

Hermes Investment Management Limited

MIFIDPRU 8 DISCLOSURE

Reporting Period: 01 January 2023 to 31 December 2023

Based on Financial Data as at 31 December 2023

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1. Overview

1.1 Introduction

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

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

1.2 Purpose and Frequency of Disclosure

This IFPR report sets out the disclosures for HIML as a non-small and non-interconnected ('Non-SNI') MIFIDPRU investment firm based on financial data as of 31 December 2023. Unless otherwise stated, the financial information and related disclosures are based on financial data as at, and for the year ending, 31 December 2023 and on the Internal Capital Adequacy and Risk Assessment ("ICARA") based on that data, which was finalised as of 1 September 2023. It has also been produced solely for the purposes of satisfying the IFPR disclosure requirements.

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

Frequency of Disclosure

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

This document can be accessed on the Firm's website at Policies & Disclosures.

¹ In line with MiFIDPRU 8.1.10R

1.3 UK Consolidation Group

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

2. Governance Arrangements

2.1 Board of Directors and Governance Committees

The HIML Board comprises four Executive Directors; all of whom are members of FHL's Senior Management Team ("SMT"), with one also a Director of FHL. The Board of Directors meets at least quarterly and has ultimate responsibility for the management of HIML.

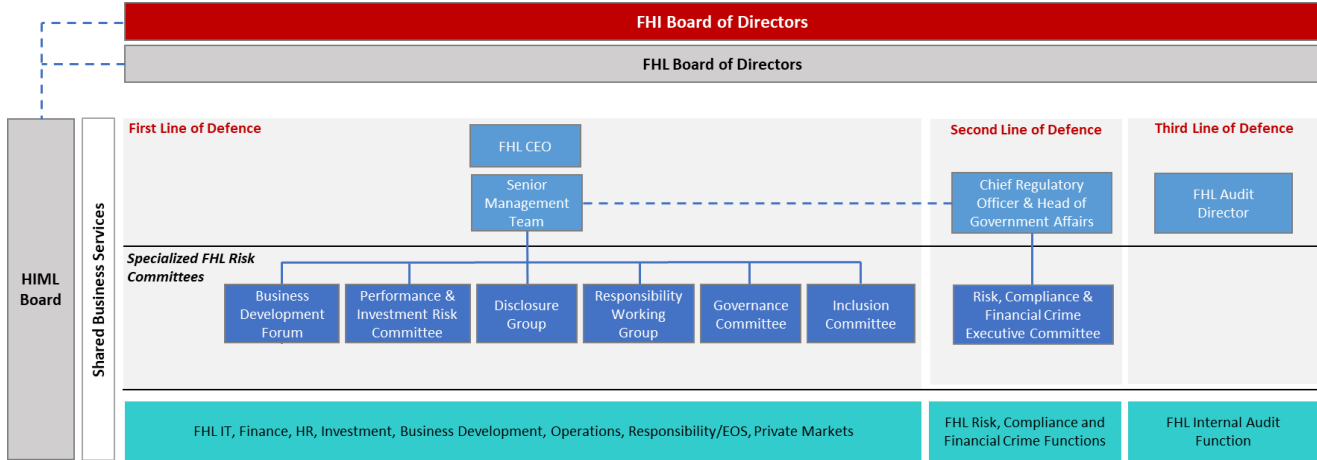
The table below details the HIML Directors and their role within the wider FHL organisation, as well as the directorships held. It excludes directorships held in organisations which do not pursue predominantly commercial objectives (e.g. charitable organisations) and directorships of entities within the FHL Group.

HIML Board of Directors		
Directors	Role	Number of directorships (Excluding excepted appointments)
Saker Nusseibeh, CBE	Chief Executive and FHL Director	0
Ian Kennedy	Chief Operating Officer	0
Chris Taylor	CEO Real Estate & Head of Private Markets	1
Greg Dulski	Chief Regulatory Officer and Head of Government Affairs	0

Changes to HIML Board

Directors	Role	Change
Eoin Murray	Chief Investment Officer	Director role terminated 04 January 2024

Governance Committees



2.2 Culture and Diversity

Culture is a strategic priority of the FHL and subsidiary Boards, which recognise the importance in the way the Firm conducts business. Alongside FHL’s code of business conduct and ethics, the culture framework includes principles and values that define how business should be conducted in order to achieve strategic objectives and support FHL’s long-term resiliency and sustainability. Its components also promote sound risk management by requiring a focus on longer-term goals and sustainability, the avoidance of excessive risk taking and emphasising acceptable behaviours, in which all employees play a key role and for which they are responsible.

Diversity Policy

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

Further information regarding FHL’s DE&I approach can be found on FHL’s website at Diversity, equity and inclusion.

3. Risk Management Framework

3.1 System of Risk Governance

The HIML Board meets at least quarterly and has ultimate responsibility for the management of HIML. Its responsibilities include strategy, business planning, risk management and control, and the oversight and approval of the ICARA process and these disclosures on at least an annual basis. There are a number of policies that are communicated throughout the business and the Governing Body has overall responsibility for approving and ensuring compliance with those policies.

Utilising FHL's Expertise and specialised Risk Committees

One of the key reasons the Firm's system of risk governance remains effective is the symbiotic relationship between HIML and FHL. The HIML Board leverages the established governance structure of FHL and its workforce, which provides a solid foundation for risk oversight. HIML's Board is able to integrate seamlessly with FHL's governance framework to ensure comprehensive risk management and oversight across the Three Lines of Defence ("3LOD").

HIML's ability to utilise FHL's specialised risk committees and the Senior Management Team ("SMT") presents a significant advantage in building and maintaining effective risk management, oversight and risk governance. By leveraging committees such as the Business Development Forum, Performance & Investment Risk, Disclosure Group, and a number of committees supporting the Firm's sustainability commitments (e.g. Responsibility Working Group, Governance and Inclusion Committees), the Firm gains access to a wealth of expertise and diverse perspectives. These committees, which report into FHL's SMT (of which, all of the Firm's Board of Directors are members), collectively cover a wide range of risk areas, and are further supported by several sub-committees overseeing other risk areas (e.g. outsourcing/third-party management, new products/markets, liquidity and valuation risk, best execution, client outcomes, counterparty credit risk, climate and nature, among others) that are crucial for effective risk management for HIML and the wider business.

Leveraging these committees not only strengthens HIML's risk management capabilities but also demonstrates its commitment to robust governance practices. It demonstrates a proactive approach in addressing potential risks, aligning with industry best practices, and safeguarding stakeholders' interests.

3.2 Risk Management Framework

The HIML Board of Directors - supported by FHL's specialised risk committees - are ultimately responsible for the management and supervision of HIML. To support this, the management team applies FHL's Risk Management Framework ("RMF"). This defines the roles and responsibilities for risk management within the organisation, along with the policies and frameworks used to manage risk and to enable a forward-looking assessment of risks and potential harms. The RMF and supporting policies and frameworks apply to HIML and is embodied by a strong risk culture across

FHL, which emphasises the importance of rigorous controls and procedures to safeguard the interests of its clients and other key stakeholders. As specified in the RMF, it is the responsibility of all employees to uphold the risk and control culture throughout all levels of the organisation.

The RMF sets out the overall approach to manage the internal and external risks to which the Firm is currently exposed or may be exposed in the future. It specifies the methodologies employed to identify, assess, monitor, manage and report risk on a continuous basis, which forms the basis of the Firm's core risk management processes. As set out in the RMF, these processes are applied to all types of risk and are supported by a series of supporting risk policies that describe the principles and approach to managing each specific risk. In addition, the specific harm that HIML's risk to clients, firm and the market have been considered in the qualitative risk appetite statements which form a key component of HIML's risk appetite, business risk and control self-assessments and non-financial risk scenarios supporting this ICARA.

Risk Management Principles

The risk management principles defining the risk and control governance within FHL are as follows:

1. Organisational structure – FHL maintains an appropriate and transparent organisational structure with clear allocation of responsibilities and delegated authorities;
2. Three Lines of Defence Model – FHL's approach to risk management is consistent with the 'three lines of defence' model, ensuring appropriate segregation of duties, oversight and challenge occurs on material decision making;
3. Risk Appetite Framework – The Boards own and approve risk appetite statements and limits that inform decision making, reflect the business model and materiality being taken into account. Subsidiary risk appetite is approved by the Boards via the Internal Capital and Risk Assessment (ICARA) and Internal Capital Assessment Process (ICAAP) processes. The Boards then delegate the maintenance of FHL's Risk Appetite Framework to the RCFE;
4. Risk Management Cycle – FHL operates an effective risk management cycle to identify, measure, manage, respond, monitor and report on risks on an on-going basis;
5. Policies and Procedures – FHL maintains policies and procedures to facilitate the implementation and monitoring of the requirements in the RMF and meet internal, legal and regulatory requirements for risk management across the business;
6. Risk Culture – FHL has a risk culture that promotes appropriate conduct and deploys adequate and appropriate training, skills and resources in respect of risk management.

3.3 Risk Appetite

HIML's Risk Appetite Framework ("RAF") consists of core set of statements that outline how much risk the firm is willing to take to achieve its strategic objectives. This approach recognizes that effective risk management extends beyond mitigating risks and threats, it leverages calculated risk taking to seize opportunities and drive growth, while staying resilient in a changing business environment.

In accordance with the evolving regulatory landscape and best practices, we have transitioned towards setting risk appetite at the regulated entity level to allow for a more tailored and granular assessment of risks, considering the unique characteristics and objectives of each Federated Hermes subsidiary. However, FHL Risk remains committed to fostering a cohesive and unified approach to risk governance and risk management across the firm. As such, the RAF now maintains a common structure and principles that are consistently applied throughout FHL's UK subsidiaries.

By establishing a shared foundation, FHL can ensure each subsidiary, including HIML, adheres to the same risk culture, share a common understanding of risk tolerances, and collaborate effectively in managing risks. By setting out common sources of risk, establishing consistent terminology and definitions for risk appetite Limits and Triggers, formulating common qualitative expressions of risk appetite, and by establishing 'Shared Business Services' key risk indicators (KRIs), we aim to create a robust risk governance model that will apply consistently throughout the firm:

- By **defining common sources of risk** that are relevant to each UK subsidiary, ensures a comprehensive view of potential risks faced by the subsidiaries as a whole. This shared understanding will enable the Boards to take a proactive approach towards risk identification, assessment, and mitigation.
- Moreover, the **establishment of consistent tolerance levels** (no appetite or limited appetite) and definitions of Limits, Triggers and Key Risk Indicators will streamline FHL Risk's risk monitoring and reporting processes. By utilizing a uniform language and approach, FHL Risk will enhance transparency and facilitate effective communication at all levels of the firm, enabling timely action when risk thresholds are exceeded.
- The formulation of **common qualitative risk appetite statements** is a critical element of this approach. These statements express the Boards' willingness to take on specific risk types in pursuit of their strategic objectives and fosters a consistent risk culture across all subsidiaries. The shared understanding of risk tolerances will enable the Boards to make well-informed decisions within established risk boundaries.
- Additionally, **aligning key risk indicators for shared business services** will allow for a standardized assessment of risk exposure in these critical areas. By monitoring and reporting on these indicators consistently across subsidiaries, we will enhance risk oversight and identify potential interdependencies more effectively.

Overall, the implementation of a common risk appetite framework represents an essential milestone in our journey towards holistic risk governance. By embracing this approach, we cultivate a culture of risk awareness, collaboration, and responsibility, empowering our subsidiaries to navigate uncertainties and pursue growth with confidence.

3.4 Potential for Harm and Mitigation

HIML carries out an ICARA process and documents the results, in order to identify and manage potential material harms that may arise from its business activities, and to ensure that its operations can be wound down in an orderly manner. In conducting the ICARA, HIML identified the following risks that can cause potential material harm to clients, itself and the market.

Financial risk: Market and Credit

Given HIML does not trade on its own account, it does not have any significant market risk exposure. The main sources of market risk are exposure to changes in foreign exchange ('FX'), which arises as a result of income and expenses in foreign currencies. There is also indirect exposure to a fall in markets on management and performance fees, and while no additional Own Funds is held for this indirect exposure, management concluded that the 45% internal Trigger provides a sufficient buffer to withstand any losses that may arise from a prolonged depression in markets. HIML also has some credit risk exposure, namely, counterparty credit risk and issuer risk. Counterparty credit risk arises from a counterparty failing to settle an open or unsettled transaction and issuer risk arises where the issuing party defaults on repayment.

Non-financial risk: Operational, Regulatory and Reputational

With respect to non-financial risks, the RCSA process currently identifies risk categories but does not assess how those risks may manifest themselves in terms of harm to our Firm, clients, and the market. An assessment has commenced this year to further strengthen the bottom-up risk and harm identification process for FHL and the Firm, to include a harms assessment in the RCSA template, which will assist with the ICARA review process. The key sources of operational, regulatory, and reputational risks affecting HIML, which currently form the basis of the non-financial risk and harm scenario capital calculations include:

- Inadequate or failed internal and external processes (e.g., trading/FX and pricing errors, data protection breaches, third-party disruption, inadequate change management), IT/systems issues or human error;
- Significant regulatory or governance breaches (e.g., failure in AML controls);
- Reputational impacts driven by actions, communication or behaviours which are not aligned to our corporate values (i.e., the Federated Hermes Pledge) or our approach to sustainability (e.g. not acting in accordance with public sustainability disclosures).

Financial risk mitigants

As noted above, the main source of market risk for HIML is exposure to changes in FX, which arises as a result of income and expenses in foreign currencies. In order to meet operational expenses in foreign currency HIML holds a sufficient level to meet its working capital requirements. To the extent that holdings in any currency is greater than the working capital requirements, these amounts are converted into sterling to minimise the FX exposure. In addition to these mitigants, FHL Group and the Firm manage and control market risk exposures according to FHL Group's qualitative market risk appetite statement and the Market Risk Policy which is maintained by FHL Finance and approved by the RCFE.

Given HIML does not provide loans, or advances to clients, its credit risk exposure is minimal. HIML manages its exposure to credit risk by monitoring exposures to individual counterparties and sectors, and their creditworthiness. Externally published credit ratings are indicators of the level of credit risk associated with a counterparty. Management have used S&P credit ratings to assess what the historic rates of default are for companies with a similar credit rating. FHL Group and the Firm manage and control credit risk exposures according to the FHL Group's counterparty risk appetite and the Counterparty Credit Risk Policy which is maintained by FHL Risk and approved by the RCFE.

Non-financial risk mitigants

The table below summarises the main non-financial risks and associated risk mitigants in place within the business:

Risk Category	Harm Identified	Mitigation
Operating Model Risk	Internal Process Risk	Standardized process documentation (e.g. policies, procedures and operating standards) are implemented across the business where appropriate. Along with regular process monitoring and automation where required. Training employees and leveraging technology ensures adherence to best practices and enhances operational resilience.
	People Resource Risk	The Firm maintains competitive remuneration and retention policies, including deferred benefits for key employees, while emphasising succession planning and tailored development plans for future talent. Career growth, accountability and learning resources support all employees, and FHL Risk actively tracks workforce demographics to oversee the Firm's people risk profile.
	Supply Chain Risk	The Firm conducts thorough due diligence on third parties before entering into arrangements. A Supplier Review Group, co-chaired by the Chief Operating Officer and Chief Regulatory Officer and Head of Government Affairs, oversees supplier performance and risks arising from suppliers. In collaboration with the Firm's ultimate parent (FHI) a global third-party management platform is being implemented in 2023 to streamline the onboarding, due diligence and risk assessments. This platform enhances risk management for critical suppliers and outsourced services and is further reinforced through the implementation of the Outsourcing and Supplier Risk Policy .
	Resiliency Risk	The Firm maintains a robust resiliency framework through the implementation of business continuity standards, a business continuity platform which aids in conducting comprehensive business impact assessments and acts as a repository for all business continuity plans for all the Firm's office locations. Employee contact details are recorded to facilitate critical communication during disruption, reinforcing the Firm's ability to swiftly respond and ensure safety. Annual cycle of disaster and recovery testing, testing of contingency plans and a Health & Safety committee, led by Facilities, oversees adherence to protocols to operational continuity and employee safety. Furthermore, FHL Risk has implemented an Operational Resiliency Programme to further embed the FCAs Operational Resilience requirements.
	Transformation / Change Risk	The Firm employs a structured change management process that emphasises the need from strong project management governance, communication, stakeholder engagement and impact assessments. Monitoring, reporting mechanisms, and

Risk Category	Harm Identified	Mitigation
		cross-functional collaboration ensures alignment and minimises disruption. Strong leadership oversight and FHL Risk being embedded in material programmes guarantees that transformation efforts are guided by well-defined strategies, reducing potential negative impacts and enhancing the success of change initiatives.
Technology / Information, Cyber & Data Security Risk	Technology Risk	The Firm relies on robust technology and skilled professional to maintain its infrastructure, complemented by IT investments. Regularly tested disaster recovery plans and tested contingency plans contribute to this resilience. For enhanced information security, the Firm maintains service level agreements with relevant third-party providers.
	Information, Cyber & Data Security Risk	Progressing well in 2023, the data governance framework is now established and extended across all data domains. Comprehensive training, a network of stewards, and a data council ensure efficient oversight. Iterative improvements have been identified through maturity assessments. The approach will focus on critical domains once foundational activities are embedded. Automation of data quality checks through tooling will follow integration with the US, facilitated by a unified Informatica IDQ instance.
	Data Quality Risk	
Regulatory, Legal & Governance Risk	Regulatory Conduct Risk	Cross-functional collaboration among Risk, Compliance, Finance and Legal teams ensures vigilance in identifying and monitoring legal and regulatory changes, bolstering adherence to requirements. A comprehensive regulatory conduct risk policy backed up by a conduct risk assessment framework, strengthens the identification of conduct risks, including consumer duty risks. A dedicated reporting mechanism in consumer duty risks aids committees responsible for client wellbeing and client outcomes.
	Product Governance Risk	
	Other Regulatory Risk	
	Legal, Governance & Tax Risk	
Financial Crime Risk	External Financial Crime Risk	Internal fraud controls are robust, involving segregation of roles, payment oversight, independent approvals and senior management vigilance. Automated and manual pre and post trade checks are conducted. Effective processes manage and mitigate internal and external crime risks. The fraud management risk assessment process will see further improvement within the financial crime business risk assessment, aligned with recommendations from the internal audit review of financial crime AML/KYC.
	Internal Financial Crime Risk	
Brand & Corporate Sustainability Risk	Reputational risk	As a recognised sustainability leader, the Firm acknowledges that authenticity and reputation profoundly shape its long term value. The interplay between the Responsibility Office and FHL Risk is pivotal in upholding the Firm's reputation and brand
	Climate Risk	

Risk Category	Harm Identified	Mitigation
	ESG risk	<p>integrity. The Responsibility Office champions the Firm’s commitment to responsible business practices, ensuring clients and their beneficiaries remain the focal point. With the implementation of SFDR, the Firm developed a Good Governance Policy and compliance processes were implemented for ongoing monitoring to ensure any reputation risks associated with non-compliance with sustainability regulation are identified and mitigated. Moreover, the Firm is committed to actively addressing climate risk and broader ESG concerns. Comprehensive ESG risk assessments are conducted, considering the impact on the Firm’s operations and investments and climate risk is factored into investment decisions. Collaborative efforts between the Responsibility Office, FHL Risk, Compliance and Responsibility-led committees (e.g. Responsibility Working Group, Governance Committee, Climate and Nature Working Group etc.) ensure the Firm proactively identifies, addresses and mitigates potential risks, thus safeguarding its reputation as a responsible and sustainable Firm.</p>

4. Capital Adequacy

4.1 Own Funds Resources

The figures in this section are based on the Firm's most recent audited financial position as at 31 December 2023.

As at 31 December 2023, the Firm held own funds of £106.1m, entirely made up of Common Equity Tier 1 (CET 1) capital, other reserves and audited retained earnings. CET 1 capital consists of fully issued ordinary shares, satisfying all criteria for a CET 1 instrument in accordance with IFPR. As at 31 December 2023, the Firm's own funds requirement is £29.9m with an own funds surplus of £76.2m. The Board has concluded that the Firm is well capitalised and holds significant levels of liquidity.

The composition and features of the Firm's own funds are described in the table below, which also provides a reconciliation with the balance sheet in the Firm's audited financial statements as at 31 December 2023.

Composition of regulatory own funds			
	Item	Amount (£'000)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	106,063	
2	TIER 1 CAPITAL	106,063	
3	COMMON EQUITY TIER 1 CAPITAL	106,063	
4	Fully paid up capital instruments	65,000	Note 13
5	Share premium	-	
6	Retained earnings	29,989	Statement of Changes in Equity
7	Accumulated other comprehensive income	-	
8	Other reserves	11,074	Statement of Changes in Equity
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	ADDITIONAL TIER 1 CAPITAL	-	

21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	TIER 2 CAPITAL	-	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

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

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

1	Investments	9	n/a	
2	Debtors - amounts falling due within one year	151,821	n/a	
3	Cash at bank	45,757	n/a	
	Total Assets	197,587		

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

1	Creditors – amounts falling due within one year	86,425	n/a	
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2	Creditors – amounts falling due after more than one year	5,099	n/a	
	Total Liabilities	91,524		
	Shareholders' Equity			
1	Called up share capital	65,000	n/a	Item 4
2	Profit and loss account	29,989	n/a	Item 6
3	Other reserves	11,074	n/a	Item 8
	Total Shareholders' equity	106,063		

4.2 Own Funds Requirements

It is HIML's policy to maintain sufficient own funds to meet its own funds requirement and ongoing working capital requirements. This enables the Firm to mitigate potential future risk exposures that may arise in pursuit of achieving its strategic objectives. HIML's financial position as at 31 December 2023 results in an own funds requirement of £29.9m.

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

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

HIML's fixed overhead requirement, as at 31 December 2023, was £29.9m.

HIML's K-factor requirement is the sum of all applicable individual K-factors. However, as at the reference date, 31 December 2023, the only applicable K-factors were K-AUM and K-DTF. K-AUM was calculated as at 31 December 2023 as £2.6m. K-DTF was also calculated as at 31 December 2023 as £0.1m.

Own Funds requirements at 31 December 2023	Total £'000
K-AUM, K-CMH and K-ASA	2,583

Own Funds requirements at 31 December 2023	Total £'000
K-DTF and K-COH	99
K-NPR, K-CMG, K-TCD and K-CON	
Total K-factor requirement	2,682
Fixed overhead requirement	29,859

4.3 Internal Capital Adequacy and Risk Assessment (ICARA)

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

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

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

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

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

The Firm assessed in detail the cost of an orderly wind down of its operations and the cancellation of its regulatory permissions as part of its ICARA process. A comprehensive Group and Firm level wind-down plan was prepared which would enable HIML to cease its regulated activities and achieve cancellation of its regulatory permissions in ways that minimalised the adverse impact on stakeholders. For this purpose, the Firm has assumed that the event that causes the Firm to wind

down is so severe that the Firm must initiate an immediate wind down of its operations, assumed 1 January. To undertake an orderly wind down, an 18 month period has been modelled; this reflects the complex organisational structure and client base at Federated Hermes. Impact on the Firm's cash flow and own funds has been assessed based on anticipated revenues, cost savings, incurred costs of winding down the business and other costs. Assumptions have been made for the purpose of calculating the wind-down costs, and these have been agreed by a firm-wide forum of key stakeholders. Appropriate triggers have been identified which would lead to Board consideration of activating the wind down plan, which are continually monitored.

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

5. Remuneration Policies and Practices

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

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

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

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

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

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

HIML ensures remuneration policies are in line with business strategy, objectives, values and long-term interests on the following basis:

- To encourage employees to deliver on the business' purpose of sustainable wealth creation that enriches investors, society, and the environment;
- To be aligned with business strategy, objectives, values and the long-term interests of the Firm and its clients as reflected in the FHL Pledge;

- To provide competitive total remuneration potential, designed to attract, retain, motivate and reward employees to deliver outstanding long-term performance and corporate behaviours;
- To promote sound and effective risk management;
- To ensure remuneration is linked to investment, business and personal performance and corporate behaviours for all employees, and where appropriate measured over the short, medium and long term;
- To differentiate and reward strong performance and demonstration of behaviours and to proactively manage poor performance and behaviours not aligned to our values;
- To deliver reward programmes which are transparent, simple to administer and affordable; and
- To deliver compensation and benefit strategies which have the oversight and approval of the HIML Board and Executives of FHI.

Employees are eligible to receive remuneration in the following methods:

Fixed Remuneration

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

Variable Remuneration

Discretionary Annual Cash Bonus: The aim of the discretionary bonus scheme is to focus participants (all employees employed by 1 October in the given performance year, unless previously agreed) on the in-year results that need to be achieved to meet the business annual objectives in the context of the agreed strategy and demonstration of corporate behaviours. The scheme has a co-investment/deferral structure. The level of deferral is dependent on the quantum of the bonus; all participants are subject to the same deferral policy. The award vests in equal tranches over three years. The deferred element is notionally co-invested such that it tracks the performance of certain funds. Investment Professionals are required to notionally co-invest between 50% to 100% of their deferred bonus against the funds they manage thereby aligning their interests to those of the shareholders and investors. They have the option to invest up to 50% in a basket of funds managed by FHL. Non-investment Professionals notionally co-invest 100% of their deferred bonus into a basket of funds managed by FHL.

There is a separate co-investment scheme for eligible Sales staff that vest on a 3 year cliff and is 100% invested into the basket of funds managed by FHL.

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

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

Other Forms of Remuneration

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

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

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

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

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

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

Remuneration policies and practices are reviewed by the HIML Board to ensure plans are designed to motivate and retain high calibre executive directors, senior management, and employees.

5.4 Types of Staff Identified as Material Risk Takers

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

- Members of the Board;
- Senior Management (SMT);

- Employees responsible for risk management and compliance functions; and
- Employees whose professional activities can exert material influence on the risk profile of the Firm.

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

Once the list is established, it is reviewed by the Chief Regulatory Officer & Head of Government Affairs following which it is presented to FHL SMT for approval showing changes to the previous year. 46 employees were identified and notified of their status in 2023.

5.5 Key Characteristics of HIML's Remuneration Policies and Practices

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

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

The Executives of FHI has the ability to apply discretion to adjust the bonus pool and any individual payments including those paid out in individual incentive schemes. The Executives of FHI challenges bonus recommendations and is empowered and charged to approve or not approve recommendations put before them.

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

Malus will be applied when, as a minimum:

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

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

Prescribed Quantitative Disclosures Under MiFIDPRU8.6.8R

Certain quantitative information regarding remuneration paid to the Firm's MRTs in respect of the performance year from 1 January 2023 to 31 December 2023 is set out below.

All amounts are in pounds sterling.

As at 31 December 2023, the Firm had 46 Material Risk Takers, assessed on an individual firm basis, as identified pursuant to SYSC 19G.5 for the purposes of applicable remuneration rules.

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

Total amount remuneration paid to the entire staff of HIML	GBP 45,961,852
Of which:	
Total fixed remuneration	GBP 25,292,181
Total variable remuneration	GBP 20,669,671

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

I	Total amount of remuneration paid to senior management	GBP 4,965,171
	Of which:	
	Total fixed remuneration	GBP 943,081
	Total variable remuneration	GBP 4,022,090
II	Total amount of remuneration paid to other MRTs	
	Of which:	GBP 13,631,653
	Total fixed remuneration	GBP 4,429,919
	Total variable remuneration	GBP 9,201,734
III	Total amount of remuneration paid to other staff	
	Of which:	GBP 27,365,029
	Total fixed remuneration	GBP 19,919,181
	Total variable remuneration	GBP 7,445,848

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

I	Total amount of guaranteed variable remuneration paid to:	GBP 261,965
	Senior management	GBP 0.00
	Other MRTs	GBP 0.00
	Other Staff	GBP 261,965
	Number of beneficiaries	10
II	Total amount of severance payments paid to:	GBP 368,231

	Senior management	0.00
	Other MRTs	GBP 140,862
	Other Staff	GBP 227,369
	Number of beneficiaries	18
III	Amount of the highest severance payment paid to an individual MRT	GBP 61,250

Four severance payments have been made to Other MRTs of HIML during the 2023 performance year.