Federated Hermes SDG Engagement High Yield Credit

H1 2023 Report

September 2023

Federated Hermes

Limited

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SDG Engagement High Yield Credit: H1 2023 highlights

101 of 121 companies engaged

83% of the annual target

273 engagement actions

Governance	159
Environmental	114
Social & ethical	98
Strategy, risk, communications	85

Most intensively engaged Sustainable Development Goals (SDGs):

- 12 Responsible consumption and production: **114** actions, **124** active objectives
- 13 Climate action: **80** actions, **74** active objectives
- 10 Reduced inequalities: **69** actions, **59** active objectives
- 5 Gender equality: **62** actions, **44** active objectives
- 9 Industry, innovation and infrastructure: **61** actions, **59** active objectives
- 8 Decent work and economic growth: **56** actions, **45** active objectives
- 7 Affordable and clean energy: **56** actions, **42** active objectives

18 EOS lead engagers drove **142** engagements

3 dedicated Sustainable Fixed Income lead engagers drove **131** engagements

We are pursuing **290** objectives for change up from **199** in H1 2021

17 objectives completed and **40** new objectives started in H1 2023

55% of objectives engaged in H1 2023, with **25%** of objectives progressed one milestone or more

Source: Federated Hermes, as at 30 June 2023.

Contents

SECTION 1

Investment review

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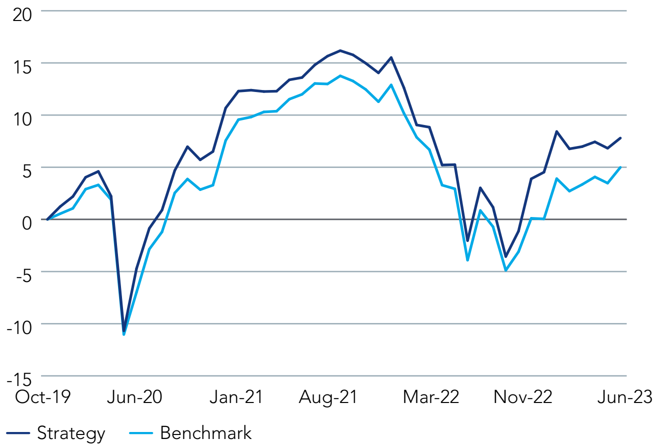
The SDG Engagement High Yield Credit Strategy (SDGHY) is governed by two self-reinforcing objectives: one financial, and one sustainable. We seek to deliver superior risk-adjusted financial returns in excess of the Strategy's benchmark. At the same time, our financial stake provides a fundamental basis for engaging with portfolio companies on delivering positive returns to society. Our hypotheses for future positive environmental and societal impact are informed by the 17 United Nations Sustainable Development Goals (UN SDGs).

Since inception, the Strategy has returned 7.8% in US dollar terms, gross of fees, which was 2.8% ahead of its benchmark index for the period. In H1 2023, our Strategy returned 3.3% in USD terms, gross of fees, which lagged its benchmark during the period.

Against the backdrop of an uncertain macroeconomic backdrop, we maintained a highly selective approach to managing the Strategy's risk profile and our focus has been on rotating risk out of segments of the market that had possibly done 'too well'. This included emerging markets and especially China with its slowdown in growth and the stress being felt in the country's property sector. Elsewhere, we recalibrated our exposure to cyclical sectors. In our experience, in the event of a global economic slowdown (which we believe to more or less inevitable at some point) these sectors are subject to the greatest credit deterioration. This would be especially the case in the event of a slowdown that is faster and deeper than expected, and would be felt most keenly among subordinated capital instruments, given the magnitude of spread compression that they have seen versus their senior counterparts.

Figure 1: 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 (%)

	30/06/22 to 30/06/23	30/06/21 to 30/06/22	30/06/20 to 30/06/21	30/06/19 to 30/06/20	30/06/18 to 30/06/19
SDG Engagement HY Credit Strategy	10.03	-14.67	13.80	–	–

Source: Federated Hermes as at 30 June 2023. Performance shown is the Federated Hermes Int'l SDG Engagement High Yield Credit Hedged to USD Strategy. In US$, gross of fees. Inception date: 30 September 2019. Benchmark: ICE BofAML Global High Yield Constrained Index hedged to US$. Management fees are not included and will reduce performance. 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 have been steadily rangebound over the first six months of the year. The start of 2023 brought much-needed respite after what can only be described as a challenging 12 months for fixed income assets. Many familiar themes were in investors' minds in this period, including heightened inflation and the future course of monetary policy – but concerns around China's growth were also in the mix as were (as ever) geopolitical tensions.

March brought a spike in volatility with the collapse of Silicon Valley Bank and Signature Bank in the US, which raised the unwelcome spectre of possible contagion in the US regional banking sector. A regulator-induced acquisition of Credit Suisse by UBS shortly thereafter heightened concerns, as did the write-down of US$17bn of Credit Suisse contingent convertible bonds (AT1s) as part of the takeover. Fortunately, regulators, central banks and governments were quick to step in, providing liquidity and a policy response in short order – all of which meant we ended the quarter close to the period's spread tights. This sanguine backdrop gave central banks the confidence to continue their fight against inflation and by the end of the first half of the year they appeared to be close to winning this battle (albeit possibly not the war quite yet given the stickiness of core inflation).

[1] CFA® is a trademark owned by the CFA Institute.

Figure 2. Global high yield spreads during H1 2023

— ICE BofA Global High Yield Constrained Index (option-adjusted spreads)

Source: Bloomberg as at 30 June 2023.

Turning to our ambitions for the impact potential of the Strategy, our credit analysts and lead engagers had a fruitful H1 2023, with a series of engagement successes. As well as providing crucial portfolio-positioning insight, the team supporting the Strategy drove over 273 engagement actions in H1 2023 (as detailed in Section 2).

We believe companies in our Strategy have the potential to benefit society and the environment. Their challenge is in the progressive development of clean, future-resilient and more equitable next-generation industries and value chains. In short, it is their job to provide the building blocks for economies and the essentials for everyday life and employment. Their value chains must be transformed if we are to meet the aims of a cross-section of environmentally- and socially-focused SDGs.

We believe companies in our Strategy have the potential to benefit society and the environment.

While we had many engagement successes in H1 2023 with many of the Strategy's holdings making meaningful operational and management changes to combat their impact on key SDG issues such as climate change and social inclusion, we have also had some companies where we have failed to see adequate engagement progress. Hence we have downgraded their scores and either diluted our holdings or exited them completely. Here are some examples:

- **Lennar**, a US homebuilder, exited the Strategy due to a lack of progress on engagement topics – we had been pushing the company to produce a full suite of ESG data and reporting akin to most of its peers in the US but there was continued inaction and reluctance to achieve this outcome.
- **Ping An**, the Chinese insurer, exited the Strategy because of unsatisfactory engagement on the company's coal policy and broader decarbonisation strategy. The company, owned by the Chinese government, is likely facing pressure to continue to finance coal-related investments, particularly until the end of the decade, when peak national emissions are expected to be realised.

The DNA of the fund: Colinear objectives

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

We believe an investor's financial stake-holding allows, if not obliges, them to engage in constructive dialogue with companies. We recognise that turning engagement into meaningful change takes time, so we require portfolio companies to be survivors in a levered universe. Within the global hard currency and 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 to evolve their businesses to the benefit of a range of stakeholders.

Measuring our progress and impact using milestones and objectives

Figure 3. Engagement milestone system

Source: Federated Hermes.

Establishing a causal link between engagement efforts and real world outcomes is often difficult. 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 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 objective.

SECTION 2

Engagement review

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ESG & Engagement Assistant Manager, SFI

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Engagement & ESG Associate, SFI

The first half of 2023 builds on our historic success in deepening access to companies for ongoing engagement dialogue since the Strategy's 2019 inception.

In the six months to 30 June 2023, we carried out 273 engagement actions with 101 companies, out of 121 held in the strategy at the end of this period. We are well on our way to achieving 100% portfolio engagement, with 83% of companies already engaged in H1 2023. The level of activity and access the strategy achieved remains similar to the first half of 2022 (297 engagements) and H1 2021 (263 engagements). Activity is slightly lower in 2023, as the strategy holds seven fewer companies. Moreover, we do not include engagement actions in total activity for companies divested prior to the end of the period.

The 273 actions we collectively carried out reflect a voluminous level of active dialogue, feedback and correspondence

However, this is only where the story begins. As SDG engagement highlights and progress examples attest to in the next section, the 273 actions we collectively carried out reflect a voluminous level of active dialogue, feedback and correspondence on a multitude of ESG risks and opportunities, and SDG-related impact potential for each issuer. We now commonly observe companies are increasingly interested in open, frank conversations, where we have previously provided genuine investor insight or value in thought leadership we share.

With corporate relationships which reach back to the strategy's 2019 inception, or even before, we observe companies that now seek our input on highly material ESG and SDG-related issues, without prompting. We believe that our strategy's focus on long-term, recurring investments in corporate capital structures, combined with stable, well-informed and objectives-focused stewardship in one-to-one dialogue, sends a clear message that we invest in real relationships which seek feasible changes and improvements on material matters.

Collectively, 21 lead engagers drove our activity in H1 2023. Engagers dedicated to the strategy, Aaron Hay, Jake Goodman and Bertie Nicholson, collectively held 131 actions. As always, our collective success in influencing and advising companies through dialogue is comprehensively supported by our colleagues in EOS. A further 142 engagements were driven by 18 EOS lead engagers, in addition to our dedicated SDGHY strategy team.

Engagement highlights H1 2023

273 engagements at 101 companies

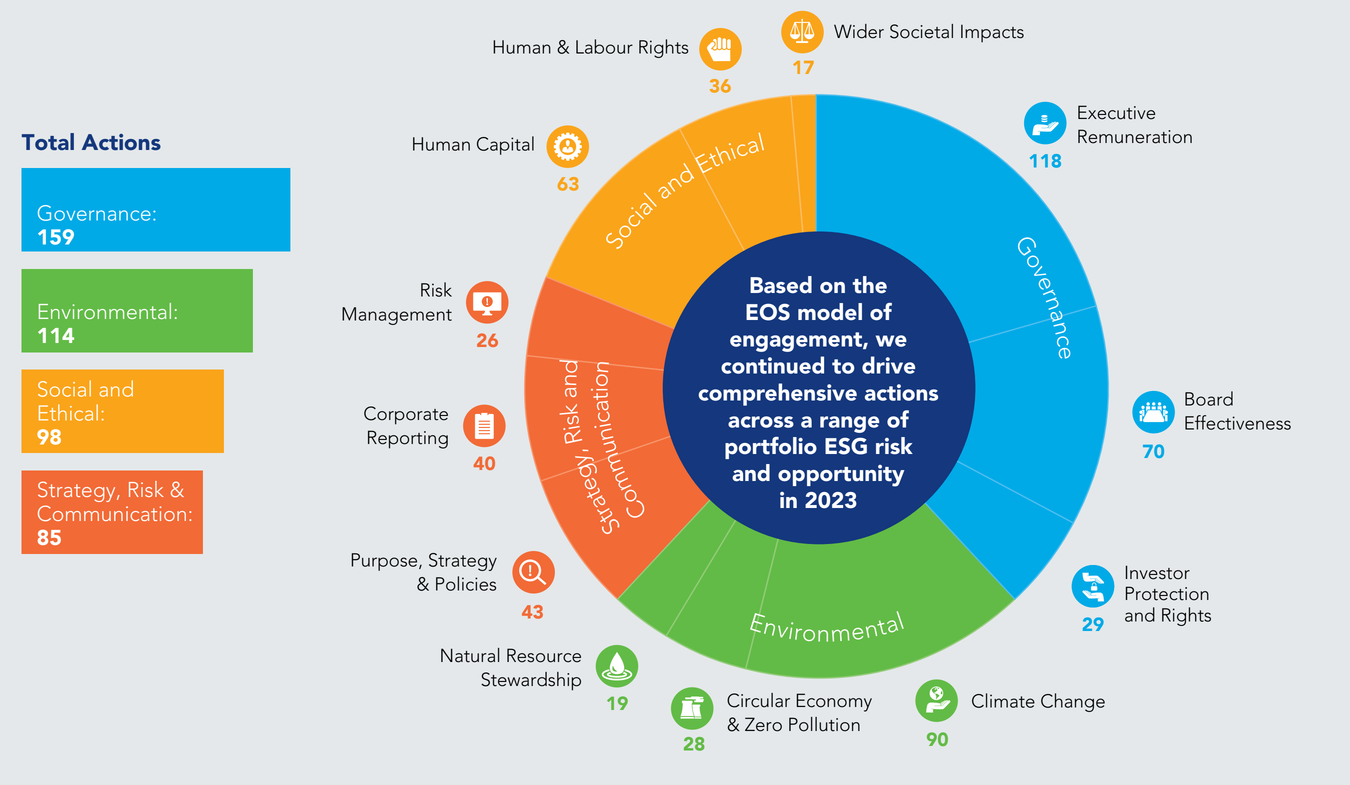
83% of companies engaged in H1 2023 – well on our way to 100% annual engagement.

Driven by three dedicated lead engagers and aided by **18** EOS colleagues.

In 2023, companies are increasingly interested in frank dialogue and are seeking our investor feedback on a more pro-active basis.

[2] CFA® is a trademark owned by the CFA Institute.

Figure 4: Engagement actions in H1 2023, by meta-theme and theme



Source: Federated Hermes, as at 30 June 2023. The sum of engagement actions by meta-theme and theme is greater than total unique engagements, as engagement on several themes typically occurs during a single instance of engagement.

GOVERNANCE

It comes as no surprise that the first half of 2023 again featured extensive engagement on **governance**, touched on in **211 engagements in H1 2023** (Figure 4). Intensive governance dialogue is a perennial feature of annual engagement 'cadence' because most companies hold annual meetings in the first half of each year. Thus, strategically timed feedback around this waypoint, aimed at fostering improved governance practices, is critical. We again used this opportunity to critique and discuss remuneration, board effectiveness and composition, key shareholder proposals and more.

SOCIAL

We are heartened by the increasing prominence of **social** engagement, featuring in **116 actions** in H1 2023 (83 in H1 2022). Amongst these, **human capital** management, and topics of diversity, health and safety and employment conditions, featured in **63 actions**, while human and labour rights were addressed within **36 actions**. As noted in 2022, some supply chains for companies in our strategy are complex, reaching across regions, and into countries with fewer labour and human rights protections. Alongside the safety and well-being, ongoing engagement focuses on fostering transparency and influencing strong practices in human rights due diligence.

ENVIRONMENTAL

Beyond this, **environmental** engagement persisted, with **137 actions**, second only to governance. In past updates, we noted **climate change** (linked to 90 actions) is centric to our programme, because of the systemic nature of climate-related risks and opportunities, and the urgent need for greenhouse gas (GHG) emissions reductions across the economy. This is particularly true of our high-yielding strategy, with exposure to carbon-intensive sectors requiring decarbonising transformations of assets, operational processes and value chains. However, engagement in this area continues to diversify well beyond climate change, which declined from 105 actions in H1 2022. We see greater dialogue on the **circular economy and zero pollution** (28) and **natural resource stewardship** (19) as of H1 2023.

STRATEGY, RISK AND COMMUNICATION

Finally, there is increased dialogue on corporate **strategy, risk and communication**, growing from 90 engagements in H1 2022 to **109 in H1 2023**. We frequently discuss how companies can leverage their business models to produce material, real-world SDG impact for people and planet. As engagement on core ESG matters evolve, we drove more dialogue on the **core purpose, strategy and policies** of companies on **43 occasions**, where we think SDG impact has the potential to be most material. **Corporate reporting** and **risk management** continue to routinely feature in engagements.

Objectives progress in H1 2023

Before turning to highlights of SDG-focused progress, a review of objectives is worthwhile. In 2022, we highlighted growth in objectives, which we anticipated as engagers continued to leverage relationships with companies to move into new areas in evolving dialogue. This growth continued; 290 objectives were active across 121 companies held as at 30 June 2023, growing from 199 in H1 2021 and 268 in H1 2022 (see Figure 5).

In H1 2023, we also observed an increase in completed objectives, where we judged a company delivered material outcomes. 17 objectives were completed, relative to 14 in H1 2022. We expect an increased number of objectives to be completed at this point in the strategy's life, given timespans often required for companies to make meaningful change.

40 new objectives were set in H1 2023

This point in the strategy's engagement programme life also marks a time of renewal, as new objectives are being set for companies newly invested in the strategy. At the same time, a new generation of objectives with existing companies are set where shifting dialogues, focused on evolving issues, are underway. In total, 40 new objectives were set in H1 2023.

Beyond objectives, it's worth noting that 661 issues are active across the portfolio; we engaged on 321 of these in H1 2023. The mix of issues is similar to that of objectives in Figure 4. Issues are ESG risks and opportunities which require monitoring and discussion when relevant, but do not necessarily require ongoing focus on an x-to-y outcome in the way that an objective for change does.

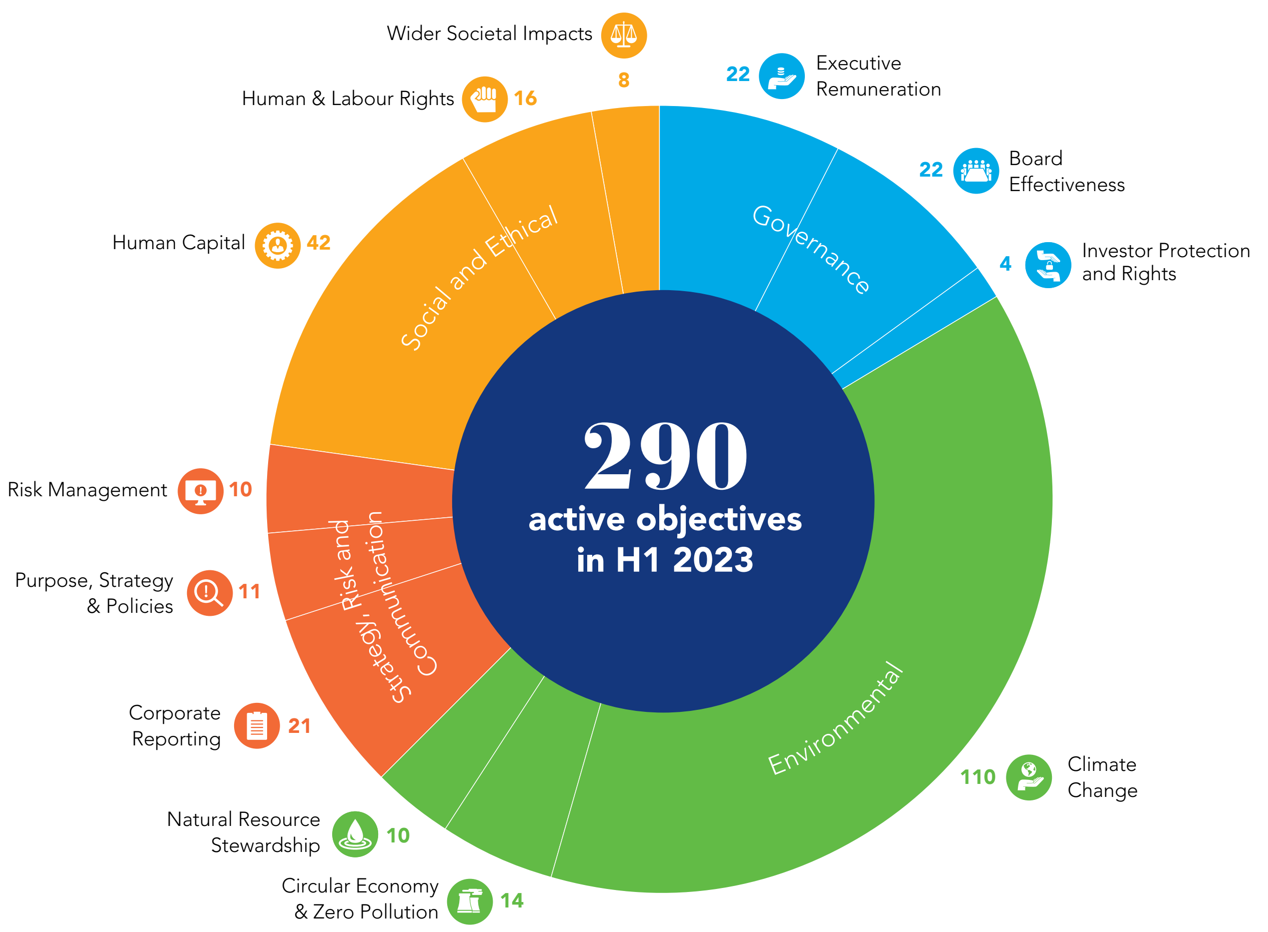
290 active objectives vs. 268 in H1 2022

55% of objectives engaged in H1 2023, with dialogue across 159 in total

25% of objectives were progressed in H1 2023, 72 in total

We successfully completed **17** objectives for change in H1 2023

Figure 5. Active Objectives in H1 2023, by meta-theme and theme



Source: Federated Hermes, as at 30 June 2023.

SDG Engagement in 2023 H1: where we're focused

The themes we engaged on in the first half of 2023 are broadly 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 6: Live engagement objectives and actions by SDG in H1 2023

Key: Objectives: XX Actions: XX

12 Responsible consumption and production — 124 | 114

Seeking impact where it matters in high yield: Our main focus area continues to be **SDG 12** outcomes (sustainable consumption and production) in 124 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 — 74 | 80

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 'CO_2 emission per unit of value added,' which companies can directly act on and measure. 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 74 objectives relating to this.

9 Industry, innovation and infrastructure — 59 | 61

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 (**SDG 9.2**), upgrading infrastructure and retrofitting industries through resource-use efficiency and adoption of environmentally sound technologies (**SDG 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 59 objectives, commonly paired with its closely-related **SDG 12** sibling.

10 Reduced inequalities — 59 | 69
5 Gender equality — 44 | 62

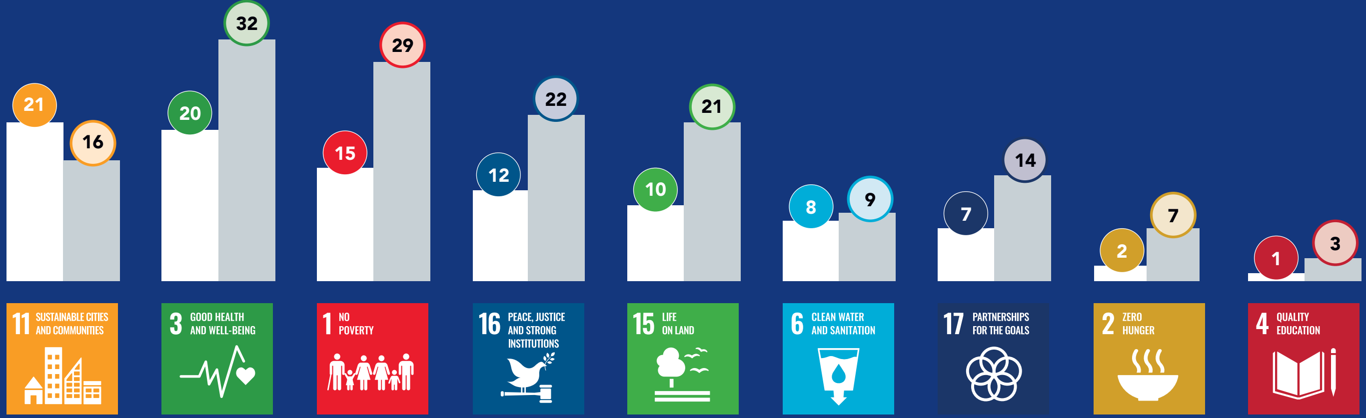
Driving equity & inclusion within & beyond workforces: Our focus on **SDGs 5 and 10**, with a combined 103 linked objectives, seeks to close gender and wider inequality gaps in workforces and local communities or societies. For example, **SDG 5** targets participation of women in leadership at all levels of economic life (**SDG 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 (**SDG 10.2**) – which can be driven within company walls and supply chains.

8 Decent work and economic growth — 45 | 56

Providing decent work and equality of opportunity: SDG 8 (decent work and economic growth) focuses on productivity, entrepreneurship and small to medium-sized enterprise (SME) growth (**SDG 8.3**), decent work for all women and men (**SDG 8.5**), and safe and secure working environments (**SDG 8.8**), and offers companies a direct route to impact. This features in 45 objectives and 56 actions.

7 Affordable and clean energy — 42 | 56

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 (**SDG 7.2**) and to double the rate of improvement in energy efficiency (**SDG 7.3**), among others. **SDG 7** features in 42 objectives for our portfolio and 56 actions, 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.



Source: Federated Hermes, 30 June 2023. 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 for 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 14 (Life Below Water) is not included, as no objectives material to this SDG are currently set.

SECTION 3

Connecting the SDGs

H1 2023: Progress towards our SDG engagement objectives

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

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.

Company	Engagement objective	Progress update	Status
Brookfield Renewable 12.6	Conduct comprehensive climate change risk assessment and TCFD report	In 2021, we set an objective for Brookfield Renewables to fully align its reporting with TCFD recommendations, including detailed climate scenario analysis. With diversified operations across a range of renewables technologies and four continents, the company has complex exposure to changing risks, such as fires, floods and volatility in water availability for hydroelectric dams. We believe comprehensive physical and transition risk analysis will help the business mitigate climate-related risks to its assets. We shared our expectations with the company over four engagements, and provided feedback on its inaugural TCFD[3] report. The company has since released its second TCFD report, now consistent with TCFD recommendations. The report incorporated our feedback with detailed assessments across a range of transitional and physical climate change risk and opportunities, along with evidence of how the company is adapting operations to mitigate risks and capitalise on the opportunities identified.	Objective completed, Q2 2023
Energias de Portugal (EDP) 12.6	Conduct comprehensive climate change risk assessment and TCFD report	EDP is responsible for significant electricity generating and transmission infrastructure exposed to changing climate-related risks. When we set this objective in 2020, it had implemented and disclosed against 33% of TCFD recommendations; we wanted it to go further by implementing all recommendations. We engaged on this issue four times and saw steady progress over the next three years. Its 2021 report disclosed against 67% of the TFCD recommendations and this increased to 80% the next year. EDP's 2022 Integrated Report is now considered a strong example of TCFD good practice, with full disclosure on each area outlined in the recommendations, including analysis of climate risks and opportunities, and scenario analyses for assets.	Objective completed, Q1 2023
Sealed Air 12.5	Report year-over-year progress on its commitments to adopting circular economy principles	The company which specialises in food packaging, committed to making all of its products 100% recyclable and to use at least 50% recycled content by 2025. The latter goal is more challenging as it relies on a base of suppliers which can source and supply the right types of recycled feedstocks and plastics to ensure manufacturing feasibility and product quality. We wanted the company to provide annual reporting on reaching its goals to inform investors on how its business is shifting to adapt to regulatory concerns and circular economy principles. As this objective is essential to Sealed Air's future commercial success, it was addressed within 10 engagements over four years, including in four collaborative engagements with the Principles for Responsible Investment (PRI) Plastics Working Group. In May 2023, the company informed us it has made significant progress towards both targets. It now discloses its progress towards circularity targets annually, and has adopted Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) indicators in reporting to allow better peer comparison.	Objective completed, Q2 2023

[3] TCFD: Task Force on Climate-Related Financial Disclosures

Company	Engagement objective	Progress update	Status
SIG Group 12.2 12.6	Publish water disclosure with plans and targets where necessary, or explain why this is not material for the business with sufficient rationale	We raised this in engagement three times in 2020-2022. We recommended the company, a provider of packaging products, improve on its water disclosures by reporting on the water efficiency of its filling machines which it tracks as well as monitoring and reporting the water usage of its value chain. As of 2023, SIG's latest annual report now flags water as a material risk to the company, thus allowing us to advance our objective. The report stated a water-related target and accompanying KPIs are in development; once we are able to review and engage on new targets and indicators for its water-related risks and opportunities we may be able to complete this objective.	Milestone 3 completed, Q1 2023
Anglo American 12.2 9.4	Demonstrate leadership in water catchment management	Since this objective was established, we have engaged on it seven times over a number of years. Anglo American has since set a long-term goal to operate waterless mines in water-scarce catchments, as well as 2030 targets for water abstraction reduction. At the sustainability progress update in 2023, the company disclosed that water usage has decreased by 26% relative to 2015 due to increase in water reuse and recycling in the Amandelbult and Venetia mines. The company is working on commercialising a desalination water solution in Los Bronces as a response to prolonged droughts in Chile. Thanks to progress made we have advanced our objective. To achieve the next milestone, we would like to see the company demonstrate continued, evidence-based leadership on efficiently and sustainably managing localised water requirements.	Milestone 2 completed, Q2 2023
Clearway Energy 12.5	Develop a circularity strategy	Wind energy and solar PV assets contain materials of high value and a high carbon footprint and are set to generate significant amounts of waste as individual assets require replacement at the end of their lifetimes. To keep landfill waste to a minimum and ensure valuable materials are retained in the value chain and reused, utility companies need to develop responsible disposal programs. Our objective is for the company to disclose a circularity strategy with transparency around the disposal process of waste from wind and solar assets. We would like it to set a target for non-hazardous waste diverted from landfill or achieve a rate above 90%.	New Objective in H1 2023

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

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	Progress update	Status
Orbia 13.2	Set a climate change target that is validated by the Science-based Target initiative (SBTi)	We first engaged Orbia, a global chemicals company, on SBTs in 2020 when it was in the process of validating the accuracy of Scope 1 and 2 data and assessing how to collect Scope 3 data. It aimed to publish an emissions reduction target by the end of 2020, and we advocated a science-based approach. We met again in 2021, when a new CEO was appointed, to assess whether a change in leadership would impact Orbia's sustainability ambitions. We were pleased to hear the CEO was committed to continuing the journey, and that ESG metrics would be included in remuneration. Shortly thereafter, we met to review its climate-related work in detail. It confirmed a new climate-change target for Scope 1 and 2 would be published imminently and said it would indeed seek SBT verification. We praised this ambition, but recommended the target be expanded to include Scope 3. The company informed us it was still in the process of collecting Scope 3 data. Orbia's next sustainability disclosure was published in May 2021 and included a highly ambitious target to reduce Scopes 1 and 2 by 47% by 2030. In January 2023, Orbia then announced the target had been verified by the SBTi as aligned with a 1.5°C trajectory. We subsequently met to discuss a roadmap for achieving new targets.	Objective completed, Q1 2023
Hess 13.2	Set a 2030 SBTi and outline long-term ambitions around a 2050 net-zero target	We have engaged with Hess, an energy company, on emissions targets, methane emissions reduction achievements and continued leadership on climate risk disclosure since 2020, touching on this particular objective in six engagements in total. In 2020, we noted the company's current targets had been achieved with strong results and emphasised that it should continue to provide insight on both medium and long-term ambitions, which it was then considering. In early 2021, Hess announced its 2025 targets and we discussed the path for achieving these, as well as some of the difficulties in forecasting how goals set past 2030 might be achieved. However, we were pleased to discuss Hess's official announcement of a 2050 net-zero target in early 2023, which complements its practical achievement-focused approach to 2025 and 2030 timescales. To complete this objective, we need to examine 2030-focused medium-term target-setting. We are also looking for clarity around how targets will align with science-based pathways in upcoming sustainability disclosures. We may ask the company to seek third-party validation of target enhancements.	Completed Milestone 3, Q1 2023
Gerdau 13.2	Set climate change targets consistent with a 'well below 2°C' scenario	We first engaged steel producer Gerdau on its initial target-setting in 2022. The Transition Pathways Initiative (TPI) updated its methodology and it now appears Gerdau is far under the emissions intensity required to align with a 1.5°C pathway. However, to confirm this, it needs to extend its current target from 2031 to at least 2035, and increase the target of 0.83 tonnes of CO2-equivalent emissions per tonne of steel produced downward slightly, to 0.79 tonnes. In a 2023 engagement, the company agreed with our assessment, and confirmed it is aiming to close all management gaps identified by the TPI to achieve a Level 4 recognition. The company is waiting for the publication of the new SBTi 1.5°C methodology before deciding its next step; further goal refinement should allow us to complete this objective.	Completed Milestone 3, Q1 2023
Berry Global 13.2	Set a net-zero target for 2050 or sooner that includes at least 95% of Scope 1 and 2 emissions and relevant Scope 3 emissions	In 2022 we engaged with Berry Global, a packaging company, and raised our expectations on its emissions target-setting. In 2023, the company stressed its commitment to a 1.5°C climate change scenario as evidenced by its SBTi-approved 2025 target. We questioned the company on targets post-2025, and a net-zero commitment. The company stated that it would likely focus on 2030 after reaching its 2025 target and that it had escalated our previous written ask for a net-zero commitment. In February 2023, we welcomed the board's decision to tie executive compensation to the company's climate change goals. As there is a risk that the inclusion of sustainability metrics within incentive schemes may lead to higher pay-out ratios, we encouraged the company to set quantitative targets to demonstrate performance and transparency and disclose clearly how the target has been awarded in proxy statements. To advance this objective, we would like to see more detail on how it plans to meet our defined target-setting expectations.	Completed, Milestone 2, Q1 2023
AES Corporation 13.2	Introduction of a Scope 3 greenhouse gas emissions target	Our objective is for the company to Introduce a Scope 3 target that identifies the most material categories of Scope 3 emissions and sets a pathway to reduce these emissions with stated initiatives.	New Objective in H1 2023
ANZ Banking Group 13.2	Client engagement on transition plans	Our objective is for the bank to define what constitutes a credible transition plan from clients and gives examples of questions asked during due diligence with clients, metrics and targets used to evaluate clients, and data showing outcomes of engagement with clients.	New Objective in H1 2023

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.

Company	Engagement objective	Progress update	Status
Hess 9.2 9.4 13.2	Reduce methane emissions intensity to sector-leading levels	The company has demonstrated continuous methane emissions intensity reduction in its Bakken operating assets, in line with 2025 targets previously set. It has also expanded its net-zero approach to net equity assets, which will require it to develop longer-term strategies for reducing emissions intensity (including methane) for assets where it only has partial ownership, rather than direct operational control. We engaged on this progress across five engagements, and in March 2023, we were able to discuss this significant progress with the company's newly appointed director of corporate strategy and climate change. To complete this objective, we want to see the company achieve one of the lowest methane emissions rates among its sector peer group.	Completed Milestone 3, Q1 2023
Solvay 9.2 9.4	Publish emissions reduction technology roadmap	The company has set Scopes 1, 2 and 3 greenhouse gas reduction targets that are verified by the Science-Based Targets initiative as consistent with a 2°C scenario. Our objective is for the company to disclose a technology roadmap for achieving these, as it will require significant changes to industrial processes.	New Objective in H1 2023

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	Progress update	Status
Smurfit Kappa 7.1 7.b	Achieve reduction in coal use in its energy mix and provide detail on how remaining coal use will be phased out	Over the course of five engagements since late 2021 with paper and packaging specialist Smurfit Kappa we suggested the company consider setting a timeframe to eliminate coal-generated energy from its energy mix. During our Q2 2023 engagement, we discussed the company's biomass investment in Colombia at length; we agree that this commitment will notably reduce coal usage across the entire company's footprint. However, we do not believe the company is yet in a position to set an end date covering 100% of operations, so we suggested it may need to contemplate how to define a coal exit policy which is 'ex-Colombia', given the reliance of that country on coal-fired energy. We believe this may offer investors reassurance that a coal exit plan is in place for all markets where this is feasible. We believe this is the case in virtually all other locations. We also noted coal in the fuel mix had declined to 4% from the 6% reported in 2020-21. If the company is able to publish an exit date for operations outside of Colombia and continue its downward coal use trajectory, we may be able to complete this objective.	Completed Milestone 3, Q1 2023

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	Progress update	Status
Swiss Re 5.1 5.5 10.2	Meet our minimum expectation for board-level gender diversity	When we started the objective, gender diversity on the board of this reinsurer had hovered around the 20% level since at least 2014. Our aim was for the company to reach our minimum expectations of 30% by adding another female director. It achieved this at the 2018 annual shareholder meeting but progress was short-lived: dipping back to 22% the following year. We had good access to the board throughout this engagement and the company recognised the need to change. We engaged nine times on this topic and the company showed steady progress on diversity more broadly. Data showed its gender pay gap improving and it introduced promotion ratio targets into management's compensation to focus on increasing the number of women at the executive and senior management level. Further, it published a paper on improving women's representation in leadership positions in the wider re/insurance industry. In 2022 the board of directors formally committed to reach female representation at board level of 30% or more by the 2023 meeting. We were pleased to see this commitment play out the following year, which completed our objective.	Objective completed, Q1 2023
Akbank 5.1 5.5 10.2	Gender diversity in management to reach 40% by 2024	The bank is amongst the most gender-diverse of any emerging market peer, in terms of women in management, women in technology and digital roles, and overall workforce gender balance. We believe the bank can and should strive to reach gender parity at all management levels. We have engaged on this objective six times and have seen significant progress. During the first half or 2023, we wrote to the bank to provide examples of leading gender pay gap strategies from international peers. We also learned that the bank may produce new diversity and inclusion targets in its next set of ESG disclosures and it has asked us for feedback on a board diversity policy. The company's latest data, for 2023, showed impressive progress, reaching 37% women in executive positions and 53% women in the total workforce. Given its progress, we started a related objective on gender pay gap reporting.	Completed Milestone 2, Q1 2023
Itau Unibanco 10.1 9.3	Produce outcomes-based social impact reporting	We believe the bank needs to leverage its strengths in social impact and highly quantified ESG strategy for financial inclusion, accessibility and well-being by beginning to produce social impact reports. This will shed light on the outcomes for its customers or wider beneficiaries through lending and financing. As the bank has already demonstrated its ability to increase financial health and generate positive social outcomes for SMEs, entrepreneurs and other groups with unequal access to finance, we believe its capabilities and data in this area will allow it to produce outcomes-based social impact reporting. We have engaged on this opportunity during three engagements, and, during a Q1 2023 engagement, we discussed the company's ongoing work on measuring impact. The bank describes this as 'very challenging', but has indicated it is now working on common methodologies with Brazil's central bank and other stakeholders to track social outcomes from lending with greater consistency. To advance the objective further, we would like to see quantified results from a pilot scheme.	Completed Milestone 2, Q1 2023

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	Progress update	Status
Orbia 8.8	Demonstrate track record of improving workplace safety	The company had faced serious health and safety challenges, including the deaths of contractors since 2015. When we first engaged on this in 2020, it appeared the situation had stabilised, but we wanted to see several further years of positive downward trends in accidents, injuries and fatalities to demonstrate long-term success in protecting the health of the company's employees, many of whom work in developing regions and high-risk settings. During engagement, the company acknowledged problems with worker and contractor safety and indicated its corporate culture and strategies have shifted in response to unacceptable problems. We monitored the company's disclosures closely in addition to engaging on how the company is acting to change. Data from 2020 showed an increase in the Total Recordable Injury Rate (TRIR), reversing five years of reductions. However, in 2021 and 2022, Orbia returned to its trend of improvement in TRIR. No fatalities occurred in 2022 compared to 2 in 2021 and 1 in 2020. The company has a target to bring the TRIR rate down to 0.2 by 2025 which still requires significant work from a 2022 rate of 0.56. However, the company appears to have achieved a safety culture transformation that has elevated the importance of this issue amongst its workforce. We are happy to complete the objective, but need to continue monitoring its progress towards the 2025 TRIR goal, even though the 2022 result is 70% better than its industry benchmark.	Objective completed, Q2 2023
Anglo American 8.7 8.8 10.2	Progress on human rights disclosures	External stakeholders should be able to get comfort that the company has a clear understanding of its most salient human rights risks, and that the company's plans to address them are appropriate. We would like the company to disclose its salient human rights risks and specific action plans to address them.	New Objective in H1 2023
Ardagh 8.8	Elevated health and safety in the company's sustainability strategy	We expect to see the development and implementation of a human capital management strategy for the promotion of best practice physical and mental wellbeing in the workplace. Our objective is for the company to incorporate health and safety as a specific sustainability lever in its sustainability strategy.	New Objective in H1 2023

SECTION 4

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.

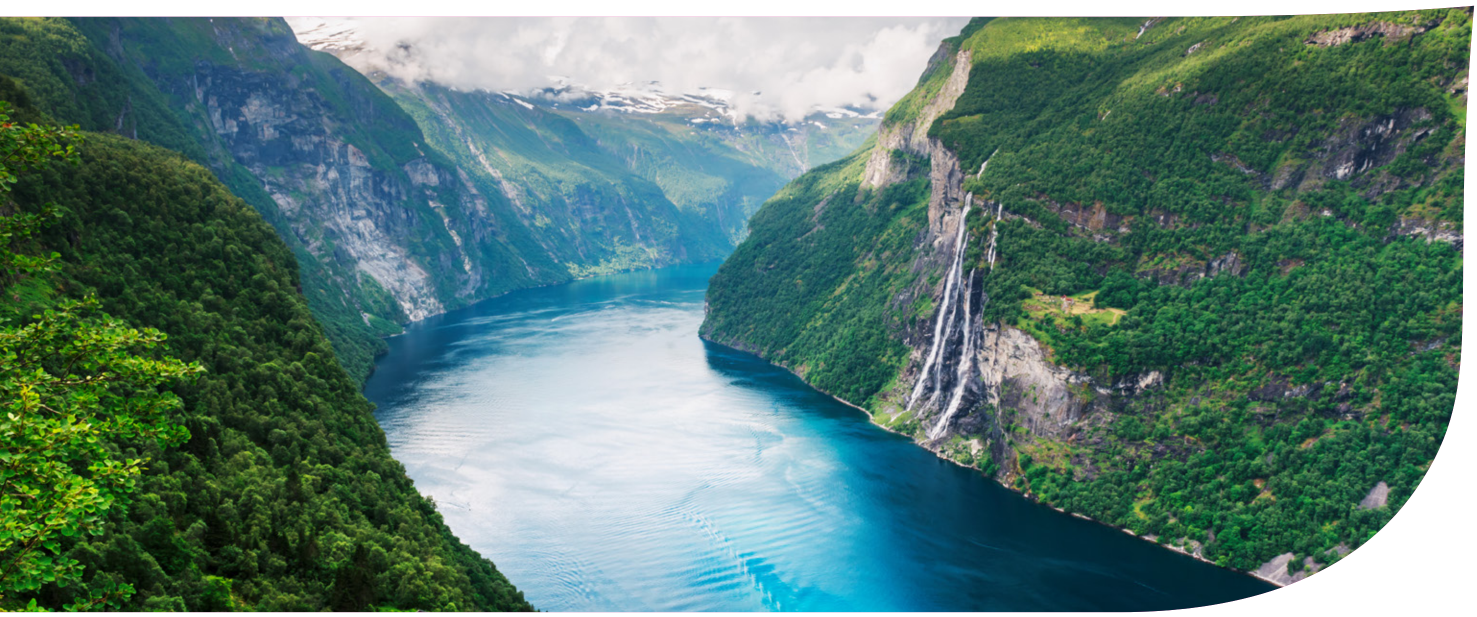
Milestones

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 correspondence is recorded as an action. Actions can be linked to objectives or issues. We only consider companies to be engaged when we have an individual interaction with the company which relates to an objective or issue.

Appendix C: Engagement themes for 2023-25



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

GIPS® Composite

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

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

Periods ending: **30 June 2023**

All information is quoted in USD

Annualised Returns (%)

	Composite Gross Return	Index	Composite Net Return (Assuming Maximum Fee)
Q2 23	0.77	1.59	0.60
YTD	3.13	4.94	2.80
1 Year	10.03	9.25	9.32
3 Years (Annualised)	2.23	2.05	1.57
Oct-19 – Jun 22 (Annualised)^^	2.02	1.31	1.36

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	2.90	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	2.20	3.04	N/A	N/A	<5	N/A	1,855.3	634.2
2022	(9.51)	(10.10)	(11.38)	12.00	11.19	<5	N/A	918.0	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. Dispersion is not applicable ("N/A") for any period if fewer than five accounts are in the composite for that period.

'The composite includes all discretionary portfolios following the 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 March 31, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The management fee schedule for this strategy is 0.65% per annum. Gross of fees returns have been calculated gross of management/custodial fees and net of reclaimable withholding taxes, but after all trading commissions.

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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.

Investing in smaller/medium sized companies may carry higher risks than investing in larger companies.

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

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 may make 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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