold annually by 2026 (about one-third of global volume).

8 DECENT WORK AND ECONOMIC GROWTH

104 **Decent work in the circular economy:** Our Q1 2022 letter and discussion with LKQ, a provider of recycled and salvage automotive parts, focused on our objective to analyse and consider the introduction of living wages for all employees (**SDG 8.5.1**). Several internal developments on how the workforce is being managed appear positive, the company's wage floor has been increased, and the company continues to consider how this can be achieved, as reflected by advancement of our objective.

5 GENDER EQUALITY

97 **Diversity beachheads in emerging economies:** We continue to engage with Akbank on achieving gender parity in management as well as improving diversity disclosure (**SDG 5.5.2**) and addressed this during a wider 2022 governance discussion. The bank demonstrates an unusual level of pre-existing gender diversity, and we believe it can set an example for markets similar to Turkey on the nonfinancial and financial benefits of achieving gender parity in management.



Source: Federated Hermes, 31 December 2023. The sum of actions by SDG is greater than total actions in the portfolio, as many individual actions feature dialogue related to more than one SDG. For example, SDGs 7, 12 and 13 strongly interrelate; if a company which generates renewable electricity, or provides equipment or services for low-carbon energy, it will impact these clean and affordable energy, sustainable production and climate action-focused SDGs simultaneously.

Highlights of SDG progress in engagement

SDG 12 – Sustainable production, consumption and resource efficiency in value chains we invest across

Targets and indicators in SDG 12 are among the most material for our strategy – and for impact from companies. The building blocks of SDG 12 – such as efficient use of resources, sustainable waste management and sound use of chemicals – are relevant to companies making physical goods or generating energy. SDG 12.6 even targets corporate sustainability reporting, a driver of engagement efforts to surface quantified ESG and impact metrics.

SDG 12 targets: Key examples			
12.2: Achieve the sustainable management and efficient use of natural resources.	**12.4**: Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle.	**12.5:** By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.	**12.6:** Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.

Milestone 1: Concerns raised | Milestone 2: Concerns acknowledged | Milestone 3: Plan established | Milestone 4: Plan being implemented

Company	Engagement objective	How we engaged	Status
NatWest 12.2 12.6 7.3	Report in line with recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)	We have engaged with NatWest on TCFD since 2017; it was open to engagement and discussed our viewpoint with the board. It published its first TCFD report in 2020 but we kept the objective open; NatWest had begun to emerge as a leader on climate action, and we believed it was worth engaging on how it could improve its first effort. Since the start of this objective, we have held over 10 engagements to address our objective and related topics. Climate is one of the three areas of focus in the bank's purpose-led strategy, alongside enterprise and learning. NatWest's ambition is to be a leading bank in the UK in addressing climate change through climate positive operations by 2025, and importantly, by reducing the impact of lending and financing. Medium-term commitments include ceasing financing for companies with more than 15% of activities related to coal, and to stop financing oil and gas producers without credible transition plans. Importantly, NatWest's energy-efficiency products and targets for its mortgage business will directly impact SDGs 12.2 and 7.3 (double the rate of energy efficiency improvement), given that British housing stock, some of Europe's oldest and most inefficient, drives 14% of UK emissions.[4] Its TCFD reporting is now among the most comprehensive in addressing climate-related risks and opportunities, allowing us to complete this objective (SDG 12.6). This features a series of quantified risks, rather than predominantly qualitative disclosure.	Completed Q4 2022
Levi Strauss & Co 12.2 12.4 12.5 9.4	The company to publish a circular economy innovation strategy, with timebound ambitions and targets.	We believe the company has an opportunity to highlight its leadership and drive scalable shifts in the circularity of its business model and value chains in the longer term. Through engagement in 2021, we were pleased to learn that circular economy targets will be part of a new strategy that accounts for textiles challenges across lifecycles. In 2022, the company introduced goals for its circularity strategy. It aims to increase or introduce resale and upcycling offerings in key markets by 2025, to be 'circular ready' as a whole business in 2026 (in terms of scalability and practice) and to eliminate single-use plastics from packaging by 2030. The purpose of this circular-ready goal is to position the company to embrace scalable circular and recycled textiles use in production, while delivering strategies for reuse, repair and apparel life-extension. As the company remains challenged to integrate recycled textile inputs at scale, due to wider, industrywide problems in collecting, sorting and processing waste textiles, we continue to engage on this objective to understand whether additional goals should be considered.	Milestone 2 (Acknowledging concerns) completed, Q4 2022
Solvay 12.4 12.5 12.6 9.4	Improve score on the ChemScore benchmark.	Solvay has an advanced sustainability strategy and strong reporting, much of which addresses significant ESG risks in the chemicals sector. When we initiated engagement with the company in 2021, we were surprised by its low score on the ChemScore benchmark. In 2022, we set an objective for the company to improve its score and signed a joint investor letter outlining our expectations. The company responded to the letter highlighting areas where it has made progress, and its robust product stewardship policy that manages risks throughout the product lifecycle, from design to end of life disposal. In Q1 2022, we met the company as part of a collaborative engagement where it acknowledged the ChemScore result, stemming from lack of disclosure. It is engaging with ChemScore to understand how it can improve the result. We signed a second joint investor letter in Q3 2022 asking the company to increase transparency on the type and volume of hazardous substances it produces, particularly in non-US and EU markets with less-stringent disclosure requirements. The letter urged the company to take a proactive leadership role in phasing out the most persistent chemicals. We were able to complete milestone two, given the company's good faith acknowledgement of the challenges.	Milestone 2 (Acknowledging concerns) completed, Q1 2022
Brookfield Renewable Corporation 12.6	Implement climate scenario analysis in line with all TCFD recommendations.	The company has diversified operations across a range of renewables technologies and four continents. This infrastructure may be exposed to increasing acute and chronic physical risks, including fires, floods and volatility in water availability for its hydroelectricity footprint. We believe the company needs to provide comprehensive and scenario-relevant physical and transition risk disclosure to ensure investors and the business has a full accounting of how climate-related risks to assets will be mitigated or adapted to. The company published its inaugural TCFD report in 2022 which includes a climate scenario analysis for the majority of its portfolio. In Q2 2022, we advanced our objective after meeting with the chief sustainability officer and senior management to discuss matters including the recent TCFD enhancements, followed by providing further TCFD reporting it requested.	Milestone 3 (Planning) completed, Q2 2022

[4] https://www.theccc.org.uk/2019/02/21/uk-homes-unfit-for-the-challenges-of-climate-change-ccc-says/

SDG 13 – Carbon emissions abatement and climate action

Climate change is a systemic risk in virtually all engagement, and is connected to 129 objectives. However, despite the moniker of 'Climate Action,' most targets within SDG 13 are geared to policymakers at subnational, national and supranational levels; the most material target for companies to make a contribution to wider climate action and resiliency is SDG 13.2 (integrate climate change measures into national policies, strategies and planning).

SDG 13 targets: Key examples	
13.2: Integrate climate change measures into national policies, strategies and planning. For companies, its key indicator is 13.2.2, total greenhouse gas emissions per year.	**13.1:** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries. While this is an important contributor to wider adaptation from companies, particularly those delivering products or services to meet basic needs, it does not have a measurable corporate indicator; we qualitatively engage on strategies for confronting climate-related acute and chronic risk.

Company	Engagement objective	How we engaged	Status
Goodyear 13.2 12.2 12.5	Work with its customers to reduce its greenhouse gas emissions through better products and better use of its products.	As more than 90% of greenhouse gas emissions related to Goodyear's products and services occur in product-use, we communicated our expectation for the company to explain how it will reduce climate impact from products in 2019, to which it was responsive. In 2021, the company said it has leadership support to expand climate ambitions to include manageable Scope 3 emissions. In collaboration with customers, Goodyear focused on the use phase and identifying alternative low-carbon raw materials. In Q4 2021, we welcomed its 70% sustainable material demonstration tyre. In subsequent 2022 engagement, we discussed the positive reaction from customers to Goodyear's efforts, noting its customers want sustainable products manufactured in emissions-free plants; it has worked effectively with customers to reduce climate impact across its value chain. This includes investigating traditional recycling processes that provide acceptable material quality, beneficial tyre reuse, and mobility technologies to help customers reach their own emissions reduction goals. Through its life-cycle assessments, the company has a sound grasp of where it can further impact emissions, including in reducing rolling resistance and tyre weight, and replacing petroleum-derived materials with alternatives. Its increasing thoroughness in addressing emissions with customers allowed us to complete this objective.	Completed, Q4 2022
Ardagh 13.2 9.4	Set climate change targets beyond 2025, aligned with the Paris Agreement and science-based.	When we first engaged the company on this in 2020, it had already set a climate change target for 2025, but nothing beyond this. It was concerned about the technical feasibility of achieving a Paris-aligned target. Later in 2020, it did commit to setting a science-based target. We continued to monitor the company's progress across six engagements during 2020 to 2022. In Q3 2022, the company announced that its Scope 1, 2, and 3 targets had been validated by the SBTi for both the Metal Packaging and Glass Packaging units. However, it was not clear whether these were aligned with 1.5°C or 2°C pathways. Further engagement in Q4 2022 confirmed that the Scopes 1 and 2 targets were validated for 1.5°C, and Scope 3 for 2°C. The company will submit science-based targets for the recently acquired African business, and we were pleased by the discussion of robust plans to deliver on the target. We continue to monitor and discuss progress in executing the emissions reduction strategy, but consider progress to be sufficient to complete the objective.	Completed, Q4 2022
Cemex 13.2 9.4	Set a science-based target.	We engaged with Cemex on development of science-based emissions reduction targets starting in 2018, given the profile of cement production as one of the highest sources of emissions due to the nature of its manufacturing process. Although the company expressed its commitment to climate action, there was no clarity on the alignment of its reduction target of 35% by 2030 (against 2019 levels) to goals of the Paris Agreement. In subsequent engagements, the company sought to assure us about the internal methodology used to develop targets and we explained that we expected external validation. In 2021, the CEO confirmed Cemex would submit its revised 2030 target of 20.3% Scope 1 and 42.4% Scope 2 reductions by 2030 (against 2020 levels) to validation by the SBTi. The 2030 target was validated under the 'well below 2°C' category, thus allowing us to complete the objective.	Completed, Q2 2022
Anglo American 13.2 9.4	Value-chain emissions ambition and strategy.	When we first set an objective for Anglo American to develop a plan for reducing steel value-chain emissions, we felt the company was behind peers. Productive one-to-one and collaborative CA100+ engagements[5] over 2020-2022 allowed discussion of the company's increasing ambitions. The company has set a Scope 3 value-chain emissions reduction target of 50% by 2040, based on use of high-grade iron-ore pellets in lower-carbon steel production. This is a positive step, and provides an opportunity for further engagement to increase the ambition of the target to be aligned to 1.5°C pathways.	Completed, Q2 2022

[5] Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

SDG 9 – Innovation, R&D, strategy and demand trends for deeply sustainable products and services

SDG 9 includes a bevy of targets and indicators for material positive impact across much of our portfolio; it frequently complements the co-beneficial targets and indicators within SDGs 7, 8, 12 and 13 and others. Our engagement and objectives for positive impact on SDG 9 span banking, telecommunications, basic materials, energy, industrials and packaging sectors, to name several.

SDG 9 targets: Key examples

9.2: Promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.	**9.3:** Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.	**9.4:** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.	**9.c:** Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020.

Company	Engagement objective	How we engaged	Status
AES 9.4 9.2 13.2 7.1 7.b	Reduce exposure to coal in electricity generating mix.	AES has a proactive approach to its remaining coal-fired power assets. It had previously committed to reducing exposure to coal to less than 10% of its generating mix by 2030. We engaged on this in 2020 to understand how the company assesses divestment or retirement decisions for coal-fired power assets, and in 2021, we asked for clarification of how it could accelerate the closure of its Chilean coal assets. In 2022, AES confirmed it would accelerate its strategy by committing to fully exit coal by 2025, as it continues to build renewables which outweigh coal capacity retirement by about three to one in Chile. We completed our objective and engaged in 2022 on implications for commercial strategy and asked how the company will manage its coal phase-outs responsibly. Its plan are to remain in all regions in which it operates, while transitioning from coal. This includes Vietnam, where the company will replace coal capacity with lower-emissions assets, but could not yet comment on timing.	Completed Q3 2022
Akbank 9.3 8.10	Best-in-class sustainable finance strategy and key exclusions.	We believe Akbank should have a world-class sustainable finance framework, strategy and targets, and show how it is delivering on this over time. It should ensure exclusions and ESG risk policies continue to evolve in line with stakeholder expectations and needs. We engaged with management on this four times since 2021. In 2022, we provided written feedback on how the company can account for its sustainability-driven lending and financing externally as this grows as a proportion of total business, and we subsequently discussed long-term strategy for sustainable finance with the head of this unit. We were pleased to learn that the bank shares our opportunistic view of the unique social and environmental financing needs of the Turkish economy, and the potential in solving lending needs of individuals and SMEs to have a real impact. To complete Milestone 3 (Planning), we want to see quantified evidence of positive, non-financial outcomes for customers resulting from proceeds guided by the bank's sustainable finance framework.	Milestone 2 (Acknowledging concerns) completed, Q1 2022
Alpha Bank 9.3 8.10	Develop sustainable finance strategy, targets and disclosure.	The bank is working on a strategy to finance key environmental, decarbonisation and social outcomes in the Greek economy. We want to see the bank publish a sustainable finance framework with relevant targeted areas of lending which speaks to the needs of the country. The strategy should provide targets and subsequent disclosures set relative to all lending and asset management activity, and which defines areas of lending and financing it will pursue. In a 2022 engagement, we were pleased to learn that the sustainable finance framework is under development and relative targets for sustainable financing are being considered; we followed up with a letter providing feedback on reporting sustainable finance outcomes. We will provide the bank with more feedback based on future iterations of its sustainable finance strategy. To move to Milestone 3 (Planning), we want to see sustainable finance targets with indications of categories of social and environmental impact in use-of-proceeds, adapted to social and environmental challenges in the Greek economy and society.	Milestone 1 (Raising concerns) completed, Q1 2022
KB Home 9.2 9.4 12.2 12.6	For the company to disclose the proportion of sustainable materials in procurement.	The company has experience with the use of sustainable materials in housebuilding, and in particular, designs and features which save energy and water, as well as in-home and community renewable energy generation technologies. We believe the company has an opportunity to define and quantify the volume and type of materials and components which are sustainably sourced, or offer superior sustainability designs or performance over the life of homes and communities the company builds. We believe this could complement the historic commitment to home engineering, design and construction strategies which ensure every home the company builds achieves EnergyStar certification, unmatched by other major US homebuilders. This turned out to be a wise commercial decision, as a range of consumers now express deeper interest in cost savings and benefits of higher-efficiency, lower-emissions designs. During our 2022 engagement, the company indicated it plans to disclose Scope 3 emissions from suppliers, and in its 2021 reporting, it expanded the range of certifications it discloses for procurement. However, it has yet to develop a clear sustainable procurement strategy which includes circularity-goals, despite pursuing suppliers with 'Cradle-To-Cradle' certified products.[6] We are able to advance our objective and continue to engage in this area	Milestone 2 (Acknowledging concerns) completed, Q4 2022

[6] Cradle-to-Cradle Certified is a globally recognised standard for safer, more sustainable products made for the circular economy.

SDG 7 – Adoption and sale of lower-carbon and renewable energy

SDG 7 overtly focuses on global adoption of clean energy sources, research and development, energy efficiency and infrastructure. We thus focus on how utilities are deploying renewables and displacing high-carbon power generation; how 'legacy hydrocarbon' energy firms are decarbonising operations in the near term and investigating or investing in transition and renewable fuels, technologies and shifting value chains. For investees outside the energy and utilities sectors, we ask them to create demand by planning for and adopting renewables, and investigating how hard-to-abate uses of energy in processes can be upgraded, adapted or replaced in the future. SDG 7, 12 and 13 have highly compatible co-benefits within their respective targets.

SDG 7 targets: Key examples			
7.1: By 2030, ensure universal access to affordable, reliable and modern energy services.	**7.2:** By 2030, increase substantially the share of renewable energy in the global energy mix.	**7.3:** By 2030, double the global rate of improvement in energy efficiency.	**7.b:** By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programmes of support.

Company	Engagement objective	How we engaged	Status
Brookfield Renewables 7.1 7.2 7.b 9.4 9.2	Decarbonisation of carbon-intensive assets.	Brookfield Renewables is an ambitious renewables developer; it provides comprehensive decarbonisation strategy guidance for renewables assets but less dialogue on carbon-intensive assets which, while less significant in capacity, drive greater contributions to emissions. It therefore needs to provide greater transparency and a strategy for how these assets are set to shift for investors. We set this objective and began to raise it in 2022 with management, when we learned carbon-intensive assets fall within the wider Brookfield Asset Management net-zero-by-2050 target.	Milestone 1 (Raising concerns) completed, Q2 2022
Turk Telekom 9.3 8.10	Set a climate change and renewable energy targets.	We have been engaging the company on its climate change strategy since 2020. Although it has a carbon-reduction target, we would like it to be more ambitious and to publish a parallel target for renewable energy procurement. We met the company in Q3 2022 and were pleased to hear it is considering SBTi verification for its target. It is likely this will only be possible if it increases the ambition of the current target. Further, its 2022 disclosure showed an increase in renewable energy sourcing and mentioned an ambition to raise this to 50% of its total. It is still working on its next sustainability report, which will hopefully have more details about its roadmap for reaching this target.	Milestone 3 (Planning) completed, Q3 2022

SDG 5 and 10 – Increasing inclusion, diversity and quality of employment in workforces and supply chains

Diversity, equity and inclusion links directly to multiple SDGs, but SDG 10 features direct targets and indicators on closing inequality gaps and ending discrimination; SDG 5 focuses specifically on gender equality. In engagement, we are focused on how companies can positively impact regional or community-specific inequality gaps within workforces and management teams, how they influence this in supply chains, and how more diverse boards can provide robust oversight with broader skillsets and points of view. Companies, through workforces of hundreds or thousands of employees, directly act on social inequalities through how human capital is recruited, managed, developed and retained, even if wider barriers do remain at a national or supranational level.

SDG 5 and 10 targets: Key examples			
5.1: End all forms of discrimination against all women and girls everywhere.	**5.5:** Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.	**10.1:** By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average.	**10.2:** By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Company	Engagement objective	How we engaged	Status
IQVIA 5.1 5.5 10.2	Publish EEO-1 data on workforce composition.	When we engaged investor relations in 2021 and a board director in 2022, we encouraged publication of the company's EEO-1 data, a standardised diversity disclosure in the US. During conversations, we learned the company was planning to publish EEO-1 data and workforce composition metrics in its next ESG report. When asked what drove the decision to publish workforce composition data, the company said it had heard this request from multiple investors and that it was something the board had been considering for some time. We were pleased to see the publication of this data soon thereafter in the company's 2021 ESG report and that, in addition to EEO-1, it provided granular disclosures on the gender, racial and ethnic diversity profile of its workforce. We see transparency on relative workforce diversity and equality as a first step in being able to develop a strategy which addresses significant inequalities, taking into account the context of population diversity where companies operate.	Completed, Q1 2022
AES 5.1 5.5 10.2	Enhance diversity and inclusion targets to focus on racial and ethnic diversity at all levels..	Compared to US peers, AES has historically emphasised greater diversity at senior levels, which it indicates is partly due to CEO leadership on the issue, and partly to the company's diverse operating territories in developed and developing regions. However, it had not set goals related to ethnic and racial diversity. We want the company to enhance its targets and to disclose workforce composition. We have engaged on this issue five times since 2020; in Q2 2022, the company informed us that our feedback on diversity and related disclosures has been considered and will be reflected in future reporting, thus advancing our objective.	Milestone 3 (Planning) completed, Q2 2022
Grifols 5.1 5.5 10.2	Increase female representation in senior management	In 2020 we raised concerns about the low proportion of women in management; in response to our suggestion for setting a target, the company stated that it is a meritocracy. We repeated the suggestion in 2021 when sending feedback on the sustainability report. During 2022 engagement, the company acknowledged women remained underrepresented, especially on the executive committee. We understood that awareness of this issue had grown, with new policies on promotions and recruitment in place, along with a promotion committee aimed at reducing the gap between genders at senior levels. It now has 28% women on the executive committee compared to 23% in 2020.	Milestone 3 (Planning) completed, Q3 2022
Intesa Sanpaolo 5.1 5.5 10.2	Set medium and long-term targets related for management and workforce gender diversity.	We believe that the bank, focused on financing the Italian 'real economy,' should reflect the society to which it lends and thus should consider appropriate ethnic and racial diversity strategies and goals for its workforce. We discussed this in multiple engagements in 2020 and learned that a full diversity audit had taken place through a third party, furthermore that the bank was turning its attention to next steps. During our Q3 2022 engagement, we discussed new gender diversity targets, which seek 50% of all appointments to top management to be women during 2022-2025, and for the bank to reach 30% women in top management. The bank's gender balance at top management is now approaching 30%. We will now engage on wider measures of diversity in its planning to continue driving this objective.	Milestone 3 (Planning) completed, Q3 2022

SDG 8 – Providing decent work and equality of opportunity

Our engagement on decent job creation and safe and fairly-compensated working conditions spans full value-chains for most companies in the business of both products and services, and this directly connects to SDG 8, to promote inclusive and sustainable economic growth, full and productive employment and decent work for all.

SDG 8 targets: Key examples			
8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services.	**8.7:** Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.	**8.8:** Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.	**8.10:** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

Company	Engagement objective	How we engaged	Status
Cemex 8.7 8.8	Increase coverage of its supplier social due diligence.	We first engaged Cemex on supply-chain risk management in 2016, when we raised concerns about the low coverage of its due diligence process and inadequate reporting. We shared examples of best practice in supplier due diligence and auditing and encouraged the company to have a structured supplier development programme to address non-compliance. In 2017, the company published a set of sustainability targets for 2020, including a commitment to have at least 55% of its procurement covered by due diligence and audit procedures. The company acknowledged that the target was ambitious, given how slow progress had been. However, it assured us that the target was achievable and considered a high priority for the executive committee. In 2020 the company exceeded the target by achieving 63% critical supplier spend independently assessed. It continued to make progress in 2021, reporting 72% coverage, and published new targets, committing to achieving 80% and 90% of coverage by 2025 and 2030 respectively. As a result, we were able to complete this long-term objective.	Completed, Q3 2022
KB Home 8.8 12.6	Increase transparency on health and safety performance	When we first raised this issue in 2020 the company did not provide standardised health and safety reporting in terms of injury, accident and lost-time frequency for either employees or contractors. Given the elevated risk exposure in construction environments, and its role as a semi-skilled labour employer, we asked the company to disclose its health and its safety performance. The following year it published its first year of health and safety data for its workforce and contractors. We kept the objective running because multiple years data is required to gauge performance. In 2022, it published a second year of data that allowed us, for the first time, to see standardised injury rates and other measures of health and safety. The data showed a mixed picture in terms of performance and our focus going forward is to engage on areas of the workforce where safety needs to be improved.	Milestone 3 (Planning) completed, Q4 2022
General Motors 8.7 8.8	Increase transparency on supply-chain social and human rights performance.	The company has introduced saliency assessments and a revised human rights policy. Additional enhancements are underway due to the changing nature of risks within supply chains related to the sourcing of raw materials. The company is moving to a different mix of materials for electric vehicles – such as rare earth minerals and EV powertrain components which may be sourced from or manufactured in higher-risk locations. In 2022, we met with the CEO and senior management on two occasions, partly to discuss enhancing social and human rights due diligence audit and remediation disclosures. We then provided written feedback using peer examples and continue to engage on supply-chain human rights through this objective.	Milestone 2 (Acknowledging concerns) completed, Q1 2022

Failed engagements

While we had successes in 2022, with many holdings making meaningful operational and strategic changes that should lead to greater SDG impact, we exited companies where our SDG engagement hypotheses failed to materialise in subsequent engagement, commitments or corporate action.

A major Portuguese bank was downgraded to SDG 5, thus exiting the strategy, as we did not see sufficient progress in engagement or the bank's sustainable finance ambitions over a number of years. The bank has a range of products and services where SDG-related impacts can certainly be in focus, but we were disappointed no quantified outcomes were targeted, and we had little clarity on what proportion of revenues align with SDG impact. We also observed through engagement that the bank was moving much more slowly on its overall sustainability strategy relative to peers we hold, and much slower than was originally indicated in early engagement.

A Latin American energy producer was downgraded and divested, as we concluded through substantive engagement that, with its current climate plan, the company will fall further behind global peers on full production emissions and much of its absolute reductions will come from simply selling high-carbon refining operations. When compared, for example, to BP, an oil major with similar energy output, we estimate that this producer's Scope 1 and 2 emissions intensity was around 45-50% higher per unit of production and overall flaring is was 50% higher, despite it producing less energy than BP. Our original hypothesis, involving greater capital allocation to renewables, was not borne out.

We downgraded and divested an American midstream company in late 2022 due to a lack of meaningful progress beyond the release of basic ESG disclosures. Our other energy holdings have exhibited greater willingness to change, and a subset have meaningfully shifted near-term performance on methane, Scope 1 and 2 carbon intensity, and longer-term strategy and capital allocation, often with a view to ensuring greater compatibility with value-chain decarbonisation and energy transitions. Unfortunately, after a Q4 2022 engagement, we believed it unlikely that we could further influence management on the company's operational footprint, medium-term commitments and target setting, nor have we achieved board access. In light of the challenges and lack of management appetite in making notable shifts during in 2020-2022 engagement, and the slow pace of actual change at the company, our hypothesis did not bear fruit.

SECTION 4

Financial inclusion and banking: A billion-person opportunity?

Sophie Demare,
Engagement & ESG Associate, SFI

The banking and telecommunications sectors are uniquely positioned to positively impact socioeconomic wellbeing and a multitude of the UN Sustainable Development Goals (SDGs). Sophie Demaré, ESG and Engagement Associate for Sustainable Fixed Income, explains why.

A bank account is a vital means to achieving the outcomes of a broad array of the UN SDGs, acting as a lifeline in times of crisis and a vehicle for social mobility. However, according to data published by World Bank this year, 1.4 billion adults remain excluded from the global financial system today.[7] This is often the case for the poorest, most marginalised individuals, due to geographical barriers (for example, lack of access in rural areas), cost barriers faced by banks for issuing smaller loans, and insufficient education among customers in personal budgets and finance.

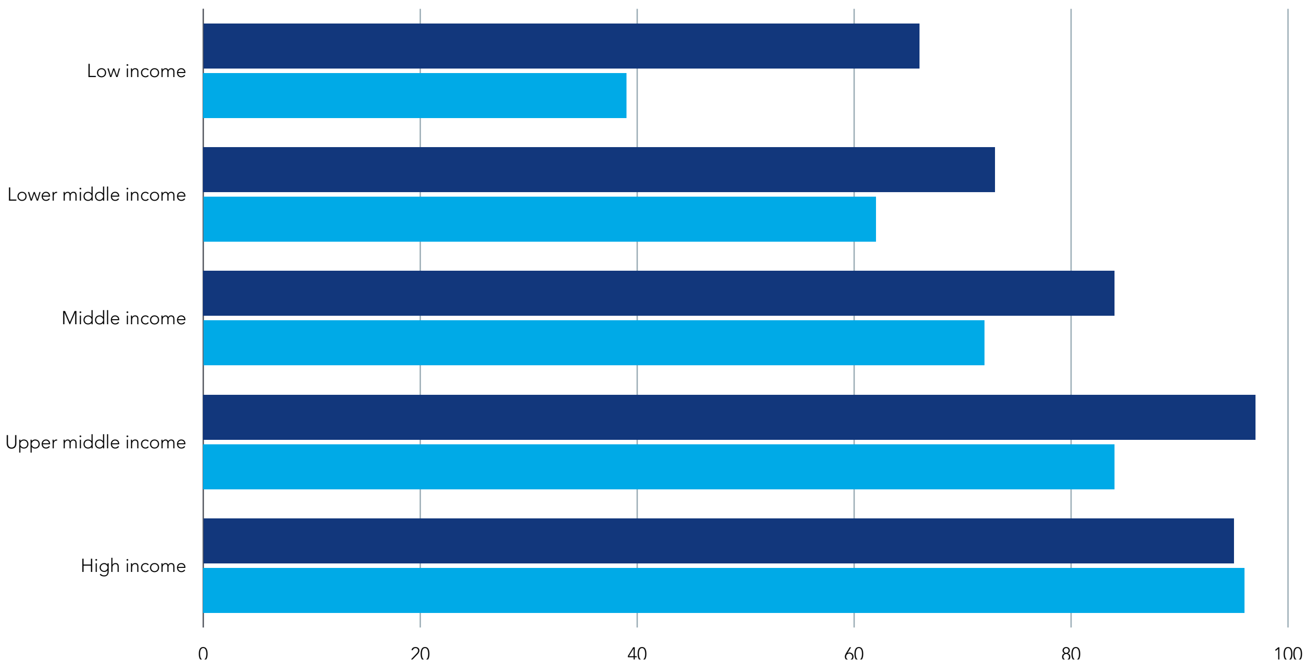
Impoverished households therefore rely heavily on cash and physical assets, such as livestock, for any financial stability. In the face of crises, such as a health emergencies or natural disasters, they lack a buffer to maintain their livelihoods. Likewise, they struggle to access capital which may provide a lever out of poverty by starting a business, taking on education, or moving to access superior employment. This has been exacerbated by the Covid-19 pandemic, which has twisted the knife of poverty and disadvantage faced by cash-dependent households in periods of heightened unemployment, uncertainty, and volatility in basic living costs.

However, it is also true that two thirds of unbanked adults own a mobile phone.[8] In many pockets of the world, digital financial services have stepped in to provide resources traditionally offered in brick-and-mortar banks; namely, via digital channels tailored to those with mobile access or potential educational gaps.

A key ingredient is required to mobilise this: a mobile network connection. Banks therefore rely on telecommunications providers to expand connectivity into underserved areas of the world to better deliver on promises of financial inclusion, broadening their reach to more of the 2.3 billion people without internet access in 2021.[9]

Banks are stepping up their commitments to expand customer bases to underserved groups. In 2021, 28 banks committed to set targets to make credit more accessible, increase financial literacy and combat over-indebtedness through the Principles for Responsible Banking's Commitment to Financial Health and Inclusion.[10] In some cases, telecommunications firms are eliminating the need for a bank entirely by offering their own secure, trusted mobile money services, requiring only a mobile subscription to participate.

Figure 14: Mobile phone vs. bank account ownership, across low-to-high-income countries



Source: Global Findex Database, 2021

[7] 'The Global Findex Database 2021,' published by the World Bank in 2022.
[8] 'The Global Findex Database 2017,' published by the World Bank in 2018.
[9] 'The Global Findex Database 2021,' published by the World Bank in 2022.
[10] '28 banks collectively accelerate action on universal financial inclusion and health,' UNEPFI as at 2021.

Financial inclusion

While SDG 8.10[11] explicitly targets financial inclusion – measured by number of ATMs accessible to the public and the proportion of adults holding accounts at financial institutions and mobile providers – financial inclusion is a key enabler of impact across a range of SDGs, as shown below:

1 NO POVERTY

Financial services will be key for eradicating poverty by 2030. Accumulating savings, accessing loans and making investments can enable individuals to escape persistent disadvantage and weather sudden economic shocks, including climate-related events and disasters.[12]

5 GENDER EQUALITY

Accessing credit can enable small- and medium-sized enterprises (SMEs) to grow and create decent jobs among lower-income groups in local economies. In addition, paying employees through formal channels decreases 'leakage' through graft or bribery in employment compensation and helps employees build credit histories, enabling access to further financial services.

8 DECENT WORK AND ECONOMIC GROWTH

The current financial system excludes 26% of women worldwide (compared to 22% of men).[13] Furthermore, women are more likely to face poverty than men, as they face unequal pay, exclusion from the formal economy, and a disproportionate burden of unpaid care work.[14] Digital financial services have a role in changing this, with the World Bank finding that countries with higher mobile money account penetration showing greater gender equality.[15]

10 REDUCED INEQUALITIES

Migrant workers sending remittance payments home to sustain families often face high fees, with the latest average cost of sending $200 abroad estimated at 6.09%.[16] Evidence has shown that mobile money accounts are proving to be the most inexpensive channel for remittances, through elimination of the high costs associated with traditional remittance handlers.[17]

11 United Nations, SDG 8.
12 'Igniting SDG Progress Through Digital Financial Inclusion,' published by UNGSA in 2018.
13 'The Global Findex Database 2021,' published by the World Bank in 2022.
14 'Why the majority of the world's poor are women,' published by Oxfam in 2022.
15 'Financial Inclusion: Overview,' published by the World Bank in 2022.
16 'Remittance Prices Worldwide Quarterly,' published by the World Bank in 2022.
17 'Remittance Prices Worldwide Quarterly,' published by the World Bank in 2022.

At Federated Hermes, we recognise the role of financial inclusion as a catalyst for progress on a wide range of SDGs, particularly for vulnerable members of society, and to this end we regularly engage with banks and telecommunications firms to understand how financial inclusion can form a strategic and expansive element of their business strategies.

CASE STUDY

Akbank

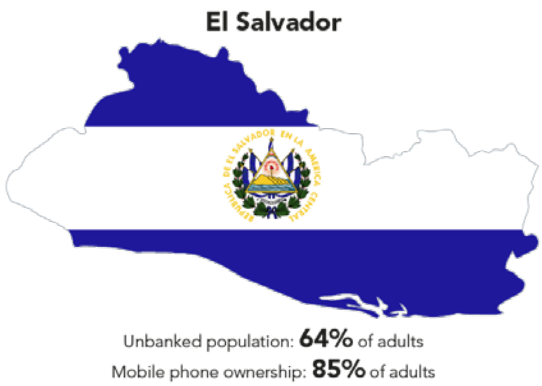
Akbank offers digital solutions for small and medium-sized enterprises (SMEs) to access credit and manage finances, and specialised products like its 'Women-Owned SME Package'. We have engaged with the bank on how it can close skill and technology gaps within SMEs amid the green transition and a challenging economic backdrop and, in future, will focus on how it can measure and target meaningful impact for these clients.

Unbanked population: 'The Global Findex Database 2021,' published by the World Bank in 2022.; SMEs: 'Small and Medium Sized Enterprises Statistics, 2020,' published by the Turkish Statistical Institute in 2021.

CASE STUDY

Tigo Money

Millicom's mobile money service, Tigo Money, has reached five million users across many largely cash-based economies in Latin and Central America. This includes El Salvador, where 64% of adults do not have a bank account.[18] Additionally, its 'Conectadas' platform, which aims to educate women and girls on digital and entrepreneurship skills, is an example of the company's efforts to bridge the digital divide. Our engagement focuses on understanding how the company can leverage its already substantial success to expand services and its customer base.



Unbanked population: 'The Global Findex Database 2021,' published by the World Bank in 2022. Mobile phone ownership: 'The Global Findex Database 2021,' published by the World Bank in 2022.

[18] 'Migration and migrant population statistics,' published by Eurostat in 2022.

CASE STUDY

Intesa Sanpaolo

Italy has the fourth-largest population of immigrants in Europe,[19] many of whom support family in countries of origin with remittances. Recognising the importance of these payments within this population, Intesa Sanpaolo established partnerships with banks in many of the main countries of origin for immigrants in Italy, enabling 72,000 remittance transactions worth over €40m in 2021. In the same year, the bank partnered with Western Union to enable remittance with no additional fees in the first half of the year, to help customers cope with the challenging economic environment and impacts of the coronavirus pandemic in emerging economies.

In line with its broader objective of becoming one of the world's top banks for social impact, its 'Fund for Impact' is aimed at reaching traditionally credit-deprived and credit-dependent customer bases, including unemployed customers nearing retirement age, people with severe disabilities facing high healthcare costs, and working, new mothers. It also offered €112m worth of microfinance and anti-usury loans in 2021, including its Entrepreneurial Micro-Credit loan, with the purpose of enabling individuals to start or grow their micro-enterprise without the need to provide collateral.

Italy

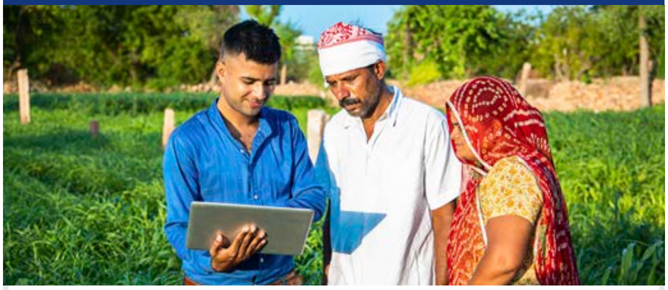
Unbanked population: **3%** of adults

Migrant polulation: **8.7%** of population

Unbanked: 'The Global Findex Database 2021,' published by the World Bank in 2022. Migrants: 'Migration and migrant population statistics,' published by Eurostat in 2022

CASE STUDY

Bharti Airtel



Indian telecommunications company Bharti Airtel is an example of a how the sector can close gaps left by traditional financial services, especially in large rural populations. The majority of accounts with its Airtel Payments Bank, launched in 2017, were opened in rural or unbanked areas, leveraging Airtel's network of over 500,000 retail outlets. It offers services such as savings accounts, domestic remittance, and sending and receiving funds between banks through a digital platform. Its e-Know Your Customer (KYC) service enables users to register for an account within minutes, avoiding complicated paperwork new accountholders often face. Customers wishing to deposit or withdraw cash no longer require access to a bank, as the company partnered with merchants (including grocers, pharmacies and restaurants) to enable digital payments in previously unreachable areas. Airtel has broadened its financial inclusion efforts beyond its Indian footprint, with its Airtel Money business partnering with financial services in Africa to offer mobile money accounts to over 20 million customers in 12 other countries.

India

Unbanked population: **22%** of adults

Mobile subscribers: **86%** of population

Unbanked: 'The Global Findex Database 2021,' published by the World Bank in 2022. Mobile subscribers: 'TMT Predictions 2022,' published by Deloitte in 2022; 'Population, total – India,' published by World Bank in 2022.

[19] 'Migration and migrant population statistics,' published by Eurostat in 2022.

SECTION 5

Appendix

Appendix A. Summary of six-factor heuristic framework for SDG *ex-ante* scoring

Factors to assess	Some evidence of SDG *ex-ante* potential, but requires deeper engagement…	… to more certain SDG *ex-ante* potential, and requires less intensive engagement
1. Business purpose & strategy How are SDG-related opportunities reflected in the company's purpose and the strategy it articulates to investors and society?	There may be articulation of how the company benefits society, but this is not central to its vision or strategy. The company may mention contributions to the SDGs but does not yet illustrate how it may deliver such benefits, nor how they guide culture, strategy or execution.	The company is focused on how its actions benefit society, and this is part of its core strategy. The company articulates how it will contribute to achieving the SDGs in its corporate purpose and through its culture.
2. SDG-related benefits of products & services How are SDG-related benefits provided through products or services? Are these key to the value proposition for customers or society?	Little articulation of the social or environmental benefits of products or services. Products or services with SDG-related benefits may not generate significant revenues today but might in the future. Engagement may be required to validate potential benefits.	Strong articulation of the social and/or environmental benefits of products or services. Value propositions are intended to deliver SDG-related outcomes. These may already generate substantial revenue.
3. SDG-related impact of operations How is the company driving SDG-related benefits through its operations, across the environmental and social dimensions within its control, or through its influence over its value chain?	Weak articulation of how the company's operations have a positive or negative impact. Intensive engagement may be required to determine the future potential for greater positive impact.	Material operational impacts are disclosed in positive and negative terms and how these may be improving over time. The company may exhibit leadership on some impacts relative to peers or has time-bound targets for a range of social and environmental risks and opportunities.
4. SDG-related capital allocation Is the company allocating capital to invest in growing products or services with SDG-related benefits? Has the company disclosed or quantified this?	Less disclosure of capital allocations to products or services with SDG-related benefit, or to investments which deliver impact through operations. Future opportunities are difficult to identify prior to engagement.	Disclosed capital allocation includes clear priorities for products and services with SDG-related benefits, or delivery of positive SDG impact through its operations.
5. Evidence & disclosure of SDG outcomes What SDG-related outcomes has the company, its customers or society realised? Have ESG or SDG impacts been quantified and disclosed?	Little evidence to demonstrate how the company is contributing to SDG-related outcomes for customers or society in quantified or qualitative terms. Disclosure may be a key area for engagement.	Ample evidence to demonstrate contributions to SDG-related outcomes for customers or society. Some quantification for incremental or total impact over time. The company explains its methodology for measuring such outcomes.
6. Engagement insight What have we learned from engagement in the past, and what is our engager's assessment of the company's future potential for impacting SDGs?	Demonstrates interest in engaging on SDG-related matters or opportunities, but this is unlikely to influence the business in the short term. Longer-term potential may exist, but significant barriers are apparent through engagement. More engagement is required to develop insight here.	Open to engagement dialogue and constructively acts on feedback and advice. The company actively applies the SDGs as a framework for informing its strategy, and will continue to build on opportunities for sustainable development.

Appendix B. Clarifying Our Approach

Our engagement approach is systematic and transparent. Our proprietary milestone system allows us to track the progress of our engagements relative to the objectives set for each company.

Objectives

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.

We only consider companies to be engaged when we have an individual interaction with the company which relates to an objective or issue.

We may engage with a company on multiple objectives at any one time, covering a variety of material ESG issues. An example of an objective could be: "Development of a strategy consistent with the goals of the Paris Agreement, including setting science-based emissions reduction targets for operating emissions (scope 1, 2 emissions)." Each objective relates to a single theme and sub-theme.

Issues

How does an objective differ from an issue, another term we use within our engagement? An issue is a topic we have raised with a company in engagement, but where we do not precisely define the outcome that we are seeking to achieve. This can be more appropriate if the issue is of lower materiality and so we do not anticipate engaging with the frequency required to pursue an objective. Or perhaps we are still in the process of identifying what type of change we may want to see at a company and so are not yet able to set a precise objective. Issues are frequently used for companies outside our continuous engagement programme, for example those where we typically engage only around the annual shareholder meeting and our voting recommendation.

We set clear and specific objectives within our company engagements to ensure we achieve positive outcomes.

Milestones

To measure our progress and the achievement of engagement objectives, we use a four-stage milestone strategy. When we set an objective at the start of an engagement, we will also identify recognisable milestones that need to be achieved. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

Actions

These are the interactions that take place between our engagement professionals and the companies or public-policy bodies with whom they are engaging. Every call, meeting or

Appendix C. SDG Engagement High Yield Credit Hedged to USD GIPS® Composite

GIPS® Composite

Composite: **Federated Hermes Int'l SDG Engagement High Yield Credit Hedged to USD**

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

Periods ending: **31 December 2022**

All information is quoted in USD

	Annualised Returns (%)		
	Composite Gross Return	Benchmark	Composite Net Return
Q4 22	8.38	5.18	8.21
1 Year	-9.51	-11.38	-10.1
3 Years (Annlzd)	0.16	-0.93	-0.5
Oct-19 – Dec-22 (Annlzd)^^	1.37	0.01	0.71

Annual Returns (%)									
Year	Composite Gross Return	Composite Net Return	Benchmark Return	*Composite 3-Yr St Dev	*Benchmark 3-Yr St Dev	No of Portfolios	**Dispersion	Composite Assets (Million)	Firm Assets (billion)
2019	4.04	3.87	2.9	N/A	N/A	<5	N/A	276.3	40.2
2020	7.94	7.23	6.48	N/A	N/A	<5	N/A	680.6	585.7
2021	2.87	2.2	3.04	N/A	N/A	<5	N/A	1,855.30	634.2
2022	-9.51	-10.1	-11.38	12	11.19	<5	N/A	918	627.4

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

*Represents the 3-year annualized standard deviation for both the gross composite and the index returns. Statistic is used to measure the volatility of composite returns.

**Standard deviation is calculated using gross returns. Standard deviation is not applicable (N/A) for any period if fewer than five accounts are in the composite for that period. (See footnote 5).

The composite includes all discretionary portfolios following the SDG Engagement Global High Yield Credit Hedged to USD strategy run by the Federated Hermes Global Credit team (London Office) and has an inception date of 1 October 2019. The objective of the strategy is to exceed the return of the benchmark over a rolling five-year period whilst delivering positive societal impact aligned to the United Nations Sustainable Development Goals ("UN SDGs"). The strategy may invest in a broad range of assets, either directly or through the use of derivatives, (including, but not limited to, equities, equity-related securities, Eligible CIS and/or financial indices, futures, options, swaps, debt, fx and money markets). The strategy through its investments in FDIs may be leveraged. The composite's benchmark is the ICE BofA Global High Yield Constrained Hedged to USD Index, which is designed to measure the debt market performance of global high yield debt. The benchmark contains primarily USD and EUR issues. The Index is rebalanced on the last calendar day of the month and the return is calculated on a total return basis. This composite was created in November 2019. Performance shown for 2019 is for a partial period starting 1 October 2019. Federated Hermes claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS® standards. Federated Hermes has been independently verified for the period of January 1, 1992, through September 30, 2022. The verification report is available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The management fee schedule for this strategy is 0.65% per annum. Gross of fees returns have been calculated gross of management/custodial fees and net of reclaimable withholding taxes, but after all trading commissions.

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.

The strategy has environmental and/or social characteristics and so may perform differently to other strategies, as its exposures reflect its sustainability criteria.

Investments in emerging markets tend to be more volatile than those in mature markets and the value of an investment can move sharply down or up.

Where the strategy invests in debt instruments (such as bonds) there is a risk that the entity who issues the contract will not be able to repay the debt or to pay the interest on the debt. If this happens then the value of the strategy may vary sharply and may result in loss. The strategy makes extensive use of Financial Derivative Instruments (FDIs), the value of which depends on the performance of an underlying asset. Small changes in the price of that asset may cause larger changes in the value of the FDIs, increasing either potential gain or loss.

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