Climate- and Nature-related Financial Disclosures Report 2023

Federated Hermes Limited

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Climate change has become a key factor in the long-term prospects of the global economy and the companies within it.

As an investment manager, Federated Hermes has a duty to its clients and their investors to take action to address systemic risks and opportunities – and the Task Force on Climate-related Financial Disclosures' focus and guidance on the financial impact of climate change are of particular importance as the world collectively strives to limit the temperature increase to 1.5°C in accordance with the Paris Agreement.

This Climate and Nature-related Financial Disclosures Report 2023 (the "Report") sets out climate and nature-related financial disclosures for Federated Hermes Limited and certain of its investment advisory subsidiaries, Hermes Investment Management Limited and Hermes GPE LLP. The contents of this report are intended to be aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.[2] This report also includes voluntary disclosures on nature-related dependencies, impacts, risk, and opportunities following our early adoption of the recommended disclosures developed by the Taskforce on Nature-related Financial Disclosures.

[1] Including Hermes Investment Management Limited and Hermes GPE LLP

[2] The Task Force on Climate-related Financial Disclosures was established by the Financial Stability Board to develop a framework to help public companies and other organizations disclose climate-related risks and opportunities.

Foreword

According to Copernicus, the European Union's climate change monitoring service, January 2024 marked the first 12-month period on record in which temperatures averaged more than 1.5°C above pre-industrial times.[1] Scientists have warned this could mean the 1.5°C Paris Agreement climate threshold can no longer realistically be met.[2] New green solutions have never been in greater demand to facilitate the transition to a low-carbon economy.

The environmental case for the energy transition was clearly articulated at the 2023 United Nations Climate Conference ("COP28"). Positively, more than 120 countries agreed at COP28 to double energy efficiency and triple the deployment of renewables by 2030.[3] Global investment in the low-carbon energy transition surged 17% in 2023, reaching a record-breaking $1.77 trillion of annual investment.[4]

The development of green solutions, however, will require significant capital expenditure and multiple actors are likely to be needed to finance this. Concerted efforts between public and private actors are vital in financing the development and scaling up of such solutions.

The continued focus on nature in 2023 has also been encouraging. Nature, Land Use and Ocean Day at COP28 saw leaders endorse commitments and pledges of over $186m to drive climate action and continue to build momentum to protect and restore nature.[5]

Some of the biggest challenges now facing the transition to a low-carbon and nature-positive economy are social rather than simply technical, and therefore successfully addressing climate change demands the consideration of equity and justice. COP28 opened with the operationalisation of the loss and damage fund, supported by funding pledges of $700m,[6] seeking to provide financing to those economies and communities adversely impacted by the effects of anthropogenic climate change. But disappointing progress on climate finance targets for developed countries and the scaling of adaptation finance leaves much more work to be done at future negotiations.

Investment managers can play an important role in facilitating the development of solutions. Federated Hermes Limited fulfils this through various means, including: our engagement and voting activities; our infrastructure portfolio, such as our investment in ferry company Scandlines, which is constructing one of the world's first electric freight ferries; our real estate solutions, such as placemaking[7] at our large regeneration schemes in Paradise, Birmingham and Wellington Place, Leeds;[8] and future product innovations in the climate and nature space. We also advocate for governments to create an enabling environment that drives corporate action and engage with asset owners to use their influence to mitigate these systemic risks.

In accordance with the recommendations of the Task Force on Climate-related Financial Disclosures, this document outlines how we are assessing, monitoring, and mitigating our exposure to climate risk. It also sets forth how we are identifying opportunities which may arise through the transition to a low-carbon economy, to both meet the needs of our investors and satisfy our fiduciary duty. The disclosures in this document also address the recommendations of the Taskforce on Nature-related Financial Disclosures.

Saker Nusseibeh, CBE
Chief Executive

[1] Copernicus, "Warmest January on record, 12-month average over 1.5°C above preindustrial" (February 2024)
[2] Oxford Open Climate Change, "Global warming in the pipeline" (November 2023)
[3] World Economic Forum, "Accelerating the energy transition in a fair and cost-effective way" (February 2024)
[4] BloombergNEF, "Energy Transition Investment Trends" (January 2024)
[5] COP28, "United for Nature: COP28 mobilizes action to protect and restore forests, mangroves, land and ocean" (March 2024)
[6] UNFCCC, "COP28 Agreement Signals "Beginning of the End" of the Fossil Fuel Era" (December 2023)
[7] Definition of placemaking from Our Place: "Placemaking is the process of creating good quality places. It concerns the environment in which we live; the people that inhabit these spaces; and the quality of life that comes from the interaction of people and their surroundings."
[8] FHL, "Real Estate ESG Report 2022" (December 2023)

Scope of this report

Federated Hermes is a leading investment management group headed by Federated Hermes, Inc. ("FHI"). At Federated Hermes Limited we take an integrated approach to the management of climate- and nature-related risks and opportunities across our business.

This report relates to Federated Hermes Limited ("FHL"), a subsidiary of FHI, and certain of FHL's subsidiaries providing investment management services to our clients – Hermes Investment Management Limited ("HIML") and Hermes GPE LLP ("HGPE"). Engagement activities are also conducted through Hermes Equity Ownership Services Limited ("EOS"), a subsidiary of FHL.

In this report, references to "Federated Hermes", "we", "us" and "our" refers to FHL, HIML, HGPE and/or EOS as appropriate, unless otherwise indicated.

This report is produced on a consolidated basis for FHL, HIML and HGPE. It is supplemented by entity reports for each of HIML and HGPE, which are our regulated entities providing investment management services that are required by the Financial Conduct Authority in the UK to make entity-specific disclosures in accordance with the TCFD. The TCFD entity specific disclosures for HIML and HGPE can be found in Appendix I and II respectively. The entity reports for HIML and HGPE provide information that is specific to each particular entity.

Federated Hermes had assets under management ("AUM") of £39.3bn as at 31 December 2023. The approach set out in this report may vary for different asset classes, investment strategies and products. The following table shows the breakdown of AUM by asset class.

Figure 1. The breakdown of AUM by asset class

Core Asset Class	AUM %
Equity	47.82%
Fixed Income	15.45%
Infrastructure	6.01%
Liquidity	5.94%
Multi Asset	0.00%
Private Equity	9.44%
Real Estate	15.34%
Grand Total	**100.00%**

Source: FHL, as at 31 December 2023.

[1] The liquidity AUM managed by Federated Hermes (UK) LLP is out of scope of this report. Federated Hermes (UK) LLP is covered by a separate report.

Background

Scientists' global outlook for 2024 suggests that this could be the first full year to go beyond 1.5°C of warming.[1] Whilst the ongoing El Niño event, which brings warmer waters to the tropical Pacific Ocean, is contributing to push global temperatures up, UK Met Office scientists say the main driver of the record-breaking temperatures is human-induced warming.[2]

These record temperatures have helped to worsen many extreme weather events across large parts of the world in 2023 – from intense heatwaves and wildfires across Canada and US, to prolonged drought and then flooding in East Africa. In addition to these acute extreme weather events, more gradual, chronic impacts are becoming increasingly tangible such as rising sea levels, ocean warming, loss of biodiversity, food and water insecurity, and increased vulnerability to poverty and displacement.[3] According to the World Economic Forum's Global Risk Report, biodiversity and ecosystem collapse is ranked as the third largest threat the world will face a decade from now.[4] Recent analyses also highlight the scale of the problem: on average, wildlife populations have declined almost 70% since 1970.[5]

Climate change has already caused substantial – and increasingly irreversible – damage in terrestrial, freshwater, and marine ecosystems. Heatwaves, floods, droughts, wildfires, and rapidly intensifying tropical cyclones continue to cause "misery and mayhem, upending everyday life for millions and inflicting many billions of dollars in economic losses".[6] Vulnerable communities, which have historically contributed the least, have been disproportionately affected.[7]

To align financial flows with mitigation of the worst effects of climate change and adaptation to the impacts that are already locked in, will require significant structural transformation of the economy, at both a global and national level.

However, mitigation of climate change and nature degradation also presents an unprecedented growth opportunity. For instance, two-thirds of the finance for clean energy projects in emerging and developing economies (outside China) will, according to experts, need to come from the private sector, rising from $135 billion in 2023 to as much as $1.1 trillion a year within the next decade.[8]

To help do our part to change this course and protect the value of the investments we make on behalf of our clients and their way of life, Federated Hermes made a commitment to the Net Zero Asset Managers Initiative, and in 2022 set interim targets covering public markets, real estate, and infrastructure assets, as discussed further in our Climate Action Plan.[9]

Our enhanced focus on climate action aligns with the accelerating global momentum towards the low carbon transition. Federated Hermes focuses its stewardship and advocacy capabilities to help mobilise that transition in recognition that this is part of fulfilling our fiduciary duty to our clients. We recognise that climate change mitigation and the opportunities that arise from the transition to a low carbon economy can be vital considerations when managing our clients' assets.

Our enhanced focus on climate action aligns with the accelerating global momentum towards the low carbon transition.

This document sets out how Federated Hermes incorporates climate-related risks and opportunities into our governance, strategy, and risk management, accompanied by relevant metrics and targets, in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), and how we are responding to the rising expectations of our clients and changing regulatory environment. In addition, we have also addressed nature-related dependencies, impacts, risk, and opportunities following the recommendations from the Taskforce on Nature-related Financial Disclosures ("TNFD").

There may be differences in how climate-related risks and opportunities, and nature-related dependencies, impacts, risks, and opportunities, are taken into consideration for particular investment strategies and products. If the climate-related governance, strategy or risk management for an individual product managed by HIML or HGPE is materially different to the overall entity-level approach described in this report, information shall be identified in the literature for the relevant product, including in Appendix III to this report and in the relevant TCFD product report, which is available on request.

[1] Met Office, "2024: First chance of 1.5 °C year" (December 2023)
[2] The Guardian, "Is 2024 going to be the first full year to breach 1.5C of warming?" (January 2024)
[3] United Nations, 'Causes and Effects of Climate Change', (March 2024)
[4] World Economic Forum, "The Global Risks Report 2024" (January 2024)
[5] WWF, "Living Planet Report 2022" (2022)
[6] World Meteorological Organization, "State of the Global Climate 2023" (2024)
[7] IPCC, "Climate Change 2022: Impacts, Adaptation and Vulnerability" (2022)
[8] International Finance Corporation, "Scaling Up Private Finance for Clean Energy in Emerging and Developing Economies" (June 2023)
[9] "Climate Action Plan" (2022)

Key Terms

Biodiversity: The variability among living organisms from all sources, including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.[1]

Climate: Refers to the long-term regional or global average of temperature, humidity and rainfall patterns over seasons, years, or decades.[2]

Climate change: The significant variation of average weather conditions becoming, for example, warmer, wetter, or drier—over several decades or longer. It is the longer-term trend that differentiates climate change from natural weather variability.[3]

Financed emissions: Refers to absolute emissions that banks and investors finance through their loans and investments.[4]

Nationally Determined Contributions ("NDCs"): Refers to countries' self-defined national climate pledges under the Paris Agreement, detailing what they will do to help meet the global goal to limit the temperature increase to 1.5°C, adapt to climate impacts, and ensure sufficient finance to support these efforts.[5]

Nature: The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment.[6]

Scope 1 emissions: Direct greenhouse gas ("GHG") emissions that occur from sources owned or controlled by the reporting company—i.e., emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.[7]

Scope 2 emissions: Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated.[8]

Scope 3 emissions: All other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions that occur in the supply chain (for example, from production or extraction of purchased materials) and downstream emissions that occur as a consequence of using the organization's products or services. The emissions resulting from a reporting company's loans and investments fall under Scope 3 downstream emissions.[9]

Sustainable Development Goals ("SDGs"): Also known as the Global Goals, the 17 SDGs were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.[10]

Task Force on Climate-Related Financial Disclosures ("TCFD"): Refers to a global organisation formed to develop a set of recommended climate-related disclosures that companies, and financial institutions can use to better inform investors, shareholders and the public of their climate-related financial risks. The goal of these disclosures is to bring transparency to companies' climate-related risks.[11]

Taskforce on Nature-Related Financial Disclosures ("TNFD"): Refers to an international initiative that builds on a model developed by the TCFD. Its mission is to provide a framework for how organizations can address environmental risks and opportunities with the ultimate goal of channelling capital flows into positive action.[12]

The Net Zero Asset Managers ("NZAM") initiative: Refers to an international group of asset managers committed, consistent with their fiduciary duty to their clients and beneficiaries, to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.[13]

The Paris Agreement: Refers a legally binding international treaty on climate change, which was adopted by 196 Parties at the UN Climate Change Conference ("COP21") in Paris, France, in 2015. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."[14]

[1] United Nations, "Convention on Biological Diversity" (1992)
[2] World Bank Group, "What is Climate Change?" (2024)
[3] World Bank Group, "What is Climate Change?" (2024)
[4] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[5] UNDP Climate Promise, "What are NDCs and how do they drive climate action?" (May 2023)
[6] S. Diaz, et al., "The IPBES Conceptual Framework – connecting nature and people" (June 2015)
[7] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[8] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[9] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[10] UNDP, "Sustainable Development Goals"
[11] IBM, "What Is the Task Force on Climate-related Financial Disclosures (TFCD)?"
[12] Deloitte, "TNFD and nature-related financial disclosures" (August 2021)
[13] Net Zero Asset Managers, "Home"
[14] UNFCC, "The Paris Agreement"

Governance

We have governance structures in place to provide oversight of our approach to climate- and nature-related risks and opportunities and progress against our targets.

Board oversight. The Board of FHL, and the Boards of HIML and HGPE[1] (the "Boards"), are responsible for the governance of the organisation and individual entities and ensuring their effective operation. These Boards also endeavour to consider all stakeholders when establishing objectives and policies. In addition to FHL's historic receipt of our Climate-related Financial Disclosures Report, with the implementation of new governance enhancements in 2024, each of FHL, HIML and HGPE's Boards will receive an annual update on the implementation of our climate and nature investment and engagement activities, progress against our investment, engagement and – for FHL – operational targets and any changes to existing targets or our Climate Action Plan. To the extent there are any material changes, the Boards will be updated. This information is reported to the Boards by Federated Hermes' Responsibility Office, whose role is described below.

HIML and HGPE, as UK-based investment managers required by the Financial Conduct Authority in the UK to comply with the TCFD disclosure requirements, receive and approve the Climate- and Nature-related Financial Disclosures Report and various underlying environmental, social and governance policies impacting the way those perform investment management activities. Prior to a Board's final review and approval, policies and procedures are reviewed and approved by the Sustainability Regulations & Stewardship Oversight Committee ("SRSOC") and the Governance Oversight Committee ("GOC"), whose roles are described below.

With respect to the integration of climate related issues in the overall determination of strategy, plans of actions (acquisitions/divestitures), budgets and business plans, the Board of FHL considers material risks and opportunities in making its decisions, which includes climate-related risks and opportunities if appropriate. For example, the Board of FHL has approved a carbon-offsetting programme to mitigate operational emissions and emissions derived from employee travel.

Governance Oversight Committee ("GOC"). The GOC is the formal oversight committee appointed by each of FHL, HIML and HGPE to oversee key business matters, and report, as appropriate, on material matters. The members of the GOC include FHL's Chief Operating Officer (chair), Head of International Decision Support, General Counsel, Chief Regulatory Officer, Chief Compliance Officer, Head of Risk, Head of Office-Ireland, Managing Director – Private Markets, and Head of Product. The GOC receives a quarterly update on the activities of the SRSOC, whose role includes ensuring material climate-related matters are escalated.

Sustainability Regulations and Stewardship Oversight Committee ("SRSOC"). The SRSOC is an oversight committee responsible for overseeing the formulation and delivery of our engagement, voting and climate policy. The committee was established by, and is accountable and reports to, the GOC (see above). The members of the SRSOC include the Head of Responsibility (chair), Senior Public and Private Markets Investment Representatives, and representatives from each of our Risk, Compliance and Legal teams. The Committee also (i) approves our Climate- and Nature-Related Financial Disclosures report prior to such reports being presented to the relevant Boards for approval, (ii) reviews new climate- and nature-related targets relating to investment or engagement activities, and (iii) monitors our Climate Action Plan and reviews any changes proposed by the Responsibility Office. The SRSOC will receive reports from our Responsibility Office and our stewardship team, EOS. The responsibilities of the Responsibility Office include providing updates to the SRSOC on the Climate Action Plan, informing the SRSOC of new or updated climate- or nature-related targets, and co-ordinating the Climate and Nature-Related Financial Disclosures Report. EOS provides information to the SRSOC on engagement and voting activities for public markets and propose updates to the FHL voting policy for approval by the SRSOC.

[1] HGPE is a limited liability partnership and has established a Governing Body.For convenience, in this report the term "Board" is also used to refer to HGPE's Governing Body.

Investment oversight (all asset classes). In private markets, investment decisions are taken by or overseen by an asset class specific investment committee. For example, the Head of Infrastructure, Infrastructure Investment Committee and HGPE governing body are ultimately accountable for all sustainability matters related to infrastructure. In the Private Equity team, the Private Equity Investment Committee ("PEIC") is responsible for all investment risks, including climate change risk. The Private Equity Portfolio Review Committee, a sub-committee of the PEIC, assesses portfolio-level ESG risks including climate change risks quarterly to inform general partner ("GP") engagement. These Committees and the HGPE governing body and the Board of any management company (if any), are ultimately accountable for all sustainability matters related to private equity. For public markets, these matters are discussed at an equivalent meeting of the investment team.

Responsible Property Management ("RPM") oversight (real estate). Our real estate team have a formal oversight committee to track their progress against any commitments linked to sustainability. Additionally, the team has a Net Zero working group and an ESG working group with relevant representatives from the business to ensure the decision-making process is inclusive and transparent. External experts are also included in these forums as appropriate to ensure project decisions are made with the help of investment managers, delivery counterparts and the Real Estate ESG team.

Responsibility Working Group ("RWG"). The RWG is a communication forum made up of senior representatives from across the business and is chaired by our Head of Responsibility. This group discusses a comprehensive range of topics that relate to the delivery of enduring, responsible wealth creation for our clients and beneficiaries, and shares best practice across the organisation.

Climate and Nature Working Group ("CNWG"). The CNWG provides feedback and recommendations on climate and nature related issues to the relevant business functions. Its aim is to inform the development and implementation of a business-wide climate-change and nature strategy and risk-management approach, including in relation to our commitments as a member of the Net Zero Asset Managers' Initiative and Finance for Biodiversity Foundation. The CNWG covers our operational, investment and engagement activities, and intends to meet quarterly to receive updates on progress towards our operational, investment and engagement targets. Our Head of Policy & Integration chairs the CNWG and is the climate change and nature coordinator for FHL, leading on implementation and delivery of our respective climate change and nature strategies.

Key topics within the remit of the CNWG during 2023 included progress against our commitments on climate and nature, the implications for investors of the Kunming-Montreal Global Biodiversity Framework agreed at COP15. During 2023, four subgroups were created in order to drive progress in particular areas: public policy advocacy on climate and nature; biodiversity impact and dependencies assessment; biodiversity target setting; and enhancing Paris-alignment methodologies.

Key functions supporting board oversight and management

In addition to the structures outlined above, the following key business functions are particularly involved in delivering our climate and nature approach, monitoring and, where appropriate, assessing climate and nature related issues, and reporting such information to the appropriate Boards or governance bodies identified above:

Responsibility Office. Established in 2014, our dedicated Responsibility Office reports through the Head of Responsibility to FHL's CEO and acts as a hub of expertise and support available to assist every employee in our business to work towards our core purpose of delivering enduring, responsible wealth creation.

The ESG Integration team within the Responsibility Office also works closely with the investment teams to support the investment analysts in identifying material E, S and G issues, including climate and nature, that may be specific to the investment manager's strategy. This team considers the range of risks described in the strategy section of this report, including regulatory risks, legal risks and physical risks. The support provided to the investment teams includes building out ESG analytics and tools, deep dives on portfolio holdings, and sharing progress updates linked to Federated Hermes commitments such as progress against Federated Hermes net zero interim targets. The team obtains data from third-party providers to help the investment and stewardship teams analyse ESG-related risks and opportunities including relating

to climate and nature. Some of these datasets are overlaid in our proprietary tools by insights gleaned from our engagement with investee companies and are also used by our investment teams and 'engagers'[2] in their company research and portfolio analysis. For example, the ESG Integration team co-ordinate the procurement of carbon emissions data and climate scenario analysis tools, which are made available to the public markets investment teams. The ESG Integration team also organises sector-level knowledge-share sessions between EOS (our public markets stewardship team) and the investment teams and works with the investment teams to develop frameworks which assess the materiality of environmental, social and governance risks at the investee company level.

The ESG Integration team also conducts assessments using our proprietary ESG Assessment Matrix on an annual basis to determine where each of the investment teams are in their ESG and stewardship integration journey. The matrix contains 30 indicators across 4 key areas of assessment and aims to assess the teams on the following: investment process and philosophy; sustainability commitments; communication and advocacy. The sustainability commitments section assesses how actively the relevant team is monitoring their progress in meeting Federated Hermes' various commitments, such as our net zero commitment. The results of this assessment are shared with senior management.

Our Policy and Advocacy team within the Responsibility Office engages with regulators and policymakers to advocate for an enabling environment that supports and incentivises the achievement of the goals of the Paris Agreement and the Global Biodiversity Framework.

Portfolio Managers and Investment Analysts. Each of our investment teams in scope of this report has formulated their own approach to responsible investing that explain how, in the context of their particular strategy and investment universe, they incorporate ESG factors and engagement into their investment process. Each team is responsible for undertaking its own fundamental ESG research and the team members are accountable through the performance appraisal system for their part in delivering on their client investment mandates. The investment teams can also carry out engagements themselves, and some have dedicated engagers, such as our SDG Engagement funds (described in the Risk Management section). All investment teams use a variety of data sources to obtain information to analyse their investments or potential investments. They use a combination of third-party sources, stewardship insights and data obtained directly from the investee company. As described above, the Responsibility Office helps to source and integrate third party data that is relevant across the investment teams. Due to the complexity of procuring data at scale for private markets, this is managed directly by the private markets investment teams, with guidance from the Responsibility Office where needed.

Stewardship Team ("EOS"). Our stewardship team for public markets, EOS, provides services in relation to Federated Hermes' public markets strategies and external clients, with assets under advice ("AUA") of approximately £1.2tn as at 31 December 2023. EOS engaged with 550 companies on behalf of its clients during 2023. EOS has a Client Advisory Board ("CAB") which consists of third-party client representatives. They provide insight, advice and guidance on EOS' business strategy and service offering to ensure that the EOS service is and remains a client-focused offering. The EOS team comprises individuals with a diverse mix of backgrounds, skills, and perspectives, and has been at the forefront of the development and evolution of responsible investment practices globally. The EOS team leads our public-markets engagement activity, as described further in the other sections of this report.

Risk. The Risk team provides independent oversight and challenge to our approach to corporate sustainability and responsible business management – and provides regular reports to the Risk, Compliance and Financial Crime Committee. The team also works closely with both the Compliance team and Responsibility Office to oversee work to ensure that our business continues to authentically and accurately, report on our ESG objectives and activities. Throughout 2023, the Risk team continued to integrate ESG risks within the existing risk management framework, including within the risk taxonomy, risk policies and in setting the risk appetite.

Compliance. Alongside the Risk team, the Compliance team is part of our second line of defence, including in relation to regulatory risk. Within the Compliance team, the compliance advisory function performs regulatory and best-practice horizon scanning using regulatory tracking tools as well as gathering insights through involvement in industry initiatives. This includes regulation relating to climate and nature, such as the FCA's climate-related disclosure requirements. Following identification of new or updated regulation, the compliance advisory function communicates this information to the relevant parts of the business and co-ordinates appropriate implementation. The compliance monitoring function assesses ongoing compliance with regulations following implementation, including the FCA's climate-related disclosure requirements.

[2] Refers to Federated Hermes personnel involved in engagement activities relating to investee companies, which may include members of EOS and the investment teams.

Strategy

Our approach to responsible investing

Our climate strategy is driven by a focus on delivering enduring, responsible wealth creation for our clients and their investors. Successful enduring, responsible wealth creation should provide investors with income to spend as they get older, an ability to buy goods and services and help to build a world in which investors are happy to live.

Federated Hermes views responsibility through three lenses and intends to act as a:

1. **Responsible Investor** – how we integrate engagement insights and material ESG considerations including climate- and nature-related risks and opportunities into our investment decisions.
2. **Responsible Owner** – our stewardship activities: engagement, voting, public policy and screening.
3. **Responsible Firm** – ensuring we lead by example, through our commitment to net zero, our approach to diversity, equity and inclusion amongst colleagues and other stakeholders, and our charity initiatives and programmes supporting the local community.

These three lenses underpin our climate strategy, which informs our investment approach, our engagement and advocacy activities, and how we conduct our own operations.

Describing climate – and nature – related risks and opportunities

Federated Hermes recognises that climate change and nature loss present serious risks to the world at large and to our business – both as a corporate entity and as an investment manager – and that action is needed by governments, companies and investors to mitigate these risks. Our assessment of and response to the risks posed by climate change and nature spans our asset and portfolio level analysis across the asset classes in scope of this report; our corporate and public policy engagement activities; and our operational risk management.

As an investment manager, understanding and responding to the range of potential risks and opportunities and generating performance for clients is fundamental for our business, and is the major focus of our efforts. At Federated Hermes, we understand these climate and nature risks do not exist in isolation. They interact with other changes happening at the same time, such as technological innovation; changing consumer behaviour and demand; and the effect of local regulation versus geopolitical dynamics on infrastructure and supply chains. This informs how we integrate assessment of such risks into our investment processes and wider business strategy.

We use a range of sources to identify which risks and opportunities could have a material financial impact on our organisation and in particular the companies and other assets we invest in for our clients, including insights from third party studies, data providers, scenario analysis tools and internal expert knowledge. A description of the processes used to identify and prioritise climate-related risks which could have a material financial impact on the organisation and the investments we make on behalf of clients is described in the Risk Management section.

Climate-related risks and opportunities

We consider a range of climate-related risks, including:

- Transition risks such as risks related to (i) legal, regulatory and policy matters, (ii) technology, (iii) markets, whether for goods or services, or the financial markets, and (iv) reputational matters and how this may impact consumer and stakeholder behaviour.
- Physical risks, which may be acute (for example, increased severity and frequency of extreme weather events) and/or chronic (for example, increases in average temperatures and rising sea levels).

In terms of time horizons, we consider climate risks in the short (0-2 years), medium (2-5 years), and long term (5 years and beyond), as set out in the table (Figure 2). Transition and physical risks are assessed on a qualitative and quantitative basis and vary asset to asset depending on factors such as the sector, geography, and business model.

Figure 2: How we think about climate-related risks across different timeframes

Timeframe	Climate risk definition	Description of potential climate-related risks
Short term	Risks that could cause impacts in 0-2 years from now.	Legal and regulatory change affecting licence to operate, supply chains, operational expenditure, or management practices in certain highly exposed sectors (e.g., fossil fuel extractive industries) or jurisdictions with more stringent regulation (e.g., EU). Market risk, including risks related to the costs of goods and services (including risks related to the availability of raw materials), changing consumer behaviours, and financial markets, which may impact the available finance. Impact to insurance premiums or ability to insure assets in certain locations faced with chronic risk. Reputational risk, which may impact the behaviour of consumers, investors and other stakeholders, and impact individual companies or entire sectors. Acute physical risks due to extreme weather events, including flood, drought, heat waves and storms that cause disruption to business operations, supply chains, and labour markets and mass migration.
Medium term	Risks that could cause impacts in 2-5 years.	In addition to the above: Technology and consumer demand-based market transformation risks and opportunities, obsolescence of certain products and services affecting certain sectors. Increased risk of asset underperformance or stranded assets.
Long term	Risks that could cause impacts in 5 years and beyond.	In addition to the above: Obsolescence and stranded assets across a range of assets, sectors and geographies due to regulatory changes and/or market transformation. Acute physical risks due to increasingly frequent extreme weather events impacting specific geographical locations and supply chain disruption affecting large number of sectors and regions. Chronic physical risks due to long-term changes in climate patterns, for example rising sea levels and shifts in regional weather-related events that may impact business operations and supply chains. Impact to infrastructure and real assets, ranging from business discontinuity costs, refurbishments and rebuilding costs to obsolescence and destruction.

Source: Federated Hermes, as at 31 March 2024.

As an investor, acute physical risk is an ever-present consideration. Acute and chronic physical risks are expected to intensify as the climate changes – and affect all asset classes, as well as our own operations.

Our analysis also focuses on the significant legal and regulatory risks we, as investors, need to consider in the short term. Chiefly, this relates to regulatory changes and legislation that may affect an asset's competitiveness, supply chains and/or management practices in certain sectors that are highly exposed or geographies in which climate policy is tightening faster than in other jurisdictions (for example, the European versus Asian markets). Another risk now beginning to materialise is that companies may increasingly have to pay higher insurance premiums or struggle to insure assets in certain locations exposed to physical risks.

In the medium term, there are also considerable risks associated with market transformation, which will occur as new markets and technology development continue to open up during the transition to a resilient and net zero carbon economy requiring a significant amount of capital to be reallocated towards new growth markets. Changes in market demand mean some products and services in certain sectors may become less competitive or possibly obsolete increasing the risk of asset underperformance and possibly resulting in stranded assets in extreme cases.

There are also increased legal and regulatory risks in the medium term which could lead to higher operating costs from carbon pricing or taxes, or the costs of implementing new regulatory standards, as well as greater insurance premiums.

In the long term, as extreme climatic events become more frequent and climate patterns begin to change (for example, rising sea levels and changes to regional weather patterns), they may also cause assets to become stranded across a whole range of industries, assets and geographies. Extreme weather events could affect defined geographical locations or, in some cases, whole regions, and significantly disrupt the supply chains of a large number of sectors in the economy.

The Federated Hermes investment and stewardship teams in scope of this report look at these issues in detail. The implications of climate change for investment decisions will differ depending on the sector, geography, and business model. That consideration focuses not just on the risks, but associated opportunities.

The automotive and power sectors, for example, both have significant value at risk from the transition to a more sustainable economy, but also significant opportunities – from electric vehicles and renewable energy, respectively. By contrast, the oil and gas sector will be one of the hardest impacted in the long term. Even if an oil company can achieve an economic return today, the emissions from the production and use of its products combined with accelerating climate change create a growing pressure on policymakers that could reduce the viability – economic or otherwise – of such activities.

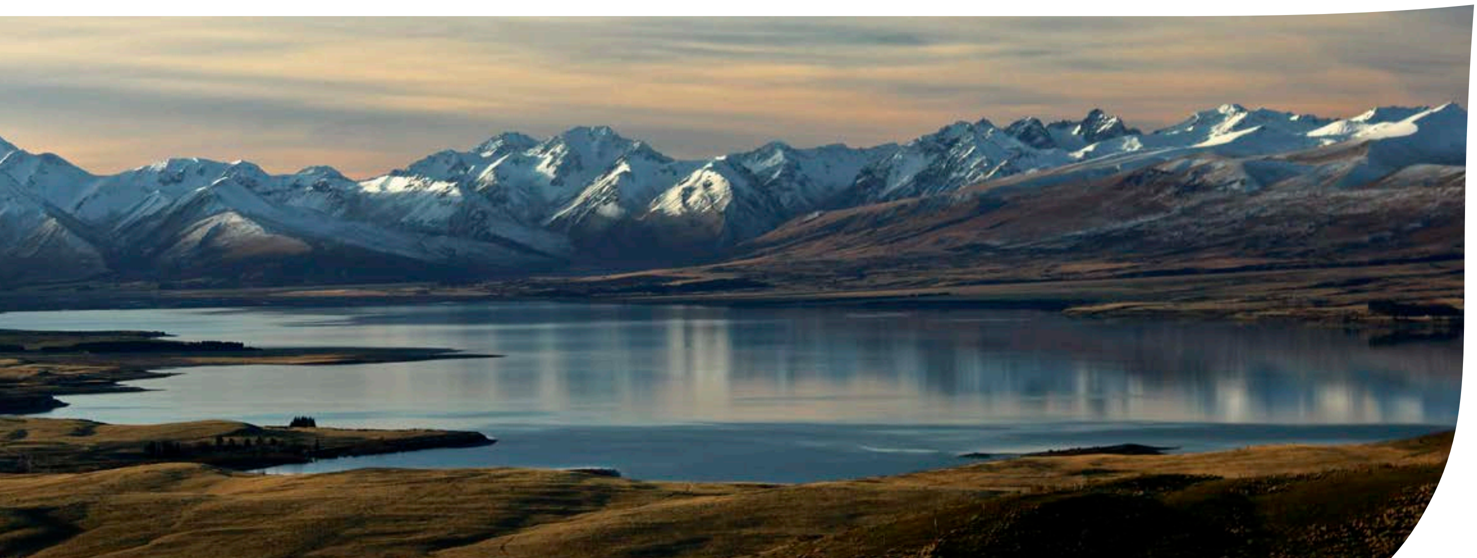
More broadly, Federated Hermes has identified the following examples of climate-related opportunities that the companies it may invest in on behalf of its clients may be able to leverage:

- Products and services that support the transition to a net zero economy, for example the provision of renewable energy by the energy sector and low-emission construction products by the materials sector. This may allow companies to tap into new markets by meeting the needs of businesses wishing to improve their own environmental impact or meet new regulatory standards. Similarly, companies have the opportunity to meet the increasing demand from consumers for products that minimise harm to the environment and support the transition.
- Greater resource efficiency, for example companies that reduce their own water usage or develop technology that facilitates reductions in water usage, which has the potential to reduce operating costs and increase production capacity.
- Improved business resilience, for example through adaptation to physical climate impacts in a company's supply chain and operations, or use of low-emission energy sources reducing the company's exposure to rises in fossil fuel prices or the cost of abatement.
- Available benefits from supportive policies and climate-related finance, for example government funding or other financial support for renewable energy technologies.

The above opportunities have the potential to offer increased revenues and enhance the resilience of a business.

Increasingly, we are seeing many companies providing or transitioning into solutions to the climate challenges we are facing. One such example is UPM, a Finnish forestry firm, which is a major global supplier of sustainable timber-based products in industries such as transportation, electrification, and construction. UPM was one of the first global forest industry companies to commit to the UN's Business Ambition for 1.5°C Campaign which sought to raise the ambition on climate action. The firm has an interim target to decrease its Scope 1 and 2 emissions by 65% and its supply chain emissions by 30% by 2030. Its targets have been approved by the Science Based Targets initiative.[3] UPM also manages the biodiversity risks of its forestry business in a number of ways ranging from sustainable timber sourcing protocols to replanting programmes and recycling processes. All UPM-owned forests have been certified, or are in the certification process, as sustainable by independent bodies such as the Forest Stewardship Council ("FSC") or the Programme for the Endorsement of Forest Certification ("PEFC"). Furthermore, almost 85% of total wood fibre sourced by the firm has been certified sustainable with a target of reaching 100% by 2030.[4] Demand for paper, timber and wood-based products will only increase amid a growing global population and rising appetite for natural solutions to everyday needs and this is an example of a company which is taking a responsible approach to fulfilling this growing need.

As a corporate entity, we rely on the services of a range of suppliers including information and communication technology ("ICT") and data providers as well as the utility services that power our offices and, all following the introduction of hybrid working, our homes. We recognise the relevance of physical risks to our own operations and those of our suppliers. In thinking about the transition risks that are most relevant for us as a corporate entity, these notably relate to investment performance, changing client expectations, business reputation and operational risks.



[3] UPM, "UPM commits to UN Business Ambition for 1.5°C to mitigate climate change" (January 2020)
[4] UPM, "UPM Corporate Environmental and Societal Responsibility Statement 2021" (2021)

Nature-related impacts, dependencies, risks, and opportunities

Companies' relationship with nature can be characterised by impacts and dependencies on biodiversity and ecosystem services.[5] We seek to understand the ways in which biodiversity and ecosystem services are relevant to companies, be this through their sourcing practices and supply chains, through their products and services, in the construction of new sites on land, especially if this is an ecologically important habitat, or through the way their operations interact with surrounding ecosystems.

Once a company has identified its material dependencies and impacts, ideally by following the TNFD recommendations, it will be able to develop a strategy and design meaningful interventions to enable it to reduce its impacts and risks, whilst aiming for a net-positive impact on biodiversity. The goal should be to integrate nature considerations into strategic and risk management decisions taken throughout the company. The highest dependencies and impacts for many companies are likely to be found in the supply chain, so improving supply chain oversight and engagement will be a key aspect of the biodiversity strategy.

Figure 3. Key impacts and dependencies on biodiversity and ecosystem services across sectors

Sector	Key impacts and dependencies on biodiversity and ecosystem services
Consumer goods and retail (including food, beverages, tobacco, household products, cosmetics and fashion)	High dependence on ecosystem services such as pollination, soil quality and water flow to maintain a reliable supply of agricultural products and other nature-based inputs. High impact on biodiversity through significant land footprint, greenhouse gas emissions and the overall business model (including sourcing activities and agricultural practices)
Utilities	Operational dependence on ecosystem services such as water quality and flow, climate regulation and others High impact on biodiversity through significant greenhouse gas emissions and contributions to climate change, pollution of air, soil and water, land use (including potentially higher land use requirements for renewables), and disturbances to species
Mining and materials	Operational dependence on ecosystem services such as water quality and flow, climate regulation and others High operational impact on land and ecosystems, significant greenhouse gas emissions and contributions to climate change, pollution of air, soil and water (including one-off events such as tailings dam collapses), and disturbances to species
Oil and gas	Operational dependence on ecosystem services such as water quality and flow, climate regulation and others High operational impact on land and ecosystems, significant greenhouse gas emissions and contributions to climate change, pollution of air, soil and water (including through high-risk events such as oil spills), land use (including operations in fragile ecosystems) and disturbances to species
Agrochemicals and pharmaceuticals	Dependencies on genetic materials, water quality and flow, climate regulation and others High direct impact on biodiversity and ecosystem services through pollution of soil, air and water, and greenhouse gas emissions and contributions to climate change
Real estate and construction	Dependence on ecosystem services such as raw material input (e.g., timber), water quality and flow, protection from floods and storms, and others High impacts on biodiversity and ecosystem services through significant land use, greenhouse gas emissions, and pollution of air, soil and water
Financial services	High potential impact on unsustainable land use and the loss of biodiversity through financing of, and investment in, all other sectors

Source: ENCORE tool, Natural Capital Finance Initiative, as at 31 March 2024.

A company's impacts and dependencies on biodiversity may lead to physical and transition risks across the short, medium, and long-term.

In the short-term, physical operational risks can become acute when companies face direct challenges in sourcing raw materials due to disruptions to ecosystem services. Physical climate change may exacerbate these risks. This is already a risk that is materialising for some companies with direct or indirect exposure to impacted regions, for example where farmers are unable to supply raw ingredients due to a lack of water availability or degraded soils. In the scenario that biodiversity loss is not halted and reversed, ecosystem service disruption will become more widespread, which may create additional costs for companies that rely on nature-based inputs. Furthermore, there will potentially be systemic risks to whole sectors or geographies due to the disruption to supply chains and operations.

[5] As per the TNFD Glossary, an ecosystem is 'a dynamic complex of plant, animal and microorganism communities and the non-living environment, interacting as a functional unit.' Ecosystem services are 'contributions of ecosystems to the benefits that are used in economic and other human activity.' Dependencies on nature are 'aspects of environmental assets and ecosystem services that a person or an organization relies on to function'. Impacts on nature are 'Changes in the state of nature (quality or quantity), which may result in changes to the capacity of nature to provide social and economic functions. Impacts can be positive or negative.'

Companies may also face regulatory and litigation risks in the short term. This relates to regulatory changes and legislation that may impact a company's competitiveness, supply chain, or increase its operating costs. These risks are likely to continue to increase over the medium term in line with the increasing regulatory focus[6] on nature-related issues. For instance, 2023 saw the EU's Regulation on deforestation-free products come into force. This regulation imposes due diligence requirements for companies that trade products linked to forest-risk commodities (for now, this covers cattle, cocoa, coffee, palm oil, rubber, soya and wood) on the EU market and requires them to demonstrate there are no links to deforestation. Mandatory disclosures on nature-related topics are also increasing in a number of jurisdictions, such as in France where large companies and financial institutions are required to disclose their biodiversity risks and impacts.

As with climate-related risk, there are risks associated with market transformation in the short to medium term. Companies which fail to take account of changing consumer preferences may miss opportunities and become less competitive by not effectively taking nature into account in their decision making. For instance, food and beverage companies which do not respond to the growing consumer demand for healthy, plant-based or organic foods may lose market share. In more extreme cases, companies may face reputational risks, on top of the regulatory and litigation risks described above, in relation to negative impacts on biodiversity. These risks have already become material in the short term for some companies linked to deforestation in the Amazon. As consumer interest in the issue grows, these risks are likely to become more prevalent.

There are, however, opportunities for the companies which better manage nature-related risks and identify opportunities to provide solutions to biodiversity loss and developing products that meet consumer demand. For example, companies that can demonstrate that their products are genuinely not linked to deforestation or are produced through regenerative agricultural techniques may gain market share and reputation benefits.

The impact of climate- and nature-related risks and opportunities on our business, strategy, and financial planning

Our Board members and senior management are aware of and are engaged with the growing importance of climate- and nature- related risks and opportunities to our business, strategy, and financial planning. As a business we understand that if left unchecked, they represent systemic risks to financial markets, the global economy, and our ability to create enduring, responsible wealth for our clients and their investors. Of particular concern is the risk that even if transition risk is managed within our portfolios of investments, unmanaged physical risk could still destroy value through business operation or supply chain interruption caused by factors outside the control of our investee companies.

For this reason, we understand we must look at the first and second order effects of climate change risk. We believe that it is part of our fiduciary duty to contribute to the conditions in which global efforts to limit warming to 1.5°C are successful and in which public and private investment to create resilient infrastructure and societies is delivered. Another driving factor is our policy and regulatory environment. FHL is headquartered in the UK, where the government has made a legally binding net zero commitment and has committed to have the world's first net zero financial centre. Federated Hermes made its own net zero commitment as part of the Net Zero Asset Managers initiative in 2021.

Climate- and nature-related risks and opportunities impact our business in a number of ways, and our strategy for dealing with such risks and opportunities reflects the three lenses described above: our role as a responsible firm, responsible investor, and responsible owner.

In thinking about our business risks, as a corporate entity, these notably relate to investment performance, changing client expectations, business reputation and operational risks.

In terms of physical risk, FHL has mitigation and emergency action plans for our real estate assets, in addition to our own buildings to ensure business continuity, and our key suppliers.

We recognise that as a responsible firm we must also seek to reduce our own operational and travel emissions and have set targets accordingly. These targets and our progress towards meeting them are described in the Metrics and Targets section of this report. We also offset our Scopes 1 and 2 emissions and our corporate travel emissions.

Equally, there are also opportunities for us to support the transition, identify investment in climate and nature solutions, and meet changing client needs.

These risks and opportunities can therefore impact our business strategy and planning in a number of ways, for example developing new products (both in response to opportunities identified and to ensure that our product design appropriately factors in climate-related risks), our efforts to mitigate risks arising from our operational environmental impacts and our climate strategy for our existing investment products. All of the above may have impacts on financial planning, for example revenue generated from new products or the costs of increased headcount to support our climate engagement commitments.

[6] European Commission, "Regulation on Deforestation-free products" (March 2024)

Product development

Federated Hermes identifies opportunities to support the transition through product development. The Product Development Committee is responsible for developing new products and its members consider how desirable and suitable a product is from a commercial, customer and portfolio-management perspective. This includes looking at how a product is aligned with our responsible investment and ownership approach. During the product development process, the impact that potential strategies might have on our public commitments on net zero, deforestation and biodiversity is also considered, including whether additional resource is needed to ensure existing commitments can be achieved. Recent product development initiatives include the following:

- Our Biodiversity Equity Strategy was launched in 2022. The team at Federated Hermes extensively researched major regional and global threats to biodiversity and defined six themes for the Biodiversity Equity Strategy: land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation. These themes help the investment team to identify businesses which help mitigate the loss of, or provide solutions to, the specific biodiversity risks to which they are related. Each of these themes has multiple sub-verticals that are aligned to specific SDGs. The three themes which, as of Q4 2023, make up the greatest proportion of our investments are those tackling deforestation, marine pollution and exploitation, and unsustainable farming.
- In 2023, Federated Hermes launched its Sustainable Global Investment Grade Credit Strategy. The team running this investment strategy invests in sustainable leaders – companies that are at the vanguard of their respective sectors who see value-creation in protecting the planet and provide sustainable products and services. For the management of this strategy, the team use their proprietary Sustainable Leaders ("SL") Score as a screening tool to refine our initial investment universe. The SL Score is a proprietary framework which provides an assessment of ranking and momentum in sustainability, focusing on non-fundamental risks. The strategy's dual objectives are to achieve superior risk-adjusted returns and a reduced environmental footprint relative to the benchmark (in terms of a reduced carbon, water, and waste footprint) – these are not independent goals. They seek to invest in companies that see value-creation in protecting the planet and provide sustainable products and services.

> **The Sustainable Leaders Score is a proprietary framework which provides an assessment of ranking and momentum in sustainability, focusing on non-fundamental risks.**

- The objective of the Climate Change High Yield Strategy has been aligned to be in line with the Federated Hermes firm level Paris-alignment interim targets, which form part of our net zero commitment. In addition, it also has a decarbonisation target against a Paris-aligned benchmark.
- At COP28, we announced our intention to work together with The Global Alliance for a Sustainable Planet ("GASP") and find new ways to collaborate on innovative investment solutions. Discussions are advancing with GASP, and other partners, on specific ways to explore the prospects of leveraging concessionary capital as a means to attract private investment to opportunities, which will contribute to solving some of humanity's most urgent challenges as articulated in the UN SDGs.

In addition, we are collaborating with Finance Earth, the UK's leading environmental impact investment advisory firm, on the development of a UK Nature Impact Fund. This private markets-based, blended finance strategy has been designed to help address the climate and biodiversity crises in the UK.

Impacts of risks and opportunities on our financial planning

Aside from the significance for our investment approach, and the products and services we provide to our clients, all of the above has implications for our financial planning. For example, climate-related risks and opportunities impact budget allocation, such as offsetting costs, climate data procurement and tool development and engagement headcount to support our net zero commitments. It also informs our product development and ongoing product governance, for example ensuring that FHL is able to meet growing client interest in products that deliver a positive impact on the environment. Given the nature of our business, this is important for the financial performance and sustainability of our business as a whole, as well as the performance of individual products. We assess material risks – including any related to climate – and their potential financial impact to the company as part of our internal capital and risk assessment ("ICARA") process, which is undertaken at least annually. Senior management also receives monthly updates on our corporate travel emissions as part of management information updates to ensure they are aware of emissions trends. FHL's annual report and financial statements include our Streamlined Energy and Carbon Reporting statement, describing our energy consumption and greenhouse gas emissions for the UK.

> **FHL is able to meet growing client interest in products that deliver a positive impact on the environment.**

Alignment across our business and with our third-party suppliers

Our governance structure has a role in ensuring that the individual legal entities that are subsidiaries of FHL, the governance bodies that it delegates to, and relevant teams, as well as the third parties that we outsource to, or that provide products or other services to Federated Hermes, are all aligned with respect to climate- and nature-related issues.

A particular area of focus is how we select the third parties we work with at Federated Hermes. From 2022, enhancements to our responsible supplier management process have been embedded, including a revised Supplier Code of Conduct which better considers the ESG credentials of our third-party suppliers and integrates environmental and social considerations within the supplier due diligence process. Our Supplier Code of Conduct contains the following expectations:

“We will only conduct business with suppliers who share our commitment to establish environmentally responsible business practices and proactively improve their own environmental performance." We expect our suppliers to:

- Comply with relevant environmental protection laws, regulations and recognised standards including those related to waste disposal, air emissions, plastics and pollution.
- Take steps to measure, report and minimise the environmental impact of their operations including greenhouse gas emissions, energy consumption, water use and waste generation and require their subcontractors and suppliers to do the same.”

Climate- and nature-related considerations are particularly important for our selection of certain third-party suppliers. For instance, we use a number of external ESG data providers, as each data provider has developed their own methodology which can result in differing views and/or provide us with different aspects of the mosaic to holistically understand the risks and opportunities. More information is available below and in the Risk Management section.

The investment management services provided by HIML and HGPE implement our responsible investor and responsible owner strategy with the assistance and expertise of: (i) our Responsibility Office, which works closely with the investment teams to help them identify material environmental, social and governance issues specific to the investment manager’s strategy, and (ii) the EOS team, which provides important information on engagement and stewardship with companies invested in or targeted by our portfolio management team, are important enhancements to our investment process. The ability to execute that strategy is contingent on the data available to those teams.

For our real estate team, all day-to-day property management – including rent and debt collection and active responsible property management – is dealt with by external property management agents. They are selected following a rigorous process that includes ESG considerations, while ESG requirements and commitments are included in their contractual service agreements. The performance of property manager agents – and any other agents appointed for work on activities such as rent reviews, lease renewals, transactions property maintenance, health-and-safety issues, and environmental issues – is closely monitored by our internal investment managers. The property managers are contractually responsible for implementing the ESG programme and health-and-safety measures. These requirements include risk management, refurbishment and development, utilities measurement and reporting, ESG business plans, energy management, water management, waste management, transport, procurement and supply chain, environmental risk and management, occupier engagement and quarterly monitoring of progress against targets.

The property managers are contractually responsible for implementing the ESG programme and health-and-safety measures.

When investing in funds, our private equity team form close relationships with the GPs they back, often initially via a co-investment relationship. This gives us valuable insight into the experience of the team and how value is created. ESG risk assessments are conducted on lead GPs for all new co-investments and fund investments. The private equity team considers the ESG practices of managers ahead of making fund investments. The team assesses managers capabilities across 5 key areas: (i) policies and commitments to standards, (ii) Governance and mindset, (iii) Investment process, (iv) climate risk and (v) communication and reporting. Each manager is scored on each dimension using a standardised and proprietary matrix that leverages Institutional Limited Partner Association and PRI recommendations. The assessment of managers capabilities is included in the Investment Committee papers and contributes to the investment decision. They seek to improve and protect the financial value of investments through assessing, monitoring, and seeking improvements to material ESG risk areas. Our private equity team takes a risk-based approach to effectively identify, monitor, and manage ESG risks, opportunities and impacts identified across its portfolio. For direct co-investments, they receive quarterly reports from the GP that include both financial information and qualitative data. These reports often contain ESG information. In addition to this, they often have a quarterly call with the GP where they discuss the reports and any other topics they wish to raise. For fund investments they also receive quarterly reports and are invited to participate in AGMs. In a minority of cases, they are part of the limited partner advisory committee (“LPAC”) and hence part of the fund’s governance structure. They can raise issues with managers in those forums or bilaterally.

Implementing our strategy

As a responsible owner and investor, the way we engage and invest is key to our climate approach. On a day-to-day basis the management of climate risk and opportunities that arise from the transition to a resilient and net zero economy is led by our investment, engagement and advocacy teams with this work supported and coordinated by the Responsibility Office and the CNWG. All investment strategies in scope of this report incorporate consideration of climate-related risks and opportunities. As described further under the Risk Management section of this report, the implementation approach is tailored to each asset class, and some of our strategies layer additional approaches on top of this.

Climate Action Plan

As policy and technology continues to accelerate decarbonisation of the global economy, companies not taking adequate action will be left behind, potentially resulting in suboptimal business models and stranded assets. For this reason, Federated Hermes has taken the view that it should work with its clients to limit warming to 1.5°C – this is the central tenet of our Climate Action Plan.

Our Climate Action Plan is an inseparable part of our fiduciary responsibility to maximise long-term financial returns on investment on behalf of our clients. At Federated Hermes, we believe we have a responsibility as an industry, and indeed as a business, to allocate capital in a way that mitigates exposure to climate risk and that plays our part in delivering the goal of the Paris Agreement – which will lead to beneficial changes in the real economy, which is fundamentally in the long-term financial interests of our clients. Our Climate Action Plan sets out our engagement driven approach to driving decarbonisation in the real economy by way of our interim targets within our net zero commitment, as part of the Net Zero Asset Managers initiative. Our commitment is based on the expectation that governments and policy makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement. We recognise that the global challenges of climate change, biodiversity loss and social justice are highly interlinked and, therefore, our commitments will be delivered in ways that contribute to tackling these issues together. A focus on an orderly and just transition is critical not only for the welfare of citizens but also the transition itself because decarbonisation must occur in a manner that does not diminish public support for the net zero transition.

While we hope to cover all asset classes over time, our interim target currently applies to all Federated Hermes' assets under management within scope of this report except for private equity, direct lending, sovereign debt, FX, cash, indices and ABS, CLOs and CDOs issued by companies. Our targets are at the asset class level. Where products in scope of the TCFD disclosure requirements have additional climate-related objectives, this is described in Appendix III of this Report.

> **A focus on an orderly and just transition is critical not only for the welfare of citizens but also the transition itself because decarbonisation must occur in a manner that does not diminish public support for the net zero transition.**

Figure 4. Our interim 2030 targets

Source: Federated Hermes, as at 31 March 2024.

Our approach is driven by engagement with companies where we have identified inadequate action relating to the climate transition to challenge them to accelerate their climate ambition. This includes setting credible science-based targets, developing robust decarbonisation strategies, contributing to climate solutions and building resilience to climate change. In doing this, we act to protect the financial interests of our clients and their investors and deliver long term value for their stakeholders.

We prioritise our engagement activities on the top emitters in our funds, which are predominantly in the following industries: forest, land and agriculture, banks, buildings, iron and steel, cement, chemicals, transport, oil and gas, and power generation. Examples of our engagement activities are included in the Risk Management section of this report.

We also seek to increase investment in solutions, and as described earlier in this section have identified product development opportunities to support the transition. More information on our approach is included in our Climate Action Plan.

We believe that policymakers have a key role to play in influencing the investment risks and opportunities created by climate change. We recognise there may be situations in which companies are hampered in how fast they can transition their businesses to be Paris Agreement-aligned, because of either competitive disadvantage created by moving faster than peers, or other market-based barriers. We engage constructively with regulators and policymakers globally to address instances in which features of the financial system may prevent the system from operating in the best interests of its ultimate asset owners More information is available under the Risk Management section.

More detail on our plans for supporting the transition to a low-carbon economy are available in our Climate Action Plan. Information on our targets, and progress against targets, is described in the Metrics & Targets section of this report.

Procuring data to support implementation of our strategy

As discussed further in the Risk Management section of this report, our ESG Integration team obtains data from third-party providers to help analyse ESG related risks and opportunities including relating to climate and nature. Some of these datasets are supplemented in our proprietary tools by insights gleaned from our engagement with the company and are also used by analysts and engagers in their company research and portfolio analysis.

We use a number of external ESG data providers, as each data provider has developed their own methodology which can result in differing views and/or provide us with different aspects of the mosaic to holistically understand the risks and opportunities. Taking this range of views into account, along with our qualitative fundamental analysis and insights from engagement by EOS or the investment teams, helps us to form a more comprehensive view of the company on sustainability issues. As part of our ongoing research into assessing sustainability within companies we have spoken with a number of data providers on their frameworks and how these are applied to companies and sectors. Having worked with data providers over many years we are able to critically assess the strengths and weaknesses of the approaches and feed this insight back to the service providers.

Enhancing the climate- and nature- related data and tools available to us is a priority. In 2023, FHL agreed a partnership with Planetrics, a company specialising in tools to quantify, manage and report climate impacts, to explore scenario analysis across some of our investments. The tool allows us to assess transition and physical risks and opportunities related to climate change across different regions and sectors for public equity and credit strategies. The platform also allows us to estimate transition risk for our private equity holdings, although due to the reliance on estimates we take into account the limitations of this analysis. Assessing nature-related risks and opportunities was also an area of focus in 2023 and we have been in dialogue with a number of third parties with the aim of partnering to create a framework that allows us to integrate these risks and opportunities in our investment process, engagement and for external reporting. We work closely with the data providers we engage with to ensure that they consider our requirements in both nature and climate as they build out their products.

We have been involved in the development of ForestIQ. ForestIQ is a new data platform launched in 2023 for financial institutions which brings together a range of data sources on corporate exposure to deforestation. The platform has been developed by an alliance of not-for-profits – Global Canopy, the Stockholm Environment Institute and ZSL – in close consultation with several financial institutions, including Federated Hermes. This project aims to improve the usability, quality, and scope of data available to investors to allow more accurate portfolio risk assessments and to inform engagement.

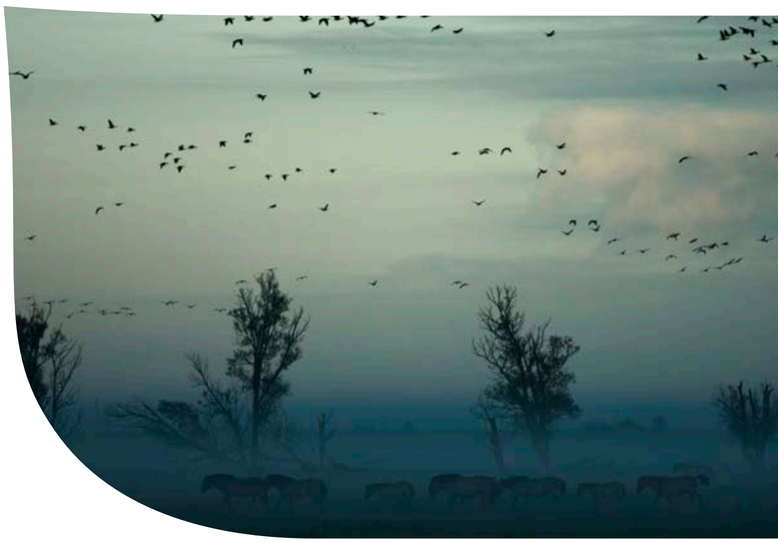
We also engage with data providers when we identify incorrect information. Over the course of 2023, we identified numerous instances where environmental data received from data providers did not match our expectation of the company's performance on those factors. We have engaged with data providers around data quality and have since seen an improvement in their data quality practices.

In 2023, the investment team manging the Impact opportunities and Biodiversity Equity strategies enhanced their impact database along with one of our data partners to introduce new biodiversity metrics. These metrics are primarily being used to assess the investments in our Federated Hermes Biodiversity Equity Fund. The database draws on data from company, sector, and impact related industry reports. It provides theme specific KPI outputs including, but not limited to a number of species preserved; hectares of land restored or conserved; megawatt hours ("MWh") of renewable energy generated and metric tonnes of CO_2 avoided (Energy Efficiency); cubic metres of water saved (Water); and metric tonnes of food waste/loss avoided.

Corporate environmental impacts

Federated Hermes address its environmental responsibilities as a responsible firm via its Environmental Management System ("EMS"), which is run by the Facilities Management Team and is the prescribed file management structure in accordance with the internationally recognised ISO14001 accreditation. The team works with a specialist third party consultant to set and deliver our environmental goals and improve our sustainability in relation to our operations. EMS actively promotes sustainability in the office by educating and encouraging staff to reduce our environmental impact.

The system we use to measure and manage the impact at our head office is ISO14001: an internationally accepted standard demonstrating an organisation's commitment to continual improvement of their environmental management system. FHL first achieved this certification in 2010.



Under the EMS we had three strategic objectives in 2023:

	Strategic Objectives for 2023	Measure of Success	Result
1	Achieve a successful ISO14001 surveillance audit for the EMS at 150 Cheapside.	Uphold certification to ISO14001 following surveillance audits scheduled for 2023 and 2024.	In progress – Re-certification valid until August 25. Surveillance audit took place in 2023, and the next one is scheduled for July 2024 (for 2023 data).
2	Work with the building management team to better understand the building's and FHL's own impacts and contribute to efforts to reduce these where possible.	Evidence of meetings with building manager.	Achieved – FHL holds regular meetings with the building management team and a quarterly data sharing programme has been put in place for the reporting of its utilities and waste data. Recommendations are also made to the building manager where improvements could be made to common areas and shared services, e.g., fan coil units in tenants' demise and power quality investigations.
3	The EMS Group is tasked with developing initiatives with a specific focus on environmental benefits.	Evidence of implementation of initiatives with a specific focus on environmental benefits.	Achieved – Proposals from the EMS Group are discussed at the quarterly EMS meetings where decisions on whether / how to implement them are made.

In addition to the three strategic objectives, the EMS had eight management objectives in 2023:

	Tactical and Operational Objectives for 2023	Measure of Success	Result
1	Reduce FHL's operational electricity consumption for its occupied space at 150 Cheapside by 5% per full time equivalent ("FTE") in 2023 compared to 2019. (2019 selected due to atypical consumption year in 2020)	Reduced electricity consumption at 150 Cheapside.	Achieved – Electricity consumption intensity has reduced by 13% and electricity consumption has reduced by 7% compared to 2019, although there has been a slight increase in consumption when comparing 2023 and 2022's absolute consumption. This in part reflects increased headcount in 150 Cheapside, in particular after Hermes GPE moved into the offices.
2	Compliance with SECR	Make a public disclosure within annual directors' report of energy use and carbon emissions. Report using a relative intensity metric e.g., tCO_2/annual revenue. Provide a narrative on energy efficiency actions taken during the reporting period.	Achieved – Disclosure of compliance featured within the 2023 financial report. The statement has been provided, with disclosure adjusted to fall in line with wider company policy.
3	Reduce waste to <400 kg per FTE	Improved recycling rates and decreasing total waste amounts.	Achieved – Waste reporting for 2023 was apportioned based on the tenanted floor area held by Federated Hermes within 150 Cheapside. This led to an overall decrease to 213 kg per FTE, well below the targeted <400 kg per FTE per year.
4	Maintain recycling rate >70%	Reduction in the number of reprints and absolute paper usage.	Not Achieved –The methodology for reporting on waste volumes and diversion from landfill proportion has been updated for 2023 due to the pursuit of more accurate data. To achieve this, the streams of food and glass waste have been removed from the analysis to reflect the low to zero amounts of segregated waste in these streams disposed of by Federated Hermes compared with the other tenants occupying the building. This removal of two significant recycling streams has reduced our recycling percentage to 35%. This however is likely to be a worst-case figure, as the limited data granularity only allows for the apportionment of the whole building data by floor area, which may mean that other tenants within the building are impacting our recycling rate by disposing of greater amounts to general waste, therefore offsetting recycling amounts.
5	Monitor usage of flights emissions and analyse implementation of travel hierarchy.	Continual monitoring and reporting of business travel activities and emissions.	Achieved – Due to the business requirement for overseas travel, it is noted that attempting to reduce transport emissions during a period of growth is unlikely. Increased monitoring of the types of journeys made by each department and a focus on reduction of business class flights where possible will help to assist potential reduction opportunities in the future.

	Tactical and Operational Objectives for 2023	Measure of Success	Result
6	Socialise the travel policy and drive engagement	Robust travel policy which minimises unnecessary travel.	Achieved – The travel policy has been socialised, including a focus on reduction of business class flights.
7	Continued promotion of the work being undertaken by the business to manage its environmental risks and the firm's EMS performance in key areas.	Communications to stakeholders.	Achieved – The Federated Hermes Environmental Management System has been uploaded to the corporate SharePoint. This allows for greater transparency and engagement with the wider business.
8	Ensure that continued involvement in and support for the EMS Group is included in all Group members' annual personal objectives.	Evidence of EMS Group within objectives of members.	Achieved

The 2023 ISO14001 external audit was successfully passed with no issues raised and – as described further in our targets section – we have achieved excellent performance against our 2019 asset energy consumption baseline as a result of several initiatives implemented at our largest office in central London. These initiatives, in conjunction with lower building occupancy figures, have enabled the maintenance of the significant drop in energy use seen during the COVID-19 pandemic. As described in the table above, waste figures have shifted considerably following the removal of two waste streams in order to provide the most accurate data possible. In the future, efforts may be made to work with our landlord to more clearly monitor waste production at a tenant level to enable further landfill mitigation and more accurately track our own impacts.

Corporate travel policy

As part of our travel policy, we continue to request that employees considering business travel on behalf of the firm should undertake the following avoid-reduce-mitigate hierarchy assessment:

- **Avoid:** Consider whether the objective the journey seeks to fulfil can be achieved through other means, for example using audio-visual conferencing facilities, telephone or email.
- **Reduce:** If the journey is necessary, can it be combined with other upcoming meetings or site visits perhaps.
- **Mitigate:** Where travel cannot be avoided, we will mitigate through offsetting our carbon emissions, as we currently do.

We continue to target a 50% reduction of our 2019 per FTE baseline through travel up to 2030. More information is included in the Metrics and Targets section of this report.[6] A global consolidated travel policy is currently being developed and is expected to be rolled-out in 2024. This will build on existing guidance to employees to consider carbon efficiency, prioritise essential travel only and considering alternatives to air travel.

> **We have an industry/sector level analysis we conduct for our private equity and direct lending assets that use averages to help us estimate value at risk.**

Assessing the resilience of our strategy under different scenarios

The most material climate and nature-related risks and opportunities to our business are related to our investment activities for clients. Our analysis is therefore focused on our investment activities, rather than the corporate entity itself. To date, Federated Hermes has undertaken scenario analysis for our public equity and credit, real estate, and infrastructure investments. Due to the lack of disclosed data, we have not been able to conduct asset specific analysis for real estate debt, private equity, and direct lending investments. We do have an industry/sector level analysis we conduct for our private equity and direct lending assets that use averages to help us estimate value at risk. As data becomes more readily available, we hope to further our scenario analysis across these asset classes.

In partnership with Planetrics, a company specialising in tools to quantify, manage and report climate impacts, Federated Hermes has been exploring scenario analysis across some of our investments. The tool allows us to assess transition and physical risks and opportunities related to climate change across different regions and sectors. Forward-looking data, such as that from scenario analysis, is becoming increasingly important to integrate into our investment decisions. The below analysis outlines the expected impact of different climate scenarios on our investments, split by asset classes. We will continue exploring options on building climate resilience in our portfolios as we develop better tools to help us understand impacts and dependencies.

Public equity and credit scenario analysis

We have assessed our public market strategies using Network for Greening the Financial System ("NGFS") scenarios version 3*.[7] It is worth noting that the scenarios forecast outcomes until 2050 hence some of the more severe physical risk impacts are not evident in the below analysis as these are set to occur post 2050.

- **Impacts based on achieving 1.5°C alignment** – This scenario limits global warming to 1.4˚C through stringent climate policies and innovation, reaching global net zero CO_2 emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all greenhouse gases. This assumes an orderly transition.

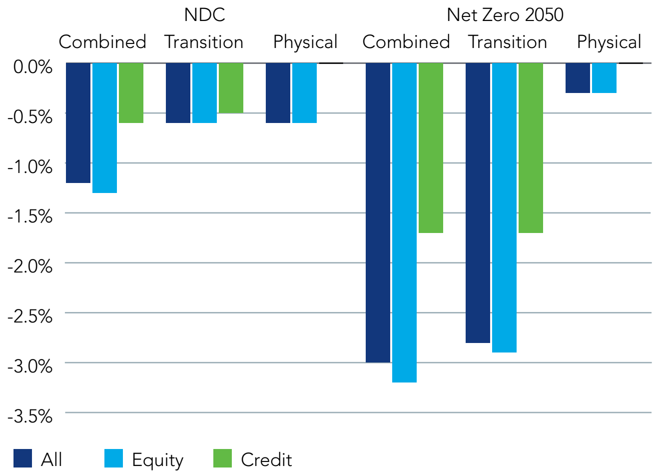
- **Impacts based on the current Nationally Determined Contributions ("NDCs")** – This scenario includes all pledged policies even if not yet implemented. This assumes a hot house world scenario, in which global efforts are insufficient to halt significant global warming.

Workshops have been held with the investment teams to walk through the methodologies and the data available to integrate into the investment analysis both at the company and portfolio level. The Responsibility Office has also been conducting portfolio and company level analysis for each of our investment teams to discuss any risks and opportunities as part of some of the quarterly meetings between the ESG integration team and investment teams.

Where we do not have disclosures from a company, we have used estimated datapoints such as the carbon emissions from third party data providers to help conduct the scenario analysis. The coverage of data for equity holdings in our funds is 93.7%, and for credit holdings in our funds is 86.2%.

Figure 5 below shows the change in net present value ("NPV") using two different scenarios for our public equity and credit funds. However, this change in NPV does not currently account for any climate targets set by the investee companies. Through this analysis, we have identified names with the largest negative change in NPV, and we find that Anhui Conch Cement is our top detractor in our equity funds, with the negative change in NPV being driven by direct carbon costs. Southern Company is our top detractor in our credit funds, with the negative change in NPV being driven by direct carbon cost. Both names have set climate targets however, not enough to reduce the transition risk. We will continue to engage on our high-risk names to ensure they set appropriate targets.

Figure 5. The aggregated percentage change in NPV across two NGFS scenarios for our corporate credit and equity funds



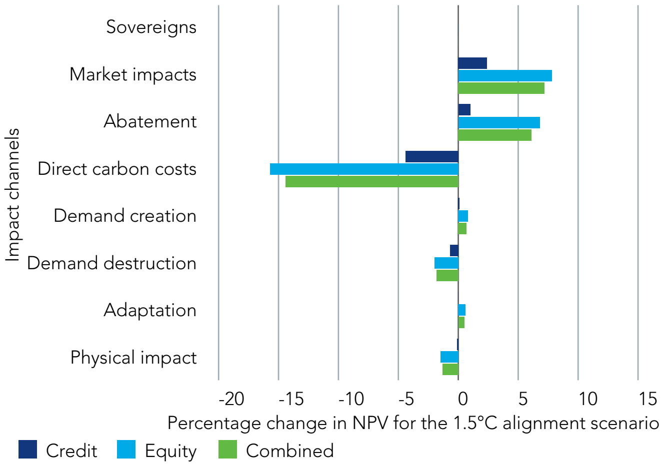
Source: Federated Hermes, Planetrics, as at 31 December 2023. This figure has been created by Federated Hermes Limited ("FHL") drawing on selected data provided by Planetrics, a McKinsey & Company solution (which does not include investment advice). This figure represents FHL's own selection of applicable scenarios selection and/or and its own portfolio data. FHL is solely responsible for, and this figure represents, such scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.

Figure 6 below further breaks down the change in NPV by different impact channels. These impact channels can be split into four categories which are:

- **Physical impacts** (physical impacts and adaptation)
- **Changes in revenues** (demand destruction and creation)
- **Changes in costs** (direct carbon costs and abatement)
- **Market impacts** (competition and cost pass through)

The main driver of valuation risk as a result of negative change in NPV is direct carbon cost for both public equity and credit, responsible for a valuation impact of 14% in a 1.5°C scenario.

Figure 6. The percentage change in NPV for the 1.5°C alignment scenario, disaggregated across different impact channels for our corporate credit and equity funds.



Source: Federated Hermes, Planetrics, as at 31 December 2023. This figure has been created by FHL drawing on selected data provided by Planetrics, a McKinsey & Company solution (which does not include investment advice). This figure represents FHL's own selection of applicable scenarios selection and/or and its own portfolio data. FHL is solely responsible for, and this figure represents, such scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.

We also have access to temperature alignment data from Planetrics. This is another lens to assess how prepared a company is for a net zero world. The aggregated temperature alignment of all Federated Hermes' public equity and credit portfolios is currently 2.9 °C. This figure is derived using a budget methodology which calculates carbon budgets based on the NGFS below 2 °C scenario based on cumulative emissions from 2022 to 2050 across scopes 1, 2 and 3 absolute emissions.

Real estate scenario analysis

Our real estate team have undertaken climate resilience scenario planning since 2021. They examine climate-related transition and physical risks at an asset level. The physical risks taken into account include fluvial, coastal flooding, extreme temperatures, tropical storms and wildfires. For transition risks, they examine the carbon intensity and the reduction required under different scenarios covering current NDCs, 1.5°C alignment and 2°C alignment. They repeated this process in 2023, taking advantage of scientific

[6] Our travel policy, targets and metrics apply to colleagues in our London office (150 Cheapside) and our offices outside the UK. Those of Hermes GPE are not currently included.

[7] Network for Greening the Financial System, 'Climate Scenarios Database: Technical Documentation V3.1' (September 2022)

and modelling advances in climate science and factoring in changes to the real estate portfolio. The results show that the majority of our assets are at medium physical and regulatory risk with reduction requirements being required at all assets.[8] In order to improve the granularity of our assessment to improve our understanding and support our transition to net zero, they are exploring the use of a new tool in 2024 to provide more in-depth information on the severity of risks, such as flood height and the probability of climate events.

Infrastructure scenario analysis

With support from a leading consultancy, Environmental Resources Management ("ERM"), our infrastructure team undertook 5 months of deep dive work in 2021 focused on scenario analysis for individual assets and risk management. Using two physical and two transition scenarios, the team initially created a portfolio risk heat map, which informed further analysis and stewardship priorities for individual companies where material potential risk was identified. All analysis was undertaken in collaboration with the investee companies using actual operational and financial data.

Figure 7. Infrastructure scenario analysis

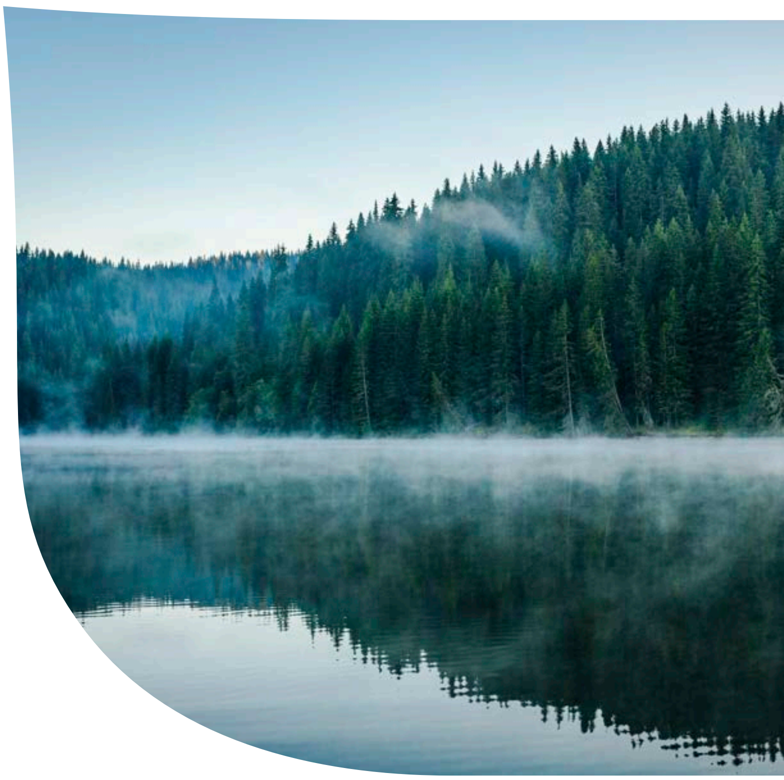
	TRANSITION		PHYSICAL	
SOURCE	World Energy Outlook (WEO) **International Energy Agency (IEA) scenarios**		The Intergovernmental Panel on Climate Change (IPCC) **Representative Concentration Pathways (RCPs)**	
SCENARIO	**Sustainable Development Scenario (SDS)** Small decline in energy demand, but **quickly declining emissions**	**Stated Policies Scenario (SPS)** Aligned with **current NDCs** Growth in energy demand, but **emissions are flat**	**RCP4.5** Implementation of **mitigation policies** **Paris Agreement** aligned	**RCP8.5** Emissions increase out to the **end of century** High emissions scenario – **'business as usual'**

Source: Environmental Resources Management, Federated Hermes.

As anticipated, transition risks are more prevalent and quantifiable in the short term, in particular carbon pricing and revenue exposure to highly carbon intensive industries. The most prominent physical risks being increased storms and fluvial flooding in the medium term and increases in heat in the longer term. Several material transition opportunities were also identified, including increased demand for sustainable products and services, e.g., green transport and potential participation in a future market for negative emissions.

Using the outputs of the deep dive analysis, the team have reviewed their stewardship approach with the relevant businesses to date and set priority focus areas and objectives. The team expect to continue to update their climate stewardship objectives annually, as risks and mitigation evolve over the duration of the holding periods, including refreshing the scenario analysis periodically to reflect the most up to date net zero scenarios.

In 2024, ERM have been engaged to undertake a comprehensive review of the climate data used in the previous scenario analysis assessment to understand if and how relevant climate-related trends have changed, and their significance for the infrastructure portfolio. The work is underway, and the results are expected to be available to share in next year's TCFD report.



[8] Risk thresholds are based on the RCP 8.5 scenario using a global stratified benchmark where high risk is the 75th – 95th percentile, medium risk is the 25th -75th percentile and low risk is the 5th – 25th percentile.

Risk management

Our assessment of, and response to, the systemic risk of climate change spans our top-down investment risk and asset-level analysis, our engagement activities and our operational and strategic risk management. We integrate consideration of climate-related risks across all investment strategies. Through our advocacy and engagement work we seek to play our part in mitigating climate risk at both a systemic and asset level.

In this section we describe how we identify, assess, monitor, and manage climate-related risks, and how this is integrated into our overall risk management processes.

We also describe how we are developing our approach to identifying, assessing, monitoring, and managing nature-related impacts, dependencies, risks and opportunities. Our advocacy and engagement activities already incorporate nature-related issues, including biodiversity loss and land use change.

Our integrated approach to managing climate and nature risk and opportunities is based on our belief that we can create positive feedback loops between investment and stewardship. This should help reduce climate – and nature-related risks and maximise the opportunities for the companies and assets in which we invest.

Risk management function

The Risk team plays a critical role in providing independent oversight of sustainability risks across the firm. It ensures that such risks are systematically identified, assessed, managed, and reported on, to safeguard our sustainability and reputation. Key activities include:

- **Risk identification:** The Risk team actively identifies and assesses sustainability risks that we may be exposed to. This involves analysing a number of different factors, such as changes in sustainability regulation, climate change impacts, emerging sustainability developments, scenarios that could adversely impact our social licence to operate, alignment of our third parties to the values of our firm and broad stakeholder expectations. Through regular assessments, the Risk team helps prioritize sustainability risk assurance based on their potential impact on our firm and clients and the probability of occurrence. We assess material risks – including any related to climate – and their potential financial impact on us as part of our internal capital and risk assessment ("ICARA").
- **Risk mitigation:** Following appropriate risk assessments, the Risk team collaborates with relevant business stakeholders to ensure that risk mitigation and controls are implemented and that mitigation efforts are aligned to our sustainability objectives.
- **ESG integration in the Risk Management Framework:** The Risk team continues to integrate sustainability considerations within the risk management framework, risk policies and processes. In doing so, the Risk team ensures ESG risks are adequately identified, measured, managed and reported on in the same manner as other business risks. Sustainability risk is fully integrated within the existing risk management framework to enable the business to identify and manage material ESG risks across our value chain. Our Risk Taxonomy lays out the risk landscape in a hierarchical structure with established risk categories (e.g., regulatory conduct, investment risk, operational risks etc). As sustainability risk spans the entire landscape, it is embedded accordingly across it and forms part of regular risk reporting to the Risk, Compliance and Financial Crime Executive Committee and subsidiary boards where appropriate.
- **Risk monitoring and reporting:** The Risk team has established mechanisms to monitor sustainability risks on an ongoing basis. The Risk team regularly reports risk issues to senior management and risk governance forums. Furthermore, the Risk team continues to provide independent oversight on the progress made delivering both internal and external sustainability commitments and that the processes implemented to comply with sustainability regulation remain effective.
- **Stakeholder engagement:** The Risk team actively engages with internal and external stakeholders to understand and monitor changing sustainability expectations, trends and concerns. This includes close collaboration with the Responsibility Office, Investment teams, data governance,

and external parties to gather insights on best practice, emerging sustainability issues and evolving industry standards. The Risk team participates in a number of sustainability-related industry forums in order to learn, share and help develop industry best practice with peers.

Development over 2024 and beyond

To ensure the business continues to measure, monitor, manage and mitigate the risks from climate change in line with risk appetite statements, key risk indictors at the corporate entity level were set in 2023, as part of risk appetite development. Furthermore, as part of our transition to the Investment Firm Prudential Regime, sustainability and reputational risk formed a key risk and harm scenario in our calculation for regulatory capital adequacy assessments.

Looking ahead to 2024, the Risk team will continue to assess the physical risks of climate change as part of our continued enhancement of our business continuity programme and wider work on operational resilience. With smaller operations in jurisdictions such as Singapore, Japan and Australia we are cognisant of the growing threat of climate physical risks in these regions. As such, we are increasingly integrating measures into our business continuity plans to mitigate potential disruption from extreme climate events.

Sustainability-related standards and regulation

Our horizon scanning for developing regulation and maintenance of a pipeline of regulation includes sustainability- and climate-related regulation. This ensures that activities to comply with requirements are implemented and coordinated across the business.

Employee performance management

Our performance management process and behaviour framework is the practical application of our Federated Hermes Pledge, and seeks to ensure that our cultural aspirations are reinforced. Our philosophy is to reward individual contribution, as demonstrated by the delivery of enduring, responsible results (the 'what') aligned with our business strategy, values and behaviours (the 'how'), which serve the best interests of our clients, their investors and our shareholders while enabling the business to grow to its potential.[1]

As part of the process, performance objectives are set at the start of the performance year and reviewed biannually to assess progress, achievements, and areas for development and growth. This ultimately supports improved organisational performance. To encourage a focus on meeting the needs of clients, their investors, and our shareholders, all individuals are rated equally on their technical performance and their behaviours. We are committed to our business purpose of enduring, responsible wealth creation that enriches investors, and, where possible, society and the environment while being at the forefront of developing industry best practice. Part of this is ensuring that our performance management process, behaviour framework and Remuneration Policy incorporates consideration of stewardship and the integration of enduring, responsible performance and risk in both our firm's investment activities and its wider operations. This is further supported by the co-investment of deferred bonuses in funds to align employees to longer term investment performance after the bonus has been awarded. In particular we aim for the following:

- To incentivise senior management to drive our strategy and initiatives in line with our business purpose of enduring, responsible wealth creation and ensure that through appropriate stewardship it informs all of our firm's key business and operational processes.
- To promote best practice integration of investor stewardship and ESG factors including the delivery of sustainable outcomes in the investment process and decision making.
- To encourage all employees to develop responsibility objectives as appropriate for their role.
- For sustainability risks to be considered as part of our risk reporting, and for performance against risk appetite and sustainability risks to form part of the Chief Regulatory Officer & Head of Government Affairs annual risk adjustment report. Also, to ensure that adjustments can be made to bonus pools and individual outcomes if the company is operating outside of its risk appetite.

Investment risk management

Risk prioritisation

We consider all material investment factors, including risks and opportunities related to climate change. A risk is considered material if it ultimately impacts the financial performance of an investment. While the most pressing material risks are those that will crystallise in the short term, we strive to deliver enduring, responsible wealth creation for our investors. This means that our definition of materiality may be wider than others. With regards to climate risk, our investment teams analyse the potential impacts on investments in the short, medium, and long term to identify material risks and opportunities. Understanding climate risk and opportunities (in particular for companies in carbon intensive sectors or sectors that provide solutions) is therefore a key part of our investment analysis.

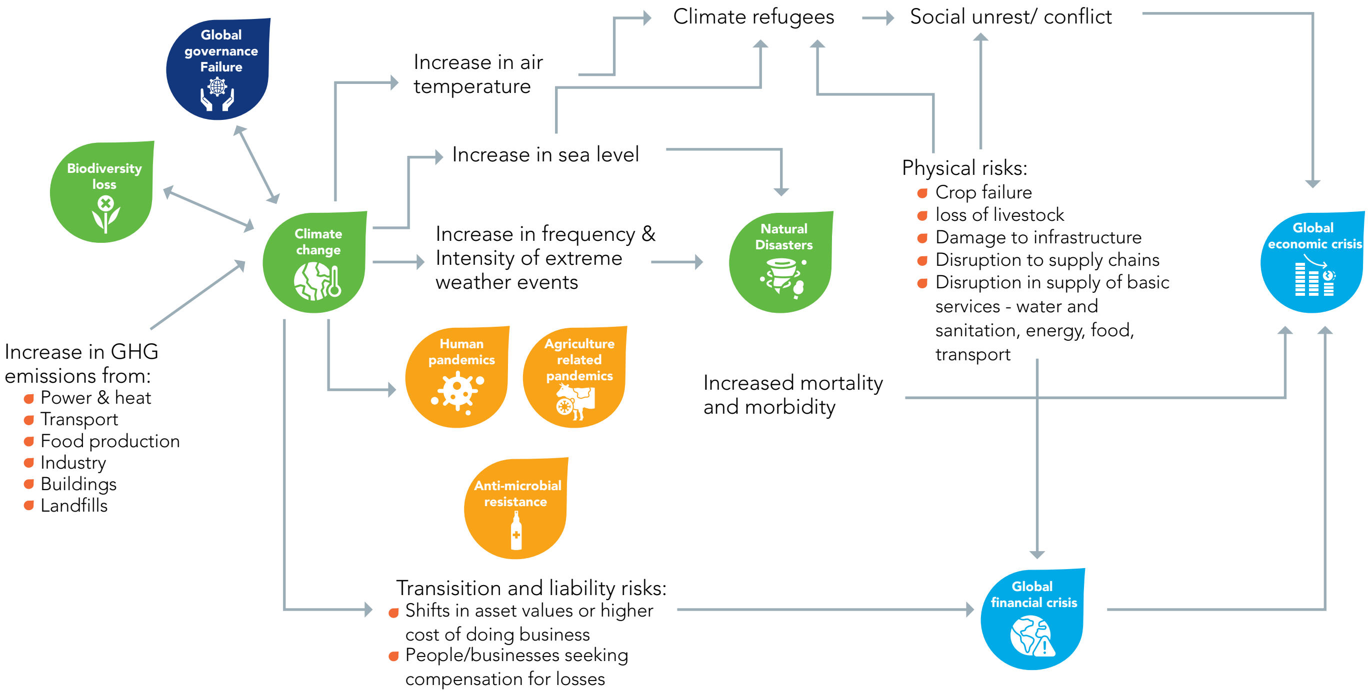
The systemic nature of the risks posed by climate change and nature degradation require a tailored approach to risk identification and mitigation. To truly address risks, collective and coordinated action will be required to provide solutions. Asset managers, working in conjunction with other stakeholders, must play a role in mitigating these systemic risks to ensure a well-functioning financial system, which is key to our being able to generate enduring, responsible wealth for our clients.

We seek to take an integrated systems-based approach and prioritise and respond to the risks that are most likely, impactful, and interconnected in nature. The key climate- and nature-related risks we take into consideration across our investment risk, engagement and advocacy work are informed by the latest academic research from the World Economic Forum Global Risks Report and the Centre for Risk Studies at Cambridge University.[2] The figure below illustrates the interconnectedness of climate change action, one of our top engagement and advocacy themes, with a range of other issues.

[1] For more information, please see our Remuneration Policy: https://www.hermes-investment.com/ukw/remuneration-policy

[2] University of Cambridge and Citi GPS, 'Systemic Risk: Systemic Solutions for an Increasingly Interconnected World', (April 2021); World Economic Forum, 'Global Risks Report 2024' (January 2024)

Figure 8. Cambridge University diagram of the cascading effects between systemic risks



Source: University of Cambridge and Citi GPS Systemic Risk Paper, as at 30 April 2021.

This systems-based approach informs all three elements of our strategy – ESG-integrated investments, engagement, and advocacy. Part of our horizon scanning exercise in 2022 included a review of recent academic reports to ascertain the key climate- and nature-related risks to take into consideration across our engagement work.

Climate change is one of the key medium- to long-term risks that we factor into our investment analysis and engagements. We also recognise that it is becoming more relevant over shorter timelines. Across our assets under management, both in the public and private space, we engage with the most material emitters that are misaligned or exposed to significant transition risks, to help them reach the 1.5°C target. Whilst we recognise the systemic nature of climate risk, we also recognise that our assessments must be tailored to individual companies or assets as the risks they face will be impacted by factors such as sector, geography, and business model. Taking an active approach is a central part of our investment proposition.

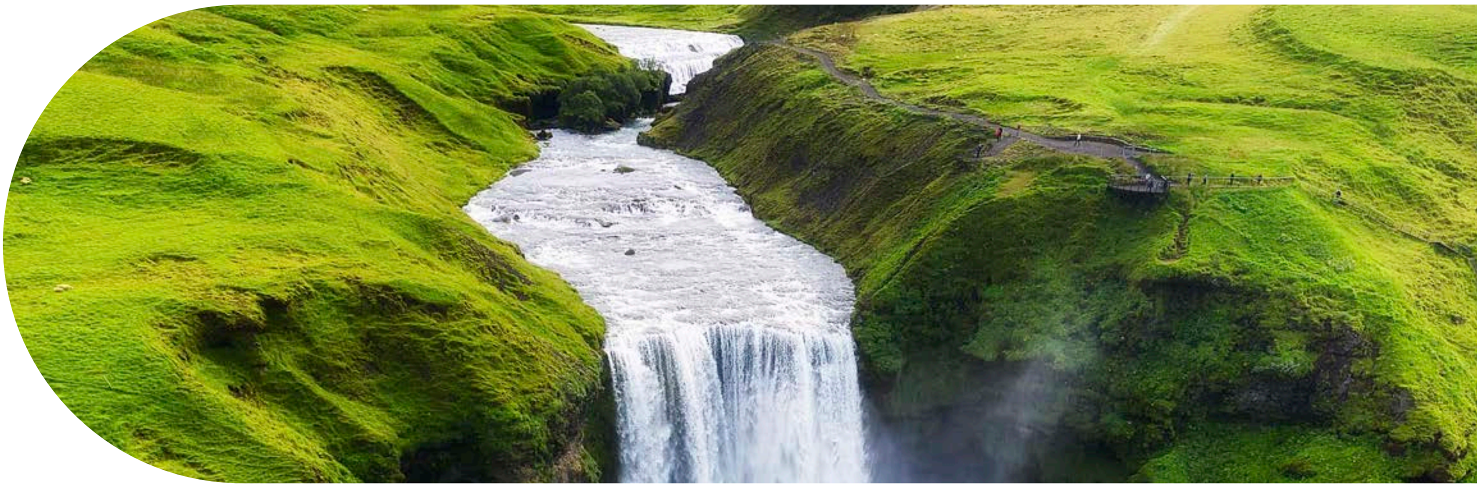
During 2023, nature-related issues also continued to be a priority in our engagement and advocacy activities. In our investment activities, all of our investment strategies integrate consideration of material E, S and G issues. We have also started to explore impacts and dependencies on biodiversity with the investment teams primarily using the ENCORE tool, which provides information on how the different GICS (“Global Industry Classification Standard”) sub-industries both impact and depend on nature. During 2024, we will continue to enhance our approach to other nature-related issues, with a focus on biodiversity in line with our commitments as a signatory of the Finance for Biodiversity pledge.

Risk identification

It is the responsibility of our investment teams to effectively integrate relevant and material ESG factors and insights from engagement into their investment processes. The investment teams identify and assess material ESG risks and opportunities at both industry and issuer level, in order to identify areas for deeper analysis that are specific to the issuer. Each investment team integrates this in a bespoke approach that is compatible with their investment process and style, building on the baseline approach for each asset class that we set out below to identify and mitigate material climate risks. Our fund managers have discretion on all investment decisions. We believe that ownership of this process by our investment teams, with the support of the Responsibility Office, ensures that material ESG factors including climate considerations are fully integrated into investment analysis and decision making rather than considered in a siloed manner.

The investment teams stay informed through internal information sharing, discussion and debate across and between teams, and through more formal initiatives such as our Sustainability Investment Centre (“SIC”). The SIC supports the development of our firm’s responsible investment capabilities. It facilitates monthly conversations between teams across the business to pool the best ideas in the sustainable space and supports our focus on enduring, responsible wealth creation.

The ESG Integration team within the Responsibility Office also works closely with all the investment teams to help identify material ESG issues, including those related to climate and nature, that are specific to the investment manager’s strategy. The ESG Integration team organises sector-level knowledge-share sessions between EOS and the investment teams and also works with the investment teams to develop frameworks which assess the materiality of ESG risks at the company level.



Finally, the ESG Integration team obtains data from third-party providers to help analyse ESG related risks and opportunities including relating to climate and nature. Some of these datasets are supplemented in our proprietary tools by insights gleaned from our engagement with the company and are also used by analysts and engagers in their company research and portfolio analysis.

Monitoring this information informs our engagements, while engagement insights inform our investment decisions. Our fundamental research benefits from our ongoing dialogue with investees, as well as that between our public-markets investment teams and EOS. We invest time and resources to encourage companies to strengthen their governance of climate change related issues, give our views on strategy to implement business models that are aligned with the Paris Agreement and encourage companies to take a long-term view on identifying and mitigating transition risk. The depth and breadth of engagement carried out by our public markets stewardship team in EOS is significant, therefore enabling a more informed assessment of company positioning in relation to peers. The insights we glean from these interactions help us to better understand a company's complex strategic challenges.

We aim to understand both a company's contribution to climate change and its exposure to related risks and opportunities, which should allow us to play a role in encouraging firms both to mitigate transition risk and to reduce the systemic risks arising from climate change by lowering their emissions, ultimately helping us to serve our clients. Through our risk management approach described below, our investment teams are able to assess the potential size and scope of identified climate- and nature-related risks.

The Risk team is responsible for the daily oversight of market risk across Federated Hermes, as well as the oversight of the underlying portfolio managers' adherence to their pre-defined/client-agreed investment processes. All our investment activity is supported by our Risk team and Responsibility Office, which operate and function independently from the investment teams, and with separate, independent reporting lines to the GOC and, ultimately, the Boards of our regulated investment managers.

Regular meetings are held with the investment teams to ensure proper coordination and integration of ESG factors and engagement insights. The Risk team has also been effective in providing a second line of risk management as new issues emerge.

As we describe below, each asset class has a tailored approach to identifying, assessing, and seeking to mitigate climate-related risks.

Public markets

Assessment and Integration

Our experience suggests that a systematic engagement approach, combined with tried and tested methods of escalation such as collaboration or shareholder meeting interventions, is needed to accelerate change at companies. Driving change through engagement is one side of the coin – effective integration of stewardship insights into investment decisions is the other.

All of our public markets strategies integrate climate considerations and engagement insights into their investment processes and decision making. We believe in developing processes that are relevant to the investment strategy, and therefore, the method of this integration can vary by investment team. Climate-related data and engagement insights can be a component of a screen, a source of ideas, an input into fundamental analysis or an adjustment to valuation drivers and/or a portfolio construction factor.

To support all our investment teams, we continue to add tools and datasets and participate in research to better understand and continue to refine our process of integrating climate risk management into every stage of the investment process from inception of new strategies through to day-to-day portfolio management. Integration is facilitated by a range of tools (proprietary and third party) and information, including from our own engagement activities.

The primary means through which we monitor and measure the climate-change exposure of our investment portfolios is through our proprietary **Carbon Tool**, which measures a fund's carbon footprint relative to its benchmark and calculates its carbon efficiency/intensity. As well as providing a carbon heatmap, the tool enables portfolio managers to stress-test the resilience of our portfolios to a range of carbon prices, identify whether high-emitting companies in the portfolio are being engaged with or whether engagement needs to be initiated, and understand the progress on any climate or wider environmental engagements already underway.

The information also helps increase our investment teams' awareness of carbon-related risks, which can lead to updated valuations and potentially change investment decisions.

Figure 9: Carbon footprint – portfolio dashboard

Source: Federated Hermes, as at 31 March 2024. For illustrative purposes only.

Our **Environmental Tool** assesses both portfolios and companies on their carbon, water and waste performance. It also looks to quantify the environmental cost of the impact via the following six lenses: carbon, water, waste, air pollutants, land/ water pollutants and natural resource use. In addition, we have incorporated the temperature alignment of portfolios and companies alongside exposures to carbon intensive sectors, namely fossil fuels, mining and thermal coal.

Figure 10: Environmental Tool – Portfolio dashboards

Source: Federated Hermes, as at 31 March 2024. For illustrative purposes only.

Through these tools, along with additional EOS engagement information, the public equities and fixed income teams have access to third-party ESG data, as well as insights on engagement carried out by EOS with investee companies and the broader investable universe. These sources are a valuable input to the investment process, as well as to the ongoing monitoring of and engagement with companies. We also use other external tools, including Planetrics which allows us to explore transition and physical risk across various scenarios. We also use freely available sources of information such as ENCORE and Forest500 to measure our sector level impact and dependencies on nature and deforestation, respectively.

Investment teams are responsible for conducting appropriate due diligence when they have identified material ESG risks, including any climate- and nature-related risks. That due diligence may include sourcing additional data and communicating with the investee company.

To further enhance and provide support to the investment teams, the Responsibility Office meets with each of the investment teams on a regular basis to discuss various sustainability topics including an analysis on the portfolio's exposure and understanding the progress on mitigating sustainability risks. These discussions may also consider how such risks have been integrated into the investment process and decision-making, including conversations with the investment teams on their consideration of the portfolio's (i) carbon exposure and (ii) the transition targets, and the progress of investee companies within the portfolio. Given our net zero commitment, we monitor the progress of each public markets fund to determine whether each fund is increasing the proportion of Paris-aligned investments through engagement to understand the implications for our firm level targets. We use the framework set out in our Climate Action Plan to categorise investments.

Over the last year, we have started to explore the investment teams' exposure to commodity-driven deforestation, focusing on palm oil, soy, cattle products, and timber, pulp and paper. This has been primarily through Forest 500, SPOTT and Trase Finance data, alongside analysis of sectors at risk as defined by Global Canopy. In line with our commitment to strive to eliminate commodity-driven deforestation from our portfolios by 2025 at COP26, in 2023 we published our first reporting on deforestation risk assessment and mitigation activities across our public markets, real estate, infrastructure and direct lending AUM. In public markets, in that report, we disclosed the proportion of our AUM which is on the Forest 500 list. Global Canopy's Forest 500 list ranks the most influential companies driving tropical deforestation. The list focuses on the 350 companies with greatest influence on tropical deforestation, based on their exposure to forest-risk commodities, and the 150 financial institutions which are providing the most finance to them. It ranks them based on the strength and implementation of their commitments on deforestation and human rights. We also looked at the engagement coverage of these companies on the issue of deforestation. Approximately 50% of names held by our public markets' strategies on the Forest 500 list were being engaged on deforestation as at 30 September 2023. In 2024, we will continue to enhance our deforestation exposure analysis and reporting in public markets as data availability improves.

We have also started to explore impacts and dependencies on biodiversity with the investment teams primarily using the ENCORE dataset, which provides information on how the different GICS sub-industries both impact and depend on nature. This is an important lens through which we identify companies for engagement.

Sustainability-aware investors should not rely on quantitative ESG data alone. The information provided by companies may not be comparable with peers. In addition, it is often backward looking, updated infrequently and with a time lag. As such, engagement activities and voting information can be used by our teams to provide a forward-looking view of a company's performance on climate and nature risks and opportunities. The information we gather through stewardship enables us to develop a more comprehensive view of both the climate risk and opportunities a company is exposed to and to factor this into valuations and investment decisions. Such assessments are not a one-off but rather form an ongoing feedback loop. The extensive nature of EOS' engagement allows us to better assess a company's position in relation to its peers and set engagement objectives that are aligned with best practice for the companies in EOS' engagement programme and the companies engaged by the dedicated engagers in the investment teams.

As well as accessing EOS' engagement portal – which includes the engagement history and progress against live objectives for companies that have been engaged by EOS or by the dedicated engagers in the investment teams – and discussing specific companies with the relevant EOS engager, portfolio managers can, and are encouraged to, attend engagement meetings with the engagers. The benefit of these joint meetings is substantial and results in more robust engagements that focus on the relevant and material E, S and G risks and opportunities. Our investment teams also regularly discuss sustainability issues with company management directly.

Our Responsibility Office is tasked with monitoring and overseeing every investment team's integration approach. To that end, the Responsibility Office meets with every investment team on a regularly the portfolio holdings from a sustainability point of view and flag, if necessary, particular holdings which our third-party ESG data vendors might have highlighted as controversial. As such, the Responsibility Office and the investment teams regularly use our proprietary sustainability and stewardship tools to review the sustainability performance and engagement coverage of holdings in our funds.

Whilst many of the tools and approaches we use are shared across our public market strategies, some of our strategies layer additional approaches on top of this:

- **Biodiversity Equity Strategy:** The strategy aims to achieve long-term capital appreciation by investing in a concentrated portfolio of companies that are best in class and are providing solutions to avert loss or materially mitigate risk to biodiversity. The team have extensively researched the major regional and global threats to biodiversity and have defined six investable themes.[3] Each of these themes has multiple sub-verticals that are aligned to specific SDGs. As well as investing in companies that offer solutions to the biodiversity crisis, we also engage with transitioning companies.
- **Impact Opportunities Equity Strategy:** The strategy aims to generate long-term outperformance by investing in companies succeeding in their core purpose: to generate value by creating a positive and sustainable impact that addresses the underserved needs of society and the environment. It is driven by thematic research focused on megatrends and the team's nine impact themes,[4] as well as bottom-up fundamental analysis. Our thorough analysis of impact and financials ensure a high bar for positive impact alongside investment potential. Our proprietary impact database quantifies company impact to ensure traceability and accountability, allowing us to monitor progress and report to clients.
- **Climate Change High Yield Credit Strategy:** The strategy aims to outperform the global high-yield market through high-conviction investment in companies with strong fundamentals that also demonstrate the potential to decarbonise and transition to a low-carbon world. The team seek companies that have the willingness and ability to make a positive impact on the planet, whilst excluding companies involved in activities believed to be unsustainable or unethical. To determine a company's progress towards decarbonisation and the materiality of its impact, the team begin by analysing an aggregate of historical climate change data and scores. They then supplement the forward-looking perspectives of our credit analysts and engagers, including engagement insights. This enables them to assess each company's climate-related risks and its progress towards decarbonisation and potential impact. Designed by the Sustainable Fixed Income team, our bespoke framework – the Climate Change Impact ("CCI") Score – conveys a company's willingness to decarbonise, the potential to reduce its carbon footprint and the materiality of that decarbonisation path. These scores are key to issuer selection and sizing within the strategy. Dedicated engagers in the Fixed Income team, supported by EOS, seek positive action on climate change. The strategy will not hold a company's credit where engagement on climate change transition has failed.
- **SDG Engagement Equity Fund and SDG Engagement Credit Fund:** Our SDG Engagement Equity strategy and SDG Engagement High Yield Credit strategy seek to achieve a meaningful social and/or environmental impact as well as a compelling return through investing in and engaging with companies to drive positive change in line with relevant SDGs. The SDGs provide an ideal framework to identify ex-ante potential for creating positive societal and environmental change through engagement to create more impactful and sustainably profitable companies. Given the added focus on engagement for these strategies and bespoke holdings, we have dedicated engagers based in the relevant investment teams who focus solely on these strategies and work closely with EOS to ensure a consistent approach. All investments are formally reviewed by the lead manager and lead engager, while the relevant analysts and team members also provide input every six months. These meetings investigate whether the original engagement thesis is still valid and also measure progress towards any specific objectives.
- **Nature-based Solutions ("NbS"):** We are collaborating with Finance Earth, the UK's leading environmental impact investment advisory firm, on the development of a UK Nature Impact Fund. This private markets-based, blended finance strategy has been designed to help address the climate and biodiversity crises in the UK. The strategy will seek to invest into high-integrity NbS assets across land, coasts, rivers, and sea in the UK. It will be directly informed by the UK's leading capabilities across climate science and ecology and will invest into both NbS real assets (nature restoration projects) and impactful businesses operating across the nature restoration value chain. It aims to produce attractive risk adjusted returns through direct investment into the recovery of nature in the UK and support key targets and objectives set out by the UK government, such as protecting 30% of UK land by 2030, unlocking infrastructure and new housing and "levelling up" by creating skilled green jobs across rural areas and coastal communities.

[3] The team's six themes are: Climate change; Deforestation; Land pollution; Marine pollution and exploitation; Unsustainable farming; Unsustainable Living.

[4] The team's nine themes are: Circular Economy; Education; Energy Transition; Financial Inclusions; Future Mobility; Food Security; Health and Wellbeing; Impact Enablers; Water.

Public markets – Engagement

Engagement is a crucial element of our approach to managing both climate change and nature-related risks and opportunities in public markets.

Our approach to engagement is driven by our purpose and investment beliefs. We believe that the purpose of investment is to deliver enduring wealth creation, by investing responsibly over the long term– through effective stewardship and the integration of material sustainability factors – is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors. We aim to generate enduring, responsible wealth creation for the end beneficiary investors, encompassing investment returns and their social and environmental impact. As a result, our engagement is outcomes-driven and focused on ensuring that the companies we invest in are aiming to deliver enduring wealth creation, by investing responsibly. We are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies in public markets. We believe that this approach delivers the best results for our clients and end beneficiaries. The majority of our engagement in public markets is carried out by our stewardship team for public markets, EOS. The investment teams also carry out engagements themselves, and some have dedicated engagers to complement the investment strategy, such as in our SDG Engagement funds (described above).

We adopt a systematic approach to identifying companies for engagement. We select companies and tailor the intensity of engagement based on the size of our investment, materiality of the risks and issues and feasibility of achieving change through engagement. As part of this process, we use our own proprietary carbon and environmental tools to systematically assess which of the holdings in our funds are exposed to material carbon and water-related risks, therefore material climate and nature-related transition risks. This informs the selection of companies for EOS' engagement programme. As we describe below, we also take into consideration our net zero interim targets. Engagement coverage, including engagement on climate- and nature-related issues, therefore varies across our funds.[5]

[5] These figures refer to holdings in our managed funds only.

Our public markets dialogue with investee companies is primarily conducted through in-person meetings, calls, letters or emails, either directly or as part of a collaborative group. We see value in both direct and collaborative engagement, and it is the combination of both which helps us to influence issuers and borrowers and to carry out effective stewardship. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration. More information on how we prioritise and conduct our engagements is available in our Stewardship Report 2023.

Engaging on climate change

Our Climate Change Expectations for investee companies set out very clearly our rationale for believing climate change is a material issue – and six key expectations of companies that range from setting science-based targets to having a positive public policy position on the issue and committing to disclosing in line with the TCFD.

Engagement is a crucial element of our approach to managing climate change risks and opportunities – and climate change is a specific engagement focus in EOS' public markets engagement programme. In 2023, we continued our engagement on aligning corporate targets to the goals of the Paris Agreement to limit warming to 1.5°C.

Responding to client input and internal and external research, we increased our focus on requesting that companies publish climate transition plans aligned with 1.5°C and developed internal capabilities for the assessment of transition plans. We also consider how our engagement can support companies to play their part in achieving the SDGs. In 2023, EOS and investment team engagers engaged on 614 objectives that were linked to SDG 13 (Climate Action) for assets held in our funds.

Climate change continues to be one of the biggest client priorities for long-term value creation through stewardship. Our engagement remains focused on companies having a strategy and greenhouse gas reduction targets aligned with the Paris Agreement, seeking to limit climate change to 1.5°C.

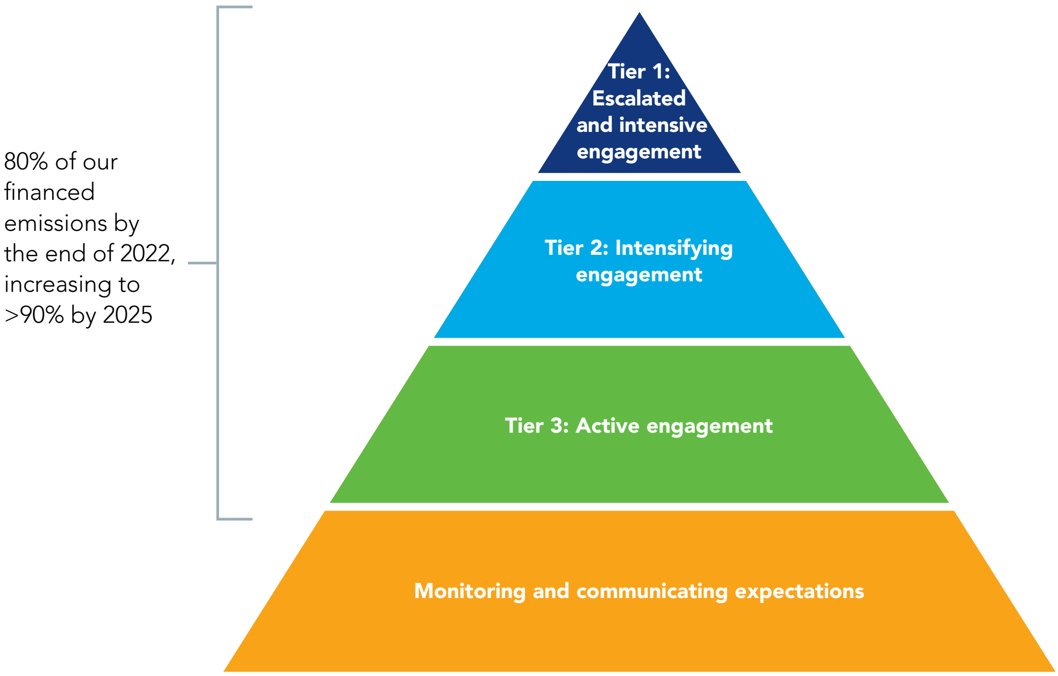
For example, EOS have been engaging Sika, a Swiss chemical company, since 2021 on setting science-based targets for its Scope 3 emissions and defining a net-zero pathway. In 2023, the company announced a full Scope 3 near-term emissions reduction target and has committed to submitting a target for Science-based Targets initiative validation within two years. EOS have since been asking the company to develop a credible transition roadmap for how it expects to achieve these targets, including which technologies and products it expects to implement and innovate.

We also engage for companies to ensure that direct and indirect climate-related policy engagement is consistent with climate ambitions and the 1.5°C goal. Climate change and the energy transition will also have significant impacts on society and therefore companies must explicitly consider how their actions, or lack of, on climate change will negatively influence stakeholders. Companies should seek to mitigate the social impacts of transition plans to streamline their delivery and contribute to a just transition. In 2023, we also enhanced our dialogue with companies, auditors, and regulators on the adequate consideration of climate-related factors in the financial statements and the role of audit firms should play.

We believe it is essential for companies to address the risk that key accounting assumptions and judgements may not reflect likely outcomes as a result of change through the energy transition and climate change. Existing accounting standards allow for a greater consideration of the financial impacts that companies will incur due to climate change than has been evident to date.

As we set out in our Climate Action Plan, engagement to support our interim targets will be prioritised based on the materiality of financed emissions and the degree of misalignment to the goals of the Paris Agreement. EOS have developed an in-house Paris Alignment methodology to assess the extent to which a company's climate change ambitions are aligned to the 1.5°C goal of the Paris Agreement. The methodology assesses alignment of a company's greenhouse gas targets and associated emissions trajectory to a 1.5°C-aligned decarbonisation pathway, applicable to the relevant sector and geography where possible. Companies will be placed into different categories of alignment: Not aligned; Committed to net zero; Aligning to 1.5°C; Aligned; and Unscored.

Figure 11. Structuring climate change engagement



Source: Federated Hermes, as at 31 March 2024.

Companies that are not categorised as "Aligned" will receive engagement that seeks to improve the quality of their climate strategy and therefore their alignment status. In general, EOS target 2-3 years for companies to move from one level to the next level, depending on specific regional or sectoral challenges. If the pace of change is slower than expected, they will consider using a range of escalation tactics.

Engaging on nature & biodiversity

Engagement on nature and biodiversity is a keyway for investors to address their nature-related risks and impacts, especially given the complexity of the topic. Federated Hermes signed the Finance for Biodiversity Pledge in 2020 and we continue to prioritise nature-related issues in our stewardship activities.

[6] FHL, "Our Commitment to Nature" (October 2021)

We expect companies to address marine and terrestrial biodiversity loss across their value chains, in line with the COP15 mission to halt and reverse biodiversity loss by 2030. Given the high impacts and dependencies of the food system on biodiversity and ecosystem services, retailing and production of food remains a priority for our engagement. Other priorities include, but are not limited to, mining and agrochemicals. We expect companies to reduce their impacts on biodiversity across the value chain, following the mitigation hierarchy, and aim for a net-positive impact on biodiversity. Depending on the company, engagement could cover issues including deforestation, water-stress, regenerative agriculture, antimicrobial resistance ("AMR"), sustainable proteins and chemical runoff management. We expect companies to identify, assess and measure their impacts and dependencies on biodiversity and ecosystem services, in line with the TNFD recommendations. They should use the insights from the TNFD assessment to develop strategies, targets and actions plans focused on their most material risks and impacts. Please refer to the EOS white paper on biodiversity, Our Commitment to Nature,[6] for further information about our expectations with respect to nature and biodiversity, and how that informs our engagement with such companies.

Tracking progress

We track the progress and the achievement of our public market engagements using our four-stage milestone strategy.

Milestone 1: Our concern is raised with the investee company at the appropriate level.

Milestone 2: The investee company acknowledges the issue as a serious investor concern, worthy of a response.

Milestone 3: The investee company develops a credible strategy to achieve the objective, or stretching targets are set to address the concern.

Milestone 4: The investee company implements a strategy or measures to address the concern.

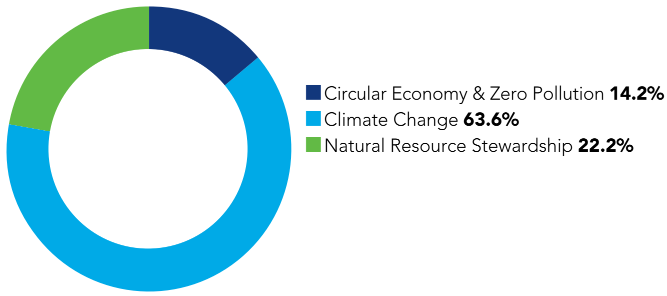
Our milestones are specific and measurable, which helps us identify progress towards achieving the objective. An engagement objective typically takes up to three years to complete but may take longer depending on factors that include the nature of the issue and how receptive the company is to engagement. In 2023, 35.5% of all EOS and investment team engagers engagements – on behalf of both third-party clients and Federated Hermes products – were related to environmental topics. For engagement on investments held by our funds, this was 32.1%. The bar charts below show completed milestones during 2023.[7]

> **An engagement objective typically takes up to three years to complete but may take longer depending on factors that include the nature of the issue and how receptive the company is to engagement.**

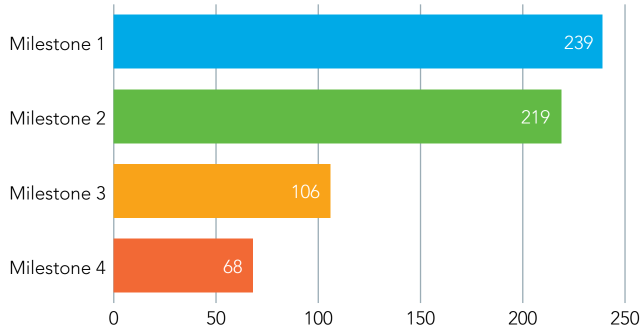
For example, 239 environmental objectives (or 149 for investments in our funds only) saw Milestone 1 completed during 2023. 68 environmental objectives (or 37 for investments in our funds only) were fully achieved during 2023.

Figure 12: EOS and Federated Hermes investment team engagers engagements on environmental topics on behalf of all clients (including our funds)

Environmental topics comprised 35.5% of our engagements in 2023



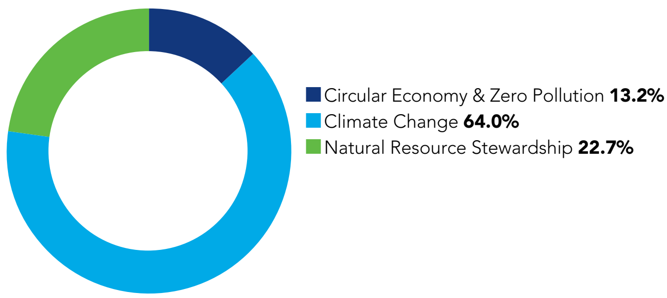
Progress against environmental objectives



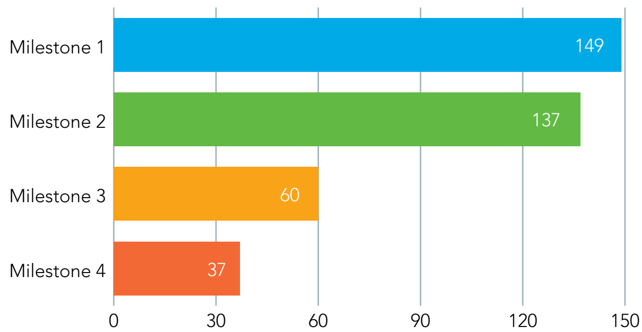
Source: Federated Hermes and EOS data, as at 31 December 2023.

Figure 13. EOS and Federated Hermes investment team engagers engagements on environmental topics on behalf of our funds only

Environmental topics comprised 32.1% of our engagements in 2023



Progress against environmental objectives



Source: Federated Hermes and EOS data, as at 31 December 2023..

[7] There can be overlap between each row, as the same objectives can have multiple milestones completed in the timeline.

CASE STUDY

LyondellBasell

As part of Climate Action 100+ ("CA100+"), a collaborative engagement of more than 370 investors and their representatives seeking greenhouse gas emissions reductions from the world's largest emitters, EOS co-lead on the engagement with LyondellBasell Industry NV ("LyondellBasell"), a multi-national chemical company.

After LyondellBasell published its first sustainability disclosures and CDP reports in 2017, we began engaging with them to encourage them to set more ambitious climate targets. In Q2 2021 we met with the CEO and other senior managers to discuss the company's progress towards disclosing sustainability targets, including its planned science-based targets and a net-zero ambition.

At the company's 2021 annual meeting, EOS led contributions by eight institutional investors who questioned the company's climate progress. As a result of this discussion, the company indicated its willingness to make further commitments.

In Q3 2021, we welcomed the company's release of its climate strategy, setting a Scopes 1 and 2 net-zero ambition for its global operations by 2050; a 30% absolute reduction of Scopes 1 and 2 emissions by 2030; and a goal to source a minimum of 50% of its electricity from renewable energy by 2030. In addition to its climate goals, LyondellBasell prioritised actions in its 2020 sustainability report to help eliminate plastic waste from the environment including waterways and oceans, and to advance a circular economy.

LyondellBasell has set out a pathway towards achieving its 2030 target. We have also encouraged LyondellBasell to collaborate with industry peers with the aim of developing a science-based sector-wide approach to Scope 3 emissions. In late 2022, LyondellBasell announced that it would increase its ambition for 2030 greenhouse gas emissions reduction target for Scopes 1 and 2 emissions from 30% to 42%, relative to a 2020 baseline. It also established a 2030 Scope 3 greenhouse gas emissions reduction target of 30%, relative to a 2020 baseline, and in accordance with guidelines from the Science Based Targets initiative ("SBTi"). It will submit its climate goals to the SBTi to be validated.

In July 2023, we spoke to their audit committee chair, chief accounting officer, and chief sustainability officer, giving an overview of our recommendations regarding climate-aligned accounts and audit. The company confirmed that it had initiated an ESG dashboard to track progress at the board level, with their external auditor providing limited assurance. The company has agreed to meet with us in 2024 to discuss our concerns regarding the disclosure of assumptions, consistency across reporting, and evidence that the auditor had assessed climate in the context of critical audit matters.

For listed equities, our voting and engagement are integrated as part of our overarching approach to stewardship. As such, our voting decisions – as well as EOS' recommendations to third-party clients on voting decisions – are informed by the insights and experience of engagement with the investee company. More information on our approach to voting is available in our Stewardship Report 2023.

We have had formal climate change voting/voting recommendation policies in place since 2019 targeting climate-change laggards. We continue to use the Transition Pathway Initiative ("TPI") assessment, setting a threshold of Level 4 for all European and Australian companies, coal mining companies, oil and gas companies, electricity utilities and auto companies, or Level 3 for all other companies. We have also identified several other areas where we believed a company's actions were materially misaligned with the goals of the Paris Agreement, including companies contributing to coal expansion and deforestation.

Our aim is to deliver value for clients, not to seek headlines that could undermine the trust we believe should otherwise exist between a company and its owners. As a result, we prefer to conduct engagement privately, rather than taking a public route when seeking change at companies. In our experience, this is the most effective way to achieve positive change, as it allows us to build trusted relationships with companies, which results in more open and frank discussions.

However, on the occasions that we are not able to achieve success privately, we adapt our engagement approach. When doing so, we would normally notify a company in advance. This may include voting against (or EOS may recommend voting services clients vote against) a resolution or management/the board at a company's AGM. We consider this choice carefully as we only want to use this technique if our usual engagement has consistently stalled, and we are not confident that the company is taking any action to address our concerns. Similarly, we have demonstrated a willingness to use the full range of rights that we have at our disposal, including the tabling of resolutions at shareholder meetings when necessary or collaborating with others to co-file shareholder resolutions. All of these actions are understood to deliver long-term sustainable value for our clients.

Climate Action 100+

We collaborate with other investors in our engagement with companies. We seek collaboration where our interests are aligned. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert, and all of these actions are understood to deliver enduring, responsible value for our clients.

Since 2017, the collaborative engagement initiative Climate Action 100+ ("CA100+") has grown to include 700 signatories representing over $68tn in assets under management. Since the initiative's inception, EOS has advised on high-level governance and engagement strategy, as well as leading or supporting a significant portion of company engagement dialogues.[8] In 2023, EOS acted as lead or co-lead engager for 21 companies, while supporting on more than 30 additional companies.

In October 2023, the CA100+ Net Zero Benchmark tracked further progress with 77% of focus companies committed to net zero by 2050 across at least Scope 1 and 2 emissions. Some 93% of companies have now disclosed that there is board oversight of climate change, and 91% have aligned their climate disclosures with the TCFD recommendations.[9]

However, companies need to translate their climate ambition, risk management, and governance into credible decarbonisation strategies. Some 41% of focus companies have yet to disclose the decarbonisation actions they are taking to achieve their targets. And only 2% have already phased out, or are committed to phasing out, capital expenditure in unabated carbon-intensive assets.[10]

The value of strong emissions reduction targets will only be realised if company strategies can effectively transform businesses into something fit for the future. Increased scrutiny of decarbonisation strategies during collaborative engagements was therefore a key trend for 2023. This included encouraging the CA100+ focus companies' own value chain engagements, such as at Hon Hai, which has kicked off a supplier engagement programme to encourage progress on Scope 3 emissions reduction. In April 2023, EOS was invited to visit the Hon Hai production campus in Zhengzhou. As a CA100+ engagement lead, the visit provided us with significant insights into Hon Hai's net-zero commitment and included a presentation of the company's decarbonisation strategy.

For many focus companies, decarbonisation will not be linear, and no single technology offers a complete solution. For example, the chemicals sector requires myriad solutions to decarbonise hundreds of different products, many of which remain nascent. This means that investors and their representatives must employ a holistic lens when engaging with companies, as the desired outcome may not be immediately obvious.

We have emphasised the importance of well-articulated and comprehensive transition plans across the chemicals sector. These go beyond serving investors assessing alignment with the Paris Agreement, because developing a comprehensive transition plan requires companies to confront abatement challenges and develop business models that capture the system transformation expected.

These examples relate to EOS' entire assets under advice ("AUA"). EOS will continue to play an active role in CA100+ and other collaborative climate engagements, leveraging the power of collaborative engagement as an escalation tool, and a way to signal investor consensus on the need for rapid climate action from the world's largest emitters. We will continue to shape efforts to expand collaborative engagement on climate change to additional sectors and companies not covered by CA100+. More information on EOS' 2023 CA100+ engagement activities is available in the EOS 2023 Annual Review.

Collaborative Engagement: Nature

Engagement on biodiversity is increasing and we are working in collaboration with others in the industry to strengthen and streamline approaches, including as co-chair of the Engagement Working Group within the Finance for Biodiversity Foundation.

EOS are also part of the Farm Animal Investment Risk and Return ("FAIRR") collaborative engagement on waste and pollution and antimicrobial resistance ("AMR"). EOS were part of the initial group of investors and investor representatives involved in setting up Nature Action 100, a new collaborative engagement initiative on biodiversity that was launched in 2023. In September 2023, letters were sent to 100 companies asking them to consider nature-related risks and opportunities in their business models and strategies. EOS remain on the steering group for Nature Action 100.

EOS also joined the PRI's Spring collaborative initiative on nature and is a member of the Signatory Advisory Committee for the initiative. The goal of the initiative is to prevent biodiversity loss by engaging companies, with an initial focus on engaging companies on their advocacy work on deforestation. We contributed to the shaping of the Spring investor statement signed by initiative members through engaging companies on their business operations and advocacy work on deforestation. EOS participate in regular meetings with the Signatory Advisory Committee and provided feedback on the methodology to select the companies that will be engaged as part of this initiative. This methodology was used by PRI to make an initial shortlist of 40 cross-sector companies that will be engaged collaboratively by the members of the Spring initiative.

We also engage with companies on water through the Ceres Valuing Water Finance Initiative ("VWFI").

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

[9] Climate Action 100+, "Key Findings"

[10] Climate Action 100+, "Key Findings"

CASE STUDY

Engaging on Deforestation

Deforestation has a material impact on climate change and biodiversity loss. Investors have a critical role to play in halting and reversing deforestation through engagement with companies.

In 2023, we deepened our engagements on deforestation with food and beverage companies, commodity traders and fast fashion companies and have continued to play a role in the collaborative initiative Finance Sector Deforestation Action ("FSDA"). FSDA was launched to support investors who made the commitment to eliminate commodity-driven deforestation through engagement and due diligence at COP26 in Glasgow. It uses data from Forest 500 and Global Canopy to help identify those companies at risk of having links to deforestation. Federated Hermes is supporting these efforts through collaborative engagements with up to 27 focus companies.

We encourage companies to commit to deforestation-free and conversion-free production and sourcing by 2025. The commitment should cover all commodities, regions, and suppliers, including indirect suppliers. We encourage a commitment to achieving full traceability of commodities across all tiers of the supply chain, to demonstrate that the company's value chain is deforestation and conversion-free. There should also be an explicit commitment to respect human rights.

Companies should focus on the implementation of this commitment by articulating a clear strategy for how their operations and supply chain will become deforestation and conversion-free. This includes setting clear expectations for suppliers and creating mechanisms to enforce them. Ongoing due diligence and monitoring of suppliers and operations will be critical for effective implementation. Equally, ongoing collaboration will be necessary to tackle this complex issue.

We had positive engagements with several companies following the letters on deforestation that we sent to the target companies as part of the FSDA group. This included Adidas (a German sportswear apparel company), Yum! Brands (a US restaurant chain), Bunge (a US agribusiness and food company) and Archer-Daniels Midland (a food processing and commodities trading company).

For example, EOS met with the chief sustainability officer of Yum! Brands on multiple occasions as part of our direct engagement, and with the FSDA collaborative engagement, and asked the company to increase commodity traceability in its supply chain. It underlined the challenge of tracing the soy in its cattle feed back to its origin. We shared some deforestation tools that the company could use to help improve traceability, which it agreed to consider.

EOS also engaged with Brazilian meat supplier JBS for a second time through the collaborative FSDA engagement to discuss enhancements to its deforestation due diligence process.[11] Although the company has a commitment to achieve 100% traceability of its supply chain by 2025, we raised our concern about a recent controversy related to the purchase of cattle by JBS from a rancher involved in deforestation. We challenged the company on the lessons learned and how it could prevent this from happening again. The head of sustainability said that the due diligence process that feeds into the purchasing system had been enhanced to include a reputational assessment of the supplier, its subsidiaries and related companies, the individuals that control them, and their family members. We asked the company to confirm if its data on supplier due diligence was independently verified.

We continue to engage with companies that are exposed to deforestation risks. Our vote policy has included a deforestation dimension for several years, targeting those companies and financial institutions that are lagging on deforestation disclosure and risk management. In 2023, we voted against the election of a director at financial institution AIG due to deforestation concerns.

[11] At time of reporting, JBS was not a holding of our funds.

Private markets

In private markets, ESG data is often less readily available. As such, the teams are heavily reliant on their due-diligence process and have developed their own frameworks for assessing E, S and G risks within their investments.

Private debt

The private debt teams consider ESG behaviours when carrying out credit analysis for each potential investment. ESG considerations are a fundamental part of the research presented, and discussed, for all new transactions. Material ESG issues will often form part of engagement with the company prior to investment and once invested.

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

Private markets

In private markets, ESG data is often less readily available. As such, the teams are heavily reliant on their due-diligence process and have developed their own frameworks for assessing E, S and G risks within their investments.

CASE STUDY

Direct Lending

Our direct lending team reviewed an opportunity to lend to a Swedish producer of polyethylene film and sustainable high-performance film. The company's differentiated product portfolio, with a clear focus on ESG leadership through circular plastic technologies, pioneering recycling processes and closed loop solutions presented a compelling prospect. The proposed debt financing was to support the expansion of the company's product offering, manufacturing facilities and geographic footprint via a strategic North American acquisition. To ensure the borrower continued on its journey to improve sustainability practices, an ESG margin ratchet was included in the loan documentation which, depending on the meeting of certain ESG-related criteria, impacts the quantum of interest paid by the borrower on the loan. The criteria included the reduction of greenhouse gas emissions, the percentage of recycled materials used in their production and their employee engagement index score.

Real Estate

Our real estate business has embedded climate risk management throughout their asset management and investment processes since 2006. The focus has been primarily on mitigating the environmental impact of our operations and developments.

This includes an initial screening, where the team assesses the risks and opportunities for value-add from sustainability characteristics. This is then followed by an ESG due diligence for any new acquisitions, where surveyors and environmental consultants collect relevant data on the buildings to identify risks and opportunities. As part of our due diligence process, the team inquire to understand the level of community and occupier engagement in the assets being considered. The findings then inform the asset-management plans and processes.

The team has developed internal tools and standards, including the Responsible Property Management Standard and the Design Innovation Standard which sets out a series of sustainable guidelines and principles for our project and development managers to follow. This ensures a consistent, start-to-finish approach to sustainable refurbishment and development, making use of key RIBA Stages.[12] The approach also follows BREEAM principles,[13] which adopt sustainable methods of construction to deliver an operationally efficient and sustainable building or refurbishment.

Climate risk continues to be a risk the team take seriously in real estate with the use of external assessment tools employed to examine at an asset level the severity of different physical risk factors. The most material risk factor for our UK assets is flooding and with the continual monitoring and use of flood prevention plan this has reduced the risk to capital. For transition risks, they examine the carbon intensity and the reduction required under different scenarios covering current NDCs, 1.5°C alignment and 2°C alignment.

The real estate team reports portfolios' exposure to climate risk on the surveys submitted to the Global ESG Benchmark for Real Assets ("GRESB") portal every year. Specifically, we disclose details on the resilience of real estate assets to climate-related risks, transition, and physical risk identification.

Since 2019, our real estate team has been part of the Better Building Partnership Climate Change Commitment (along with 22 other signatories) with the aim of achieving net-zero emissions

[12] The Royal Institute of British Architects ("RIBA") Plan of Work organises the process of briefing, designing, constructing and operating building projects into eight stages and explains the stage outcomes, core tasks and information exchanges required at each stage.

[13] BREEAM is the Building Research Establishment ("BRE") Environmental Assessment Method, first launched in the UK in 1990. It sets best practice standards for the environmental performance of buildings through design, specification, construction and operation.

across our real estate portfolios by 2035. We aim to deliver on the net zero aspirations set out in the pathway, with a focus on delivery against four specific pillars of activity: decarbonisation; deliver energy efficiency; stakeholder engagement; and utilise offset opportunities. More information is available under the Metrics and Targets section of this report.

By taking a proactive approach in developing and operating net zero buildings, we intend to reduce the risks of having stranded assets, asset value declines and potential so-called 'brown penalties' (a higher cost of capital for carbon-intensive buildings). Net zero also presents opportunities for market leadership: to generate income resilience for our clients; support and retain our occupiers; and provide long-term value to our stakeholders.

We continue to develop and implement initiatives across our real-estate portfolio that are designed to reduce carbon emissions and to improve efficiencies in our built environment portfolio, making use of new technology and best practice gleaned from our active engagement in peer-group benchmarking.

CASE STUDY

Real Estate – Developing sustainable new buildings

Over the last 12 months, the real estate team have successfully brought over 744,000 sq. ft of new space to the UK market. These new spaces included multi-let office and retail space, industrial buildings, and new homes (both Build to Rent and affordable housing).

This includes:

- 4 Angel Square, NOMA (Manchester)
- One Centenary Way, Paradise (Birmingham)
- Kingston Riding School (Surrey)
- Mercer West Madison East (SOYO, Leeds)
- 11-12 Wellington Place (Leeds)
- Unit 1134, Silverstone Park (Northamptonshire)

Many of these assets add to our successful placemaking schemes in Birmingham, Leeds and Manchester, which bring less utilised areas back to life and enhance city centre amenities, employment opportunities, and public realm offering.

All the above projects were completed in line with our sustainability standards delivering some of the highest quality real estate assets in the UK, which have been designed to ensure that they maintain their capital value over the long term.

The buildings include the following features:

- Decarbonisation of space and water heating
- Integrated use of renewable energy technology
- Electric vehicle charging
- Low energy lighting
- Green travel infrastructure, including bicycle storage and maintenance.
- Smart building technology
- Biophilia (including internal green walls)

This approach has resulted in some of the largest letting deals to occur outside London in the last 12 months with new leases agreed with top international accountancy, law, and engineering firms. Each asset has also achieved excellent to outstanding certification for their sustainable construction and delivery coupled with top rated energy performance certification. Additionally, two of these projects have acted as NABERS Design for Performance pioneers helping to bring a new energy efficiency certification to the UK.[14]

The blueprint set by these new assets is being followed and built upon for the planning and delivery of future assets at these locations and new development locations.

The real estate team are currently developing a robust and ambitious biodiversity strategy to deliver a targeted quantifiable increase in biodiversity and ecosystem service provision (BNG and ENG). This is being enhanced with asset specific actions plans which will enable quantification of environmental performance at both an asset and fund level.

Each asset has also achieved excellent to outstanding certification for their sustainable construction and delivery coupled with top rated energy performance certification.

[14] NABERS is a scheme for rating the operational energy efficiency of UK officers, providing a rating from 1-6 stars. As part of NABERS, developers are able to use the Design for Performance process to target a NABERS Energy rating at the design stage of a new office development or refurbishment and verify performance when the building is occupied.

Infrastructure

Our infrastructure team engages actively with portfolio companies in our capacity as shareholder, board director and committee member on their approach to climate change. We see significant opportunity in the transition to a net zero economy, including both 'greening' our existing infrastructure and allocating capital to transition solutions, such as renewable energy generation and storage.

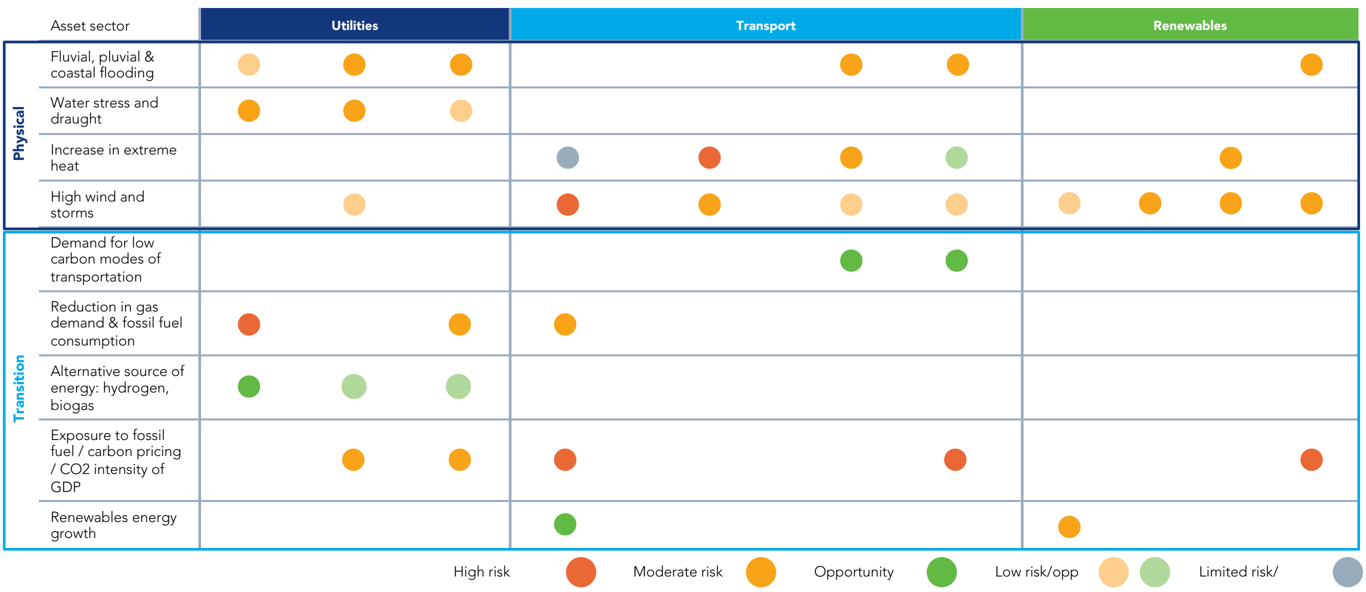
As a primarily minority shareholder, we see the integration of sustainability considerations into governance and strategy from the top down as the most effective means by which to catalyse whole business efforts. At a number of our portfolio companies, our roles at board and committee level have enabled us to successfully collaborate and influence sustainability strategy.

As a sample of our ongoing engagement, in Q4 2023, we recorded 74 sustainability-related engagements. Of these, 38% were direct engagements with investee company management teams. The other engagements were mainly with co-shareholders and through Board Committees. In terms of theme, 24% of engagements were related to net zero and climate risks and opportunities. As part of our annual strategic portfolio and investment reviews, we aim to identify emerging systemic ESG risks which will likely affect, or are already affecting, every asset in our portfolio and, where necessary, undertake further work on such matters, which help us gather comprehensive risk management information.

In 2021, we undertook 5 months of deep dive work in partnership with climate adviser, ERM, focused on scenario analysis for individual assets and risk management of identified risks.

The table below illustrates the primary risks identified across different sectors in our infrastructure portfolio through the 2021 scenario analysis exercise. As anticipated, transition risks are more prevalent and quantifiable in the short term, in particular carbon pricing and revenue exposure to highly carbon intensive industries. The most prominent physical risks being increased storms and fluvial flooding in the medium term and increases in heat in the longer term. Several material transition opportunities were also identified, including increased demand for sustainable products and services, e.g., green transport and potential participation in a future market for negative emissions.

Figure 14: Primary risks and opportunities identified across different sectors



Source: Federated Hermes, as at 31 December 2021.

Using the outputs of our deep dive analysis, we reviewed our stewardship approach with the relevant businesses and set priority focus areas and objectives. We continue to update our climate stewardship objectives annually, as risks and mitigation evolve over the duration of our holding periods, including refreshing our scenario analysis periodically to reflect the most up to date net zero scenarios.

As a follow on to the 2021 work, in 2022, we asked ERM to focus on analysing the potential risks to eight of our largest assets from current and future carbon pricing mechanisms.

The work involved reviewing carbon price mechanisms relevant to each asset to better understand the direct and indirect impacts, the asset emissions that would be captured by each mechanism, and how this could be reflected within asset models.

The outcome of this work was a clearer view on which assets are at risk to carbon pricing mechanisms. An example of this was the proposed inclusion of the maritime sector within the European Union Emissions Trading System and the direct impact to ferry company Scandlines, a company in our infrastructure portfolio, from this. This has facilitated discussions with Scandlines management on potential mitigation strategies, and the inclusion of carbon pricing in capital expenditure decision making and financial analysis.

In 2024, ERM were engaged to undertake a comprehensive review of the climate data used in the 2021 scenario analysis assessment to understand if and how relevant climate-related trends have changed, and their significance for the infrastructure portfolio. The results are expected to be shared in our 2024 Climate- and Nature-related Financial Disclosures report.

CASE STUDY

Infrastructure – Scandlines

The global ferry industry – both passenger and freight – has seen a steady rise in demand over the last few years.[15] However, any efforts to expand capacity also present a conundrum as companies across the maritime transport industry seek to reduce their carbon footprint.

In 2021, Nordic ferry group Scandlines – which is co-owned by a fund managed by HGPE operates one of the world's largest diesel-electric hybrid fleets and launched its first hybrid ferry in 2013[16] – was looking to increase the size of its fleet by acquiring second-hand tonnage ships. However, the group was unable to source vessels with the right specifications or environmental profile. Scandlines embarked on an innovative solution, and two years on it is completing the construction of one of the world's first electric freight ferries, the PR24.

The new ferry will produce zero direct emissions and is due to begin operating on the busy sea corridor between Puttgarden in Germany and Rødby in Denmark in H2 2024. The PR24 requires 25% less energy to operate relative to the company's existing fleet on the route. It boasts the world's largest battery bank to date and can be recharged in 12 minutes. With a capacity of 66 freight units, PR24 will boost the current capacity on the route by up to 23%, helping to meet the rising demand for freight services.

Climate-neutral shipping

The construction of the PR24 will mark a turning point for the shipping industry, paving the way for climate-neutral shipping. "This development is proof that even larger ships can sail completely without greenhouse gas and air pollutant emissions today," says Sönke Diesener, a shipping expert at the German Nature and Biodiversity Conservation Union.

Scandlines and the Cemre shipyard in Turkey – which was contracted to build the vessel – drew on cutting-edge technology to help overcome some of the complexities that accompany such an ambitious project.

Our role

Federated Hermes, as one of three shareholders in the business, worked closely with the Scandlines executive team to ratify and test the investment case for PR24.

Scandlines is a key holding within the infrastructure portfolio and the team at Federated Hermes was committed to ensuring the needs of investors remained at the core of the decision to build the vessel. Collectively both shareholders and leadership worked together to ensure the project was in keeping with the company's overall strategic objectives and sustainability goals.

We seek to lead the industry in the application of sustainable investment principles to the management of infrastructure assets.

As the shareholder member of Scandline's now superseded ESG working group, we provided key input into the development of Scandlines' first public-facing sustainability report in 2021. Published annually, the document is in line with the industry's highest global reporting standards and marked a significant step forward for the shipping group's long-term sustainability agenda.

Subsequently, we played a key role in establishing a full Scandlines Safety and Sustainability Committee, including drafting the terms of reference, which we now chair. Alongside the annual report, the committee provides oversight of and input into Scandlines' broader sustainability strategy and initiatives.

[15] Oxford Economics, 'Economic impact of the global ferry industry' (October 2021)

[16] Scandlines, 'A fleet of hybrid ferries'

Private Equity

Our private equity team assesses sustainability risks and opportunities, including climate change ahead of each investment.

For fund investments, the team reviews the ESG practices of the fund manager, including their approach to climate change. For direct co-investments, we introduced a new process to assess climate change risk in 2023. The investment team involves the private equity ESG specialist when the investment is in a sector identified as high risk by TCFD or Global Canopy (in relation to deforestation). The ESG specialist conducts risk analysis and provides a view which is included in the Private Equity Investment Committee ("PEIC") documentation. The ESG specialist and the investment team review the ESG materials provided by the lead investor, complemented by in-house research or expert calls where relevant. The investment team score each deal for ESG risks and opportunities and report their findings to the PEIC. Investments with significant and financially material climate change risks are declined (typically ahead of being considered by the PEIC), and investments with relevant risks that could materialise during the investment hold are included in an ESG watchlist.

The investment team report to the Private Equity Portfolio Review Committee (a sub-committee of the PEIC) any changes in the ESG watchlist, in relation to both companies which need to be included given that a sustainability risk or issue has materialised and companies that are removed from the watchlist once a risk has been significantly mitigated.

In addition to reviewing risks and opportunities for individual investments, the private equity team also aims to leverage the transition to net zero as a key investment theme. The private equity investment strategy is guided by a thematic investment framework that identifies structural long-term trends we expect to shape the landscape of global economic activity over the next decades. This framework is aligned to the UN's Sustainable Development Goals.

The 'Net Zero Economy' focuses on investments relating to sustainability and the energy transition. This megatrend will capture opportunities that are arising from the convergence of technological progress and demand for new solutions to reduce the impact of human activity on the planet. We summarise our current thematic thinking below:

- Given the significance of climate change across business, consumers and government since our original introduction of the sustainability theme in the early 2010's, we have holistically reviewed our target sectors in light of the required transformation of the economic system to achieve carbon neutrality.
- The transformation to achieve net zero outcomes cut across traditional sectors to encompass companies within 'next generation' energy, the future of food and mobility sectors to the broader production and consumption cycle, including ESG metrics measurement and technology;
- We expect the increasing demand for net zero-aligned products coupled with the competitive advantages of more sustainable supply chains, will create a rich vein of opportunities to be addressed by the private equity market, which this megatrend intends to capture.

CASE STUDY

Private Equity – Envevo

In May 2023, the private equity team completed, alongside Towerbrook Delta, an investment in Envevo, a UK-based specialist engineering company focused on the roll-out of electric vehicle ("EV") charger stations. The company offers turnkey solutions for designing and installing EV connection points across the UK primarily in business-to-business settings (e.g., forecourts, service stations, supermarkets, depots). The company's capabilities cover the full project lifecycle, from concept and design to construction and project management. Higher value-add, white-collar services are all in-house whereas delivery of projects and installation is mostly subcontracted.

The company is a key contributor to the infrastructure development required to transition the UK to net zero. The business plan is supported by significant tailwinds towards EV ownership, including prospective bans on the sale of new internal combustion engine ("ICE") vehicles.

Advocacy: delivering positive industry-wide change

We believe that policymakers have a key role to play in determining the investment risks and opportunities relating to climate change and nature. We engage constructively with regulators and policymakers globally to address environmental, social and other market issues that may prevent the financial system from operating in the best interests of its ultimate asset owners. We often engage directly with regulators and policymakers and aim to be a progressive and constructive voice in the debate. We engage on regulation relating to the investment industry and the assets in which we invest. We contribute to policy discussions both directly and collaboratively. We further advance our engagement activities through both our leading role in global initiatives and membership in various trade associations, which are focused on promoting responsible investment.

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

We are a member of many industry bodies and initiatives around the world and are co-founders of a number of them. Through these initiatives we engage with others both within and beyond the investment industry to promote responsible investment, including ways that the industry and our investees can respond to market-wide and systemic issues such as climate change. Colleagues from across the business – including the Responsibility Office, EOS, Risk and the investment teams – take on advisory roles in many organisations to share our practical expertise.

Climate

Throughout 2023, we have participated in public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties to contribute to the development of policy and best practice to facilitate the transition to a net zero carbon economy. The aim is to protect and enhance value for our clients.

We have advocated for a number of changes to public policy and market best practice, including asking governments to commit to more ambitious climate targets with aligned domestic policies and stimulating investment in required technologies. For example, we engaged with the Indonesia Just Energy Transition Partnership ("JETP") team and provided input on their implementation plan regarding how to maximise impact and private capital mobilisation. We also engaged on the EU's Corporate Sustainability Due Diligence Directive ("CSDDD") with a number of representatives of EU member states. We believe that the CSDDD can support better risk management and the earlier anticipation and mitigation of controversies. We advocated for upstream and downstream activities to be included, for climate transition plans to remain mandatory (including for the financial sector) and for smaller companies to be included in a phased approach to allow them more time to comply, noting that many would need to take action as part of the value chain of larger companies. We advised that guidance would be needed on social standards in the absence of a social taxonomy.

We continued to contribute to the policy workstream of the Glasgow Financial Alliance for Net Zero ("GFANZ") in 2023. The group focused on advancing real economy policy ahead of COP28. This included engaging with regulators on aligning the financial architecture with net zero priorities and identifying and addressing the main barriers in high emitting sectors, such as the managed phase-out of fossil fuels. This was accompanied by a technical note on four financing strategies to build capacity.

We discussed with representatives of International Organization of Securities Commissions ("IOSCO") the need for their voluntary carbon market principles to enhance carbon market integrity, enable the scaling of voluntary carbon markets and create interoperability in G20 countries. We co-developed the Nature Market Principles with The Wildlife Trusts, RSPB, Woodland Trust, National Trust and Finance Earth.

With cross-sector guidance on target-setting and transition planning now published by organisations such as the Transition Plan Taskforce ("TPT") and Science Based Targets initiative ("SBTi"), 2023 saw multiple consultations in the financial sector. This included the Monetary Authority of Singapore's ("MAS") consultations on Guidelines for Transition Planning for asset managers, the SBTi's consultation on updated resources for the financial services sector and the TPT's consultation on draft guidance for asset managers. We responded in support of the development of these guidelines, with recommendations on how to further enhance their effectiveness. The TPT guidelines in particular offer a framework for high quality, comparable disclosures and are intentionally compatible with the climate-related standards developed by the International Sustainability Standards Board, which creates international applicability. We encouraged the MAS to align their proposals, where possible, with the TPT's guidance to aid interoperability. We also co-signed a letter alongside a number of our peers to the UK Government on the case for mandatory transition plans for all large companies. The UK Government subsequently committed to consult on requirements for the UK's largest companies to disclose their transition plan if they have them.

Deep dive: COP28

A key focus of our advocacy work in 2023 was COP28 in the United Arab Emirates. We identified COP28 as a significant opportunity to make progress on delivering a just transition.

Our asks: Some of the biggest challenges now facing the transition to a low-carbon economy are social rather than simply technical, and therefore successfully addressing climate change demands the consideration of equity and justice, alongside cost curves and R&D. Reducing greenhouse gas emissions is, among other things, an exercise in large-scale, accelerated change management requiring the consent and support of stakeholders within and outside the business. A company that identifies the social implications of its transition plan and proactively minimises and mitigates these will be better placed to execute this change effectively. Governments, corporates, and financial institutions should ensure that the costs and the benefits of actions taken to advance climate goals are shared widely.

We hoped to see the need for a just transition considered upfront during negotiations. Given the need for equity and justice in meeting adaptation costs as well as mitigation costs, governments need to support finance for Emerging & Developing Economies ("EMDEs") for climate mitigation and adaptation, including by building greater confidence in the Global Goal on Adaptation. The operationalisation of the Loss and Damage Fund agreed at COP27 was a key focus going into the negotiations as this could help to plug the gap on adaptation finance, particularly for emerging and developing economies.

Our actions: The Federated Hermes delegation spoke on 14 panels, keynotes, and roundtables at the COP28 summit on a number of topics and issues. We announced at COP28 that we are working with The Global Alliance for A Sustainable Planet ("GASP") to find new ways to collaborate on innovative investment solutions. The ambition is to create a scalable platform that aligns impact-focused patient capital with the development needs of countries on the frontlines of climate change. Federated Hermes and GASP will explore the prospects of leveraging concessionary capital as a means to attract private investment to opportunities which will contribute to solving some of humanity's most urgent challenges as articulated in the SDGs. This collaboration is motivated by the importance of finding new pathways to sustained prosperity while preserving ecosystems and planetary health.

Outcomes: Embedding just principles across decarbonisation efforts was a key theme, while the role of nature and food systems in supporting an equitable transition was brought into the fore. Driven by this momentum on a just transition, COP28 opened with the operationalisation of the loss and damage fund, supported by funding pledges of $700m.[17] The fund seeks to automatically provide financing to those economies and communities adversely impacted by the effects of anthropogenic climate change. Loss and damage payments have been the subject of intense contention throughout the three decades of COPs, marking the importance of this progress. The emphasis on the fund's role in supporting vulnerable economies reflects greater consensus on the just transition among the international community.

But the loss and damage to the fund was not the only subject of negotiations. Developed countries noted with "deep regret" that the $100bn a year climate finance target, the overarching annual goal for mitigation and adaptation funding, had never been met and would expire in 2025.[18] Despite the Global Stocktake urgently calling for the significant scaling of adaptation finance commitments to equitably build resilience and conserve access to water and food, the agreement over this finance was shelved for 2024.[19] A separate UN adaptation fund raised only half of its target $300m by the end of the conference.[20] Meanwhile, communities and their food and water systems are more vulnerable than ever to the changing climate.

Nature

As co-chair of the Finance for Biodiversity Foundation's public policy and advocacy working group, we advocated for an ambitious Global Biodiversity Framework ("GBF") to be agreed at COP15. Following the successful agreement of the Kunming-Montreal Global Biodiversity Framework at COP15 in December 2022, we continue to focus our public policy work on effective implementation of the GBF. For example, in 2023, we presented to the World Bank Coalition of Finance Ministers for Climate Action in our capacity as co-chair of the Finance for Biodiversity Foundation Public Policy Advocacy working group. We highlighted some of the ways in which finance ministers can play a role in supporting the private finance sector to address biodiversity loss. This includes setting nature-related disclosure requirements, requiring transition pathways, integrating biodiversity risks alongside climate risks, and creating economic incentives for businesses to incorporate nature into decision-making.

We also engaged on these issues at the national level. For example, we met with policymakers and representatives of stock exchanges and central banks in Hong Kong, Japan, and Singapore, where we raised the importance of viewing nature loss as a systemic risk to the financial system. We shared best practice from other jurisdictions, including the UK. We advocated for increased disclosure standards for corporates on nature, particularly through metrics related to the drivers of biodiversity loss such as waste, water usage and land use change. We also encouraged the endorsement and adoption of ISSB standards to create greater international alignment in reporting standards.

We advocated for increased disclosure standards for corporates on nature, particularly through metrics related to the drivers of biodiversity loss such as waste, water usage and land use change.

In recognition of the need for better disclosure frameworks on nature-related issues we also joined the Taskforce on Nature-related Financial Disclosures ("TNFD") Forum and provided feedback on the draft recommendations. Following the publication of the TNFD recommendations, we included elements of the TNFD disclosure framework in our 2022 Climate-related Financial Disclosures Report. We also formally signed up as an inaugural TNFD Early Adopter.[21]

We also supported efforts to enhance industry best practice during 2023. We contributed to the Natural Capital Investment Alliance's primer on investing in natural capital for institutional investors, including a case study on our Biodiversity Equity Strategy. We also provided inputs into the first phase of Finance for Biodiversity's biodiversity target setting guidance for asset managers and asset owners which was launched in November 2023, and continue to input into subsequent guidance.

Our public policy work is also aligned with our engagement on regenerative agriculture and pesticide use. In 2023, we co-signed an investor statement coordinated by the FAIRR initiative calling on G20 finance ministers to repurpose their agricultural subsidies in line with climate and nature goals. This statement follows the GBF's target to identify incentives, including subsidies harmful for biodiversity by 2025, and eliminate, phase out or reform them in an effective way.

In 2023 we participated in the Land, Nature and Adapted Systems Advisory Group, hosted by DEFRA and the Green Finance Institute. This group focused on how agriculture should be captured within the UK's green taxonomy. We also provided some feedback on the levers for implementation for regenerative agriculture draft report created by the Agribusiness Task Force under the Sustainable Markets Initiative ("SMI") and took part in several SMI industry task force knowledge exchange meetings.

[17] COP28: Outcomes and Next Steps | World Resources Institute (wri.org)
[18] edie, 'COP28 into overtime following 'disappointing' draft Global Stocktake text – here's what's included' (December 2023)
[19] UNFCCC, 'First Global Stocktake High-level Committee' (December 2023)
[20] Reuters, "COP28 calls for adapting to warmer world without resolving how to pay" (December 2023)
[21] TNFD, "TNFD Early Adopters" (January 2024)

Metrics and Targets

In November 2022 we published our corporate Climate Action Plan, with new interim targets and metrics to help us manage climate-related risks and opportunities over the near, medium and long term.

In this section we set our firm-level and asset class-level targets used to manage climate-related risk within our investment management activities. We also detail our carbon footprint coverage and present a range of metrics which we use in order to understand the company's exposure to climate- and nature-related risks and opportunities. These metrics have been selected on the basis of what is most appropriate to our business and to the asset classes we manage.

Finally, we cover our targets for operational and corporate travel emissions, and the operational and travel metrics we use as part of our environmental management.

Investment and Engagement Targets & Metrics

Overview of targets

Our net zero interim targets described in this section cover Scopes 1 and 2 of our financed emissions and, where material, Scope 3. There are two tests taken to understand whether Scope 3 emissions are material to a company. If an investee company meets one test, we deem it to have material Scope 3 emissions. The first test considers whether a company is within one of the following Global Industry Classification Standard ("GICS") industries, which we consider having material Scope 3 emissions:

- Industry – Chemicals
- Industry – Aerospace & Defence
- Sub-industry – Construction Machinery & Heavy Trucks
- Sub-industry – Agricultural & Farm Machinery
- Industry – Transportation Infrastructure
- Industry – Automobiles
- Industry Group – Consumer Discretionary Distribution & Retail
- Sector – Consumer Staples

The second test looks at whether a company's Scope 3 emissions account for 40% of more of its total emissions. We continue to contribute to and monitor the development of best practice guidance for the consideration of Scope 3 emissions.

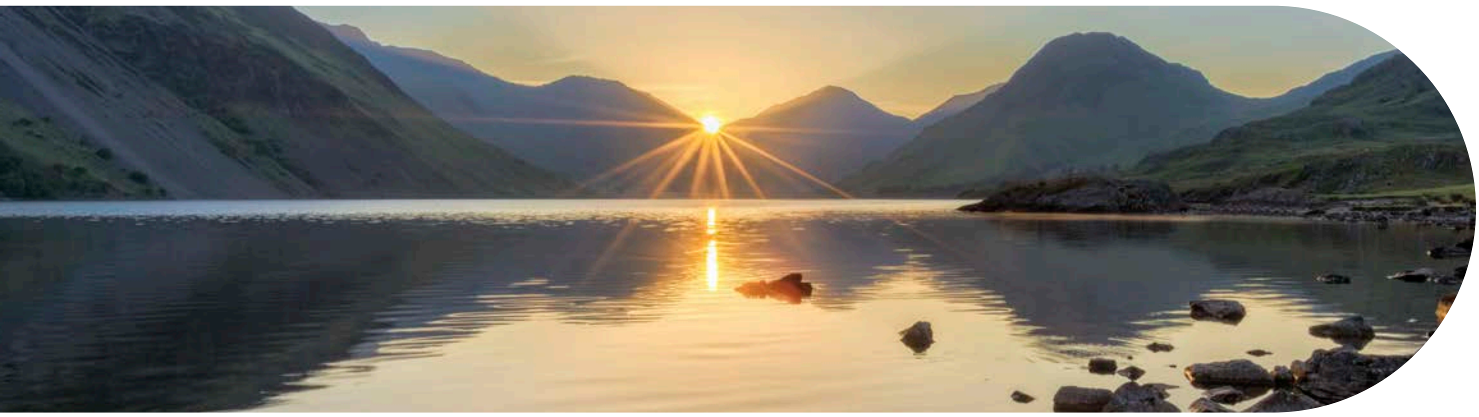
The approach we have adopted requires that our investments include an increasing proportion of companies that are planning decarbonisation in line with 1.5°C pathways. These pathways will use science-based methodologies for the distribution of emissions reductions between sectors and geographies and therefore account for the fair share of emissions reductions required from different companies.

Our approach to achieving our commitment to the Net Zero Asset Managers initiative – through which we have committed to net zero by 2050 – is focused on ensuring its achievement delivers decarbonisation in the real economy. We have therefore set portfolio-coverage targets that will drive engagement with portfolio companies to achieve decarbonisation at the company level and not just the portfolio-level, as an inseparable part of our fiduciary responsibility to our clients.

We also aspire to continue to increase the positive climate impacts from our portfolios. We continue engaging with investees to increase green revenue and investment into climate and nature-based solutions between now and 2030.

We acknowledge that our ability to meet the commitments set forth above depends on the mandates agreed with clients and our clients' regulatory environments as well as our own. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met,[1] and in the context of our legal duties to clients.

While we hope to cover all asset classes over time, our interim target currently applies to all our assets under management except for private equity, direct lending, sovereign debt, FX, cash, indices and ABS, CLOs and CDOs issued by companies.



[1] Article 2.1c of the Paris Agreement, sets out the objective of "(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

The path to net zero

Turning commitment into action

As the climate crisis accelerates, the question remains: what can we do to remain on track?

Achieving net zero is the only way forward and, unfortunately, time is not on our side. That's why, as stewards of our clients' capital, the global financial community must act - and **we must act now.**

We believe we have a responsibility as an industry, and indeed as a business, to allocate capital in a way that mitigates exposure to climate risk and helps deliver the goals of the Paris Agreement. So, how do we get there?

Taking the first step

Our climate goals

We need to start planning for this future now, even if we do not have all the answers today.

Federated Hermes Limited has committed to achieving net zero by **2050** but we will try our best to get there sooner.

As we strive to reduce our portfolio emissions, we have set the following **interim milestones:**

In public markets, we are aiming to align...

25% of AUM and financed emissions to 1.5°C by 2025

50% by 2027

80% by 2030

In Real Estate, we are working toward a...

25% reduction in energy intensity by 2025

40% by 2030

66% by 2035

... And achieving **net zero** in terms of development and operations and debt by **2035.**

For Infrastructure, we are looking to achieve 100% Paris-alignment of assets by 2025.

Engagement roadmap

Helping companies along the journey

Becoming fully net zero means focusing on our stewardship.

Across our assets, both in the public and private space, we pledge to engage with the most material emitters that are misaligned or exposed to significant transition risk, to help them reach the **1.5°C target.**

Public Markets

Our public market interim targets:

25% of in-scope AUM and financed emissions to be 1.5°C aligned by 2025: 50% by 2027 and 80% by 2030.

We are targeting that over 90% of financed emissions across public markets will be subject to direct or collective engagement and stewardship actions by 2030 (from 80% at the end of 2022).

By targeting 80% of the assets within portfolios to be aligned to these pathways by 2030, the vast majority of portfolio emissions will be decreasing in line with 1.5°C pathways that substantially incorporate the Intergovernmental Panel on Climate Change's requirement for a 50% global reduction in CO_2 emissions by 2030. We have targeted 80% to allow for 20% portfolio rotation into new companies which require further engagement.

To achieve these ambitious targets, in-depth engagement will focus on the top emitters. We will prioritise the following sectors: forest; land and agriculture; buildings; iron and steel; cement; chemicals; transport; oil and gas; and power generation. We will also seek to raise awareness regarding our climate expectations with all investee companies where climate change is considered a material risk, and no credible target has been set by the company.

In previous years, we had access through a third-party provider only to Scope 1, 2 and upstream 3 emissions data for public markets. We now also have access to downstream Scope 3 emissions data, and so are able to report on progress against our targets based on all material Scope 3 data, rather than just material upstream Scope 3 data. Engagement prioritisation for public markets for 2023 to support our targets was on the basis of Scope 1, 2 and upstream Scope 3 data. On this basis, we engaged with 83% of our financed emissions. When incorporating the material downstream Scope 3 emissions data, we engaged with 66% of our financed emissions. We will seek to address this gap through engagement prioritisation based on all material Scope 3 emissions data in the coming year.

Figure 15 below shows the current state of alignment of our public markets as a percentage of our AUM and as a percentage of financed emissions (Scope 1, 2 and upstream 3 emissions, and Scope 1, 2 and material 3 emissions) as at the end of 2023. As we have downstream Scope 3 data only for 2023 onwards, we are not able to show the alignment of financed emissions (Scope 1, 2 and material 3) for 2022. The percentage of AUM in the 'aligned' category has increased over the last year, however the percentage of financed emissions (based on Scope 1, 2 and upstream 3 emissions) that this represents has slightly decreased over the last year. The decrease in aligned financed emissions is partly due to a new investment in Anhui Conch Cement, which is a large emitter, and is currently categorised as unscored. We currently assess the alignment of holdings in our funds by assessing the greenhouse gas ("GHG") reduction targets that the company has set. Further information on our Paris Alignment methodology can be found in our Climate Action Plan.

Figure 15. Alignment according to FHL methodology of public markets exposure (% of AUM and financed emissions) in FHL shareholder and participating funds (credit and equity).

	2022		2023		
Category	% of AUM	% of financed emissions (Scope 1, 2 and upstream 3)	% of AUM	% of financed emissions (Scope 1, 2 and upstream 3)	% of financed emissions (Scope 1, 2 and material 3)
Not Aligned	25.2%	21.7%	27.0%	23.8%	25.0%
Unscored	3.8%	4.4%	5.3%	18.0%	6.5%
Committed to net zero	31.1%	33.4%	28.5%	32.0%	27.1%
Aligning	21.6%	26.9%	14.7%	13.9%	8.8%
Aligned	18.3%	13.6%	24.5%	12.3%	32.6%

Source: Federated Hermes, Trucost, MSCI, SBTI, as at 31 December 2023.

Real Estate

Our real estate interim targets:

25% reduction in energy intensity by 2025, 40% by 2030 and 66% by 2035.

Net Zero commitment for real estate development and managed assets operations and for real estate debt by 2035.

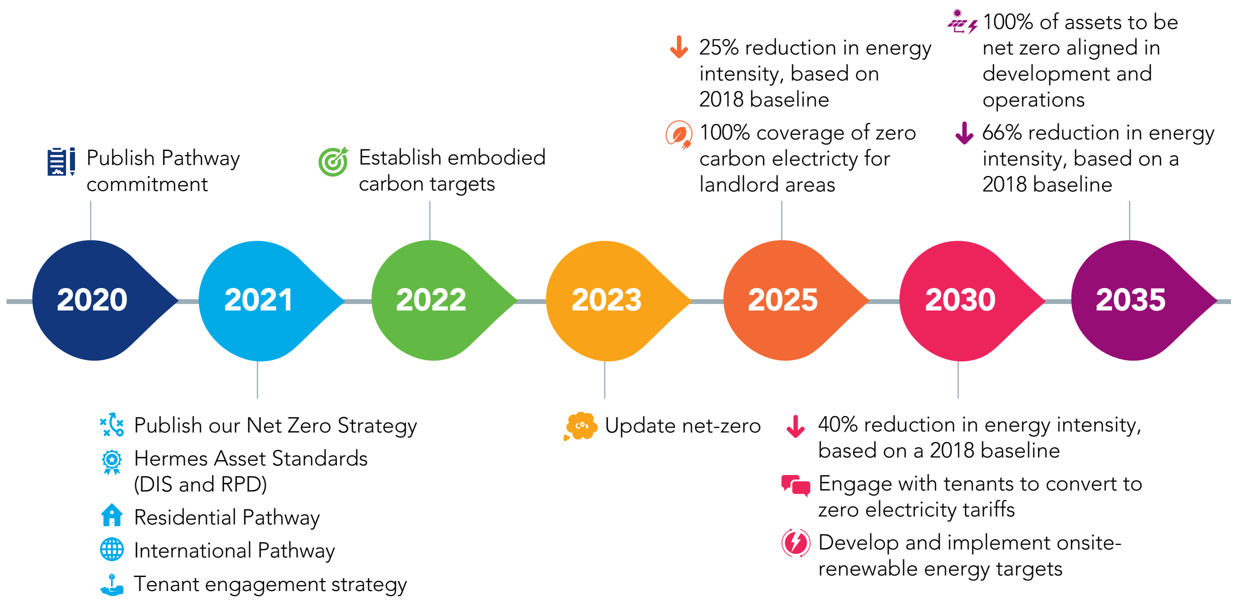
Progress against our targets: Compared to a 2018 baseline, energy intensity has been reduced by 51% on landlord-controlled assets as at 31 December 2023. This means that we are currently on track to exceed our 2025 goal.

In line with our net zero commitment, we have seen a reduction of 16% in landlord like-for-like energy consumption from 2022 to 2023 and a reduction in Scope 1 and 2 emissions for landlord-controlled energy procurement of 16,000 t since 2018. Overall, there has been a 47% reduction since our 2018 baseline.

In 2019, we joined the Better Building Partnership Climate Change Commitment (along with 22 other signatories) with the aim of achieving net-zero emissions across our real estate portfolios by 2050.

As part of this commitment, on behalf of our clients, during 2021, the real estate team issued the Net-Zero Pathway document which sets out both the targets and approach to reaching net zero emissions by 2035 across the managed assets included within our UK real estate portfolio. Since then, we have published pathways for our residential, International and real estate debt portfolios.

Figure 21: Real Estate approach to net zero for UK managed assets



Source: Federated Hermes, as at 31 December 2023.

Over the period to 2035, we aim to deliver on the net zero aspirations set out in the pathway, with a focus on delivery against four specific pillars of activity:

1 **Decarbonisation.** Remove the use of fossil fuels, increase energy efficiency, use green tariffs and reduce embodied carbon in our new development and major refurbishments. This should support improvements in local infrastructure and emphasise best-practice innovation.

2 **Deliver energy efficiency.** Reduce energy use intensity by 66% in the years to 2035 against a 2018 baseline.

3 **Stakeholder engagement.** Work with occupiers, suppliers, and other stakeholders to successfully transition to net-zero alignment.

4 **Utilise offset opportunities.** Use credible, permanent carbon-removal methodologies for residual carbon utilising schemes, such as natural-capital solutions for carbon sequestration to address embodied carbon.

We continue to develop and implement initiatives across our real-estate portfolio that are designed to reduce carbon emissions and to improve efficiencies in our built environment portfolio, making use of new technology and best practice gleaned from our active engagement in peer-group benchmarking.

More information on the real estate's team approach to net zero can be found in the Net-Zero Pathway document.

Addressing net zero transition risk

Decarbonising existing property portfolios is one of the biggest challenges that real estate industry is facing and will need to respond in the next decade. There is not a one size fit all but at the same time building-by-building approaches also fail to exploit the opportunities presented by portfolio-level investment decisions and economies of scale. With this in mind, we piloted Decarbonomics™ in 2023 on our Milton Park and Federated Hermes Property Unit Trust ("FHPUT") portfolios to benchmark performance and develop roadmaps for decarbonisation.

Benchmark

The first step was to create a baseline to establish the current carbon position, using Decarbonomics™ Carbon Data Insights to plug material data gaps. A five-day, non-intrusive survey representative of the wider estate was then conducted to validate the data.

Roadmap

From the carbon baseline, a fully costed roadmap to achieve our 2035 net zero target was generated for each portfolio. To ensure the roadmap was realistic and achievable, Decarbonomics™ combines machine learning analysis with the expertise of building services engineers, whilst taking tenant requirements into consideration.

Deliver

We realise that roadmaps are only good if we deliver against them and demonstrate progress through robust monitoring and verification over the course of asset improvement works. This pilot project provided clarity around our asset investment decisions and demonstrated the effectiveness of tools like Decarbonomics™ in supporting our net zero transition plans and decarbonising our portfolios at scale.

We continue to develop and implement initiatives across our real-estate portfolio that are designed to reduce carbon emissions and to improve efficiencies in our built environment portfolio, making use of new technology and best practice gleaned from our active engagement in peer-group benchmarking.

By taking a proactive approach in developing and operating net zero buildings, we intend to reduce the risks of having stranded assets, asset value declines and potential so-called 'brown penalties' (a higher cost of capital for carbon-intensive buildings). Net zero also presents opportunities for market leadership: to generate income resilience for our clients; support and retain our occupiers; and provide long-term value to our stakeholders.

Infrastructure

Our Infrastructure interim target:
100% Paris-alignment of assets by 2025.

We focus on ensuring companies have short, medium, and long-term Net Zero targets accredited under recognised standards (such as the SBTi) and that these targets are aligned with the goal of the Paris Agreement to pursue efforts to limit the global temperature increase to 1.5°C.

Progress against our targets: In 2023, the infrastructure team used our proprietary Paris Alignment test in which companies were scored and classified as Aligned, Aligning, Committed to Net Zero and Not Aligned. Due to our reliance on information from our portfolio companies, the latest data available to assess progress against our infrastructure target is as at 31 December 2022, at which point, the breakdown of the infrastructure AUM was as follows:

- **0%** Aligned
- **9%** Aligning
- **58%** Committed to Net Zero
- **21%** Not Aligned
- **12%** Out of Scope (please see below for more information)

We have supported the development of sustainability strategies and their integration into broader long term business plans at a number of assets in the reporting year 2023 with further work ongoing in 2024, particularly at our transport assets.

All seven of the large operating portfolio companies we have a managed interest in, on behalf of investors (across regulated utilities, transport, and energy transition), have public net zero targets. Of our three Special Purpose Vehicle portfolio companies, two are renewables which we consider climate solutions and thus out of scope of our Paris alignment assessment. The remaining one is a portfolio of toll roads in Spain to which we are providing support and guidance to develop net zero targets. We also have investments in two social infrastructure funds with an external manager. We consider these out of scope of our target and captured by the external manager's sustainability programme.

While we see a reduction in emissions as a necessary part of transition risk management, we also see the central role infrastructure investments can play in the decarbonisation of the broader economy and, in doing so, support jobs and local growth.

In some cases, it is clear that the path to net zero is highly policy dependent. In such instances, our stewardship includes supporting such companies in their advocacy where their positions align with our broader expectations and climate change committee recommendations.

Biodiversity commitments

As a signatory of the Finance for Biodiversity Pledge[2] we committed to set biodiversity targets by the end of 2024. This has been a key focus of our Climate and Nature Working Group during 2023, and the work continues in 2024.

In line with the beta version of the Finance for Biodiversity Nature Target Setting Framework for Asset Managers and Asset Owners, we are setting the following initiation targets:

Governance and strategy

We commit by the end of 2026:

- To create and disclose a clear governance structure for nature with senior oversight and specific accountabilities for nature-related issues.
- To provide adequate education and expertise for those with oversight and more broadly across the organisation, on nature and the implications of nature-related risks and opportunities for the organisation.
- To adopt TNFD recommendations in a phased approach, including embedding the insights into the governance, strategy, and risk management of the organisation; and
- To develop a transition plan for nature setting out biodiversity targets and plan for achieving them.

Impact and dependency assessment

We commit by the end of 2026:

- To assess our public markets, infrastructure and real estate portfolios for nature-related impacts and dependencies, risks and opportunities and disclose our insights; and
- To determine priority sectors for engagement on biodiversity for applicable asset classes.

Metrics

We undertake carbon foot printing for the following asset classes:

- Listed Equities and Fixed Income
- Real Estate
- Infrastructure
- Real Estate Debt
- Private Equity
- Direct Lending

Carbon Footprinting

Across all our strategies we aim for high carbon data coverage. In 2021, we developed our own internal issuer hierarchy to improve data coverage in the public credit space. We also developed our own internal baseline methodology which excludes certain securities where there is lack of ESG data (cash, FX, long CDS, index or pooled product, sovereign, derivative where underlying is a government entity). This makes up 4.2% of our total public equity and credit AUM (excluding cash and FX exposure). Figure 17 below does not take these securities into account. We are also not yet able to measure the carbon footprint of our sovereign and structured credit exposure. This is due to a lack of data and available methodologies in this space. This is an area of focus and we are evaluating estimation methodology to fill in the gaps.

In 2022, we further enhanced our methodology for calculating carbon metrics. In addition to those exclusions described above, securities for which we have no data (reported or estimated), primarily due to lack of coverage by third-party

[2] https://www.financeforbiodiversity.org/about-the-pledge/

data providers, are excluded from the calculation. This includes removal of these names from the AUM figures used in our carbon metric calculations. This ensures that we are not understating our carbon exposure by excluding companies with no data from the numerator but including them in the denominator. This has only been applied to 2022 data onwards.

We calculate aggregated emissions in line with the TCFD recommendations.

For public equities, credit and real estate debt we use estimated data where there are gaps in reported data from the investee company (apart from the exceptions described above). For private equity, we only use estimated data. We rely on third-party data providers for our estimated data. Our real estate, infrastructure and direct lending funds only use reported data from the portfolio companies or assets in this report.

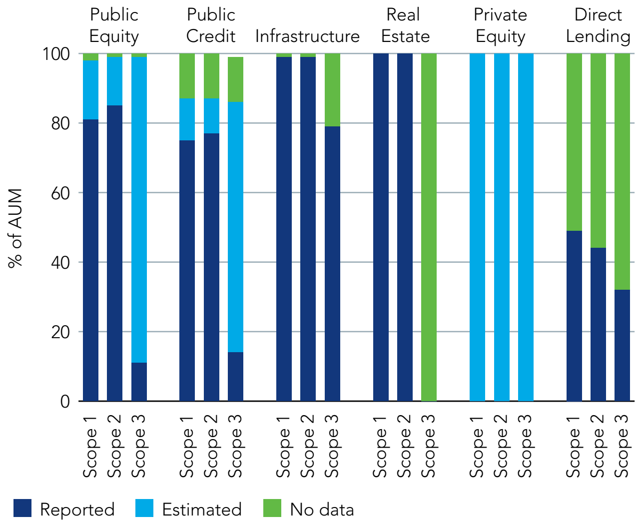
We use S&P for our GHG emissions data for publicly listed companies on Scope 1, 2 an upstream 3 emissions. They estimate emissions where there are gaps in reported data using their environmentally extended input-output ("EEIO") model which combines industry-specific environmental impact data with quantitative macroeconomic data on the flows of goods and services between different sectors of the economy. Due to the way our real estate debt emissions data is collected, we do not have the breakdown of the data split by scope; Scope 1, 2 and 3 data that the real estate debt team receive is combined. 64% of the real estate debt AUM is reported data and 36% is estimated. Real estate debt receives meter readings and the amount of renewables produced and used onsite from their borrowers which are then used in the CRREM model. Where the team do not get direct emissions data from their borrowers, they use a third-party to estimate emissions data to fill in the gaps. The Real Estate Debt team do not currently include embodied carbon emissions in their Scope 3 data, as there is currently no clear standard on how to measure this in existing buildings.

We use Holtara for emissions estimations for holdings in our private equity funds. They use an input output model, where net asset value ("NAV"), sector and geography are inputted and the model outputs emissions. The limitations of this model are that it relies on sector and geographic averages.

Figure 17 below shows the breakdown of reported and estimated data by each asset class used in this report. Our real estate team does also collect Scope 3 data; however, this has not been included in this report. This is due to inconsistency of the Scope 3 data. Work is ongoing to collect consistent Scope 3 data for our real estate assets through occupier engagement and the use of data sources which allow capture of electricity use.

Looking beyond greenhouse gas emissions, we use data, metrics and targets from various sources in order to understand a company's exposure to climate- and nature-related risks and opportunities.

Figure 17: Breakdown of reported, estimated and non-disclosure of carbon emissions data across scopes 1, 2 and 3 across all asset classes where we undertake carbon footprinting (public equity and credit, real estate, infrastructure, direct lending, and private equity).



Source: Federated Hermes, as at 31 December 2023. Please note, real estate debt has been omitted from this chart as the split between Scope 1, 2 and 3 is unknown.

Looking beyond GHG emissions, we use data, metrics and targets from various sources in order to understand a company's exposure to climate- and nature-related risks and opportunities. These are informed by the recommendations of the TCFD and TNFD but have been selected on the basis of what is most appropriate to our business and to the asset classes we manage, as well as where we have data of sufficient quality so as not to be misleading.

Our portfolios advised by Federated Hermes invest across a number of different asset classes and there is no single carbon metric that can be reliably aggregated across asset classes to give a view on our carbon intensity. We adapt the methodology for our weighted average carbon intensity ("WACI") calculation for some of the asset classes where we believe revenue is not a useful indicator of intensity. Whilst the WACI is a useful metric that can be applied across different asset classes, it allocates emissions based on the weight of a holding in a portfolio rather than our owned emissions based on our investment relative to the overall value of the investee company. For our real estate and real estate debt portfolios, the standard practice within the industry including INREV ("European Investors in Non-Listed Real Estate") and EPRA ("European Public Real Estate") reporting, as well as the definition of reporting under GRESB ("Global ESG Benchmark for Real Assets") uses the complete buildings in the footprint rather than the return on the amount of equity invested, as the revenue can differ widely depending on the type of occupier and the nature of the assets usage (such as industrial versus office). For our private equity portfolios, we look at the carbon footprint, rather than the weighted average carbon intensity due to lack of revenue data.

We have calculated the weighted average carbon intensity across our asset classes where data is available and used the below metrics to account for size:

- Public equity and credit, infrastructure and direct lending – per million revenues.
- Real estate and real estate debt – per square meter
- Private equity – per million invested.

Figure 18 below shows the weighted average carbon intensity ("WACI") of all asset classes where we undertake carbon footprinting, including changes from 2022. The Direct Lending team completed two transactions in 2023 involving businesses engaged in the paper and packaging industry hence the increase in WACI across Scope 1,2 and 3 emissions compared to the previous year. There has also been an increase in disclosure in Scope 3 emissions for the Direct Lending funds, which also contributes to the increase in the WACI.

Figure 18: Weighted average carbon intensity ("WACI") of all asset classes where we undertake carbon footprinting (public equity and credit, infrastructure, real estate, real estate debt, direct lending and private equity)

Asset Class	Unit	Scope included[3]	2022 WACI	2023 WACI
Public Equity and Credit	tCO_2e / \$mn revenue	1,2 1,2, upstream 3	115.0 251.2	137.2 259.9
Infrastructure	tCO_2e / £mn revenue	1,2 1,2,3	464.7 N/A	406.5 448.1
Real Estate	$kgCO_2e$ / m²	1,2	23.0	21.2
Real Estate Debt	$kgCO_2e$ / m²	1,2,3	42.2	43.0
Direct Lending	tCO_2e / \$mn revenue	1,2 1,2,3	15.1 31.4	20.2 283.6
Private Equity	tCO_2e / £mn NAV	1,2 1,2,3	17.6 N/A	17.8 96.3

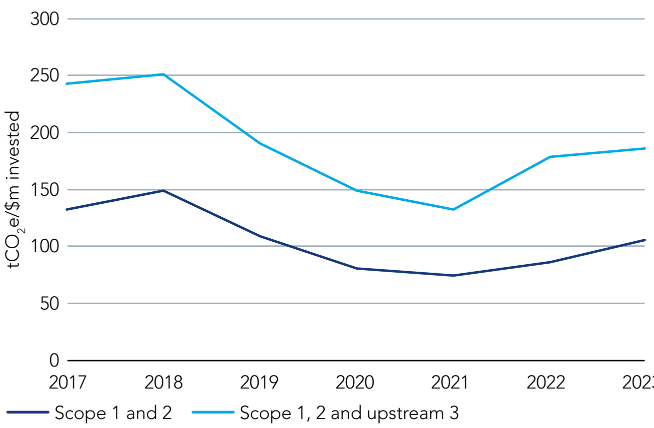
Source: Federated Hermes, Trucost, Carbon Intelligence, Verco, Holtara as at 31 December 2023.

Public markets

Over the course of 2023 we have continued to monitor the carbon intensity of our public market investments. We have seen a slight increase in both our carbon footprint and our WACI. We have maintained our climate change engagement in 2023 compared to 2022 by continuing to engage with c.80% of our public markets financed emissions based on Scope 1, 2 and upstream 3 emissions, although as noted above this is 66% when incorporating the material downstream Scope 3 emissions data. We have continued to explore nature-related metrics, and plan to expand this over the course of 2024.

Within public markets – listed equities and credit – we have seen aggregate carbon footprint decline by c.27% since a peak at the end of 2018 to year end 2023. 2018 is the year we introduced the carbon tool, and this improvement seems to indicate its impact in helping our investment managers integrate, respond to, and manage transition risk within their portfolios. We use the enterprise value including cash ("EVIC") method for calculating the carbon footprint of equity and credit assets. We have seen a slight increase in our carbon footprint between 2022 and 2023. This is due to the new investment in Anhui Conch Cement, which is our highest emitter. We continue to engage with the company to encourage disclosing against the TCFD recommendations as well as setting Paris aligned targets.

Figure 19: Carbon footprint (tCO_2e/\$m invested) of corporate credit and equity in FHL shareholder and participating funds (Scopes 1 and 2, and Scopes 1, 2 and upstream 3)

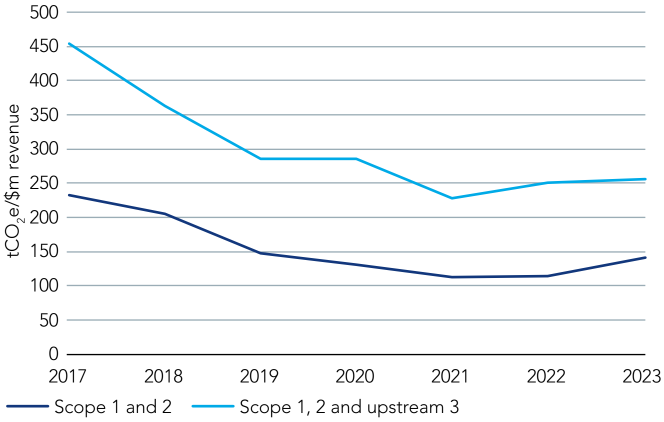


Source: Federated Hermes, Trucost, as at 31 December 2023.

In addition to tracking our carbon footprint, we also track the WACI of our public equity and credit portfolios as shown in Figure 20. The analysis includes Scope 1, 2 and upstream 3 emissions. Between 2022 and 2023, the WACI has also slightly increased.

[3] References to Scope 3 emissions include upstream and downstream emissions unless otherwise specified.

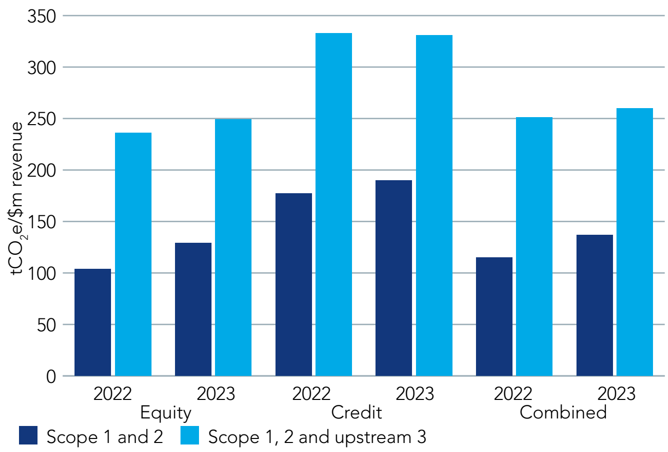
Figure 20. Weighted average carbon intensity (tCO_2e/$m revenue, weighted by the proportion of each holding in the portfolio) of corporate credit and equity in FHL shareholder and participating funds.



Source: Federated Hermes, Trucost, as at 31 December 2023.

Figure 21 splits out the WACI by equity and credit. The WACI of public equity across both Scope 1 and 2, and Scope 1, 2 and upstream 3, has increased year on year compared to 2022. This is due to the purchase of Anhui Conch Cement, as discussed above. The WACI of public credit across scope 1 and 2 has slightly increased, which looks to be partly due an increase in market value of The Southern Co and Alcoa Corp. Both companies have committed to net zero by 2050, and we are engaging both on climate change. When adding in upstream Scope 3, the WACI for public credit stays consistent year on year.

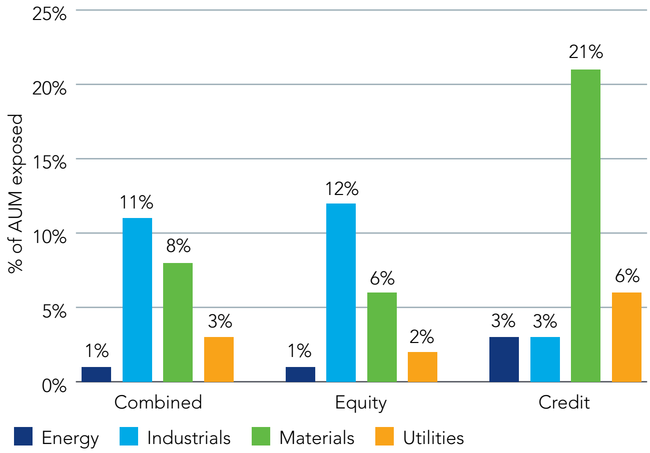
Figure 21: Weighted average carbon intensity (tCO_2e/$m revenue, weighted by the proportion of each holding in the portfolio) of corporate credit and equity in FHL shareholder and participating funds.



Source: Federated Hermes, Trucost, as at 31 December 2023.

In Figure 22 we look at our exposure to carbon intensive sectors (energy, industrials, materials and utilities) in shareholder and participating funds (both equity and credit). Out of the four carbon intensity sectors, our equity funds have most exposure to industrials whereas our credit funds have most exposure to materials.

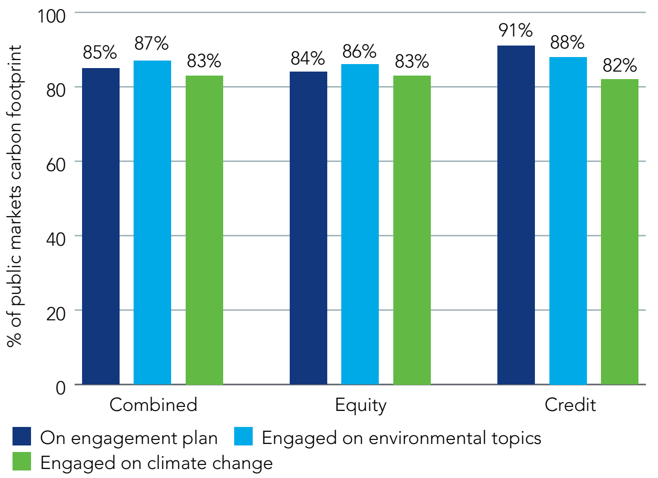
Figure 22. Public markets exposure (% of AUM) to carbon intensive sectors in FHL shareholder and participating funds (credit and equity).



Source: Federated Hermes, as at 31 December 2023.

We believe that climate is a material risk across a variety of sectors, and therefore climate change is an important topic for our engagement. We aim to engage with our top emitters, with a first focus on the top 100 emitters across our public equity and credit funds which makes up c. 80% of our public equity and credit carbon footprint. Issuers that are not added to our formal engagement plan will be engaged by our investment teams who will continue their dialogue with companies to better understand their transition plans. In our private market asset classes, our dialogues with companies are directly via our investment teams given the nature of the relationships in these asset classes. Climate change will continue to be a main point of conversation to ensure that we have a good understanding of the climate risks of the asset and that appropriate actions are being undertaken to minimise the transition risk, in line with our net zero target. Figure 23 shows the proportion of the carbon footprint of our corporate credit and equity investments that was covered in 2023 by our engagement both on all environmental topics and specifically on climate topics. Over the last year, we have maintained our level of engagement on climate change at c.80% of our public markets carbon footprint.

Figure 23. Percentage of public markets carbon footprint (Scope 1, 2 and upstream 3) on the engagement plan and engaged on environmental and climate change topics by EOS in FHL shareholder and participating funds (credit and equity).

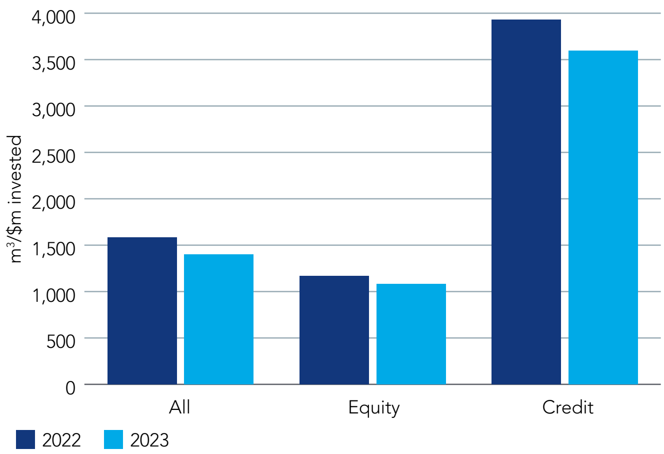


Source: Federated Hermes, Trucost, as at 31 December 2023.

As well as identifying climate risks across our portfolios, we also recognise the importance of identifying climate opportunities, and companies who provide products and services which lead to avoided emissions. Due to the complexity of calculating this type of metric, we currently only assess avoided emissions for our impact and sustainable strategies. As at 31 December 2023, the total avoided emissions of our impact and sustainable strategies in public markets was 3.86bn tCO_2e and the total apportioned (based on the proportion of our ownership of the company) avoided emissions of our impact and sustainable strategies in public markets was 321,395 tonnes CO_2e.[4]

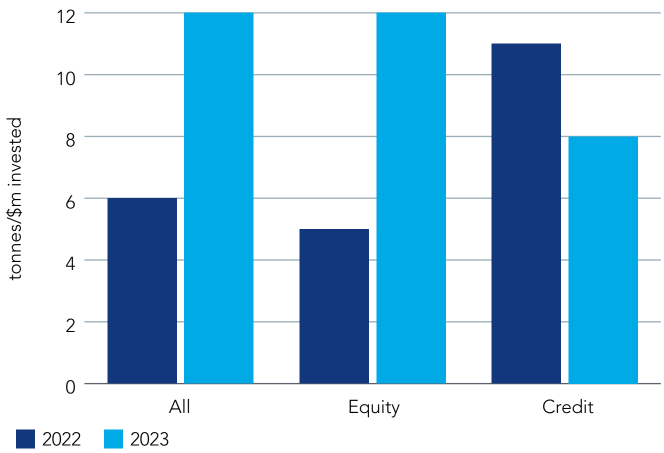
Through our environmental tool, we also assess the water and waste footprint of our portfolios. The below charts show the water footprint (direct cooling, direct processing and purchased water) and waste footprint (landfill, incinerated and nuclear) of our public market funds, and also the split of reported versus estimated/modelled data.[5] We use a third party (S&P) for our water and waste data who use their EEIO model (described above) to model impacts where there are gaps in reported data. We have no data on cooling water for a high proportion of our AUM as the data provider only estimates cooling water for utilities companies. The water data used in our 2022 report had an error – Huntsman Corporation's disclosure of direct water had a unit error and therefore was causing a significant increase in the water footprint. The error has been since corrected and the correct data now shown in Figure 24a below, which shows that the water footprint has remained stable year on year in both equity and credit. The waste footprint of our equity funds has increased since 2022. This is due to an increase in landfill waste for both China BlueChemical and The Mosaic Company. The waste footprint of our credit funds has decreased since 2022 which is due to the credit team selling out of CAP SA, which had a large contribution to landfill waste.

Figure 24a. Water footprint (m^3/\$m invested) of corporate credit and equity in FHL shareholder and participating funds.



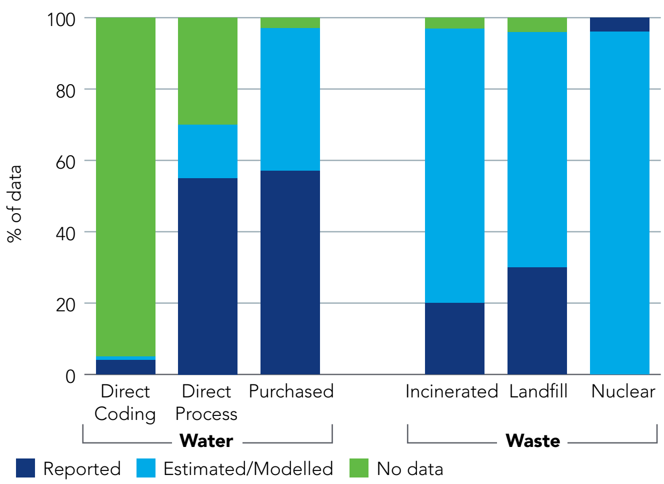
Source: Federated Hermes, Trucost, as at 31 December 2023.

Figure 24b. Waste footprint (tonnes/\$m invested) of corporate credit and equity in FHL shareholder and participating funds.



Source: Federated Hermes, Trucost, as at 31st December 2023.

Figure 24c. Breakdown of reported, estimated and non-disclosure of water and waste data of corporate credit and equity in FHL shareholder and participating funds.



Source: Federated Hermes, Trucost, as at 31st December 2023.

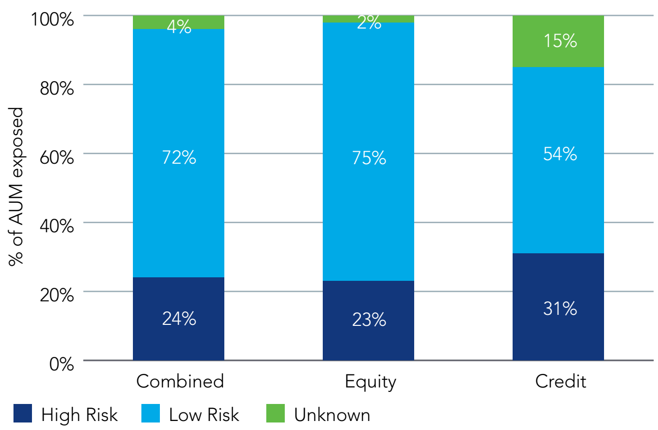
[4] Source: FHL, Net Purpose, Federated Hermes Impact Calculations

[5] Modelled data includes data where the value has been derived by the data provider using data reported by the company.

In line with our commitment on deforestation, we are working on assessing our potential exposure to commodity-driven deforestation. In line with the recommendations of Global Canopy, our first step has been to identify which of our investments are in high-risk sectors for exposure to commodity-driven deforestation. We have used Global Canopy's list of high-risk sectors to conduct this analysis.

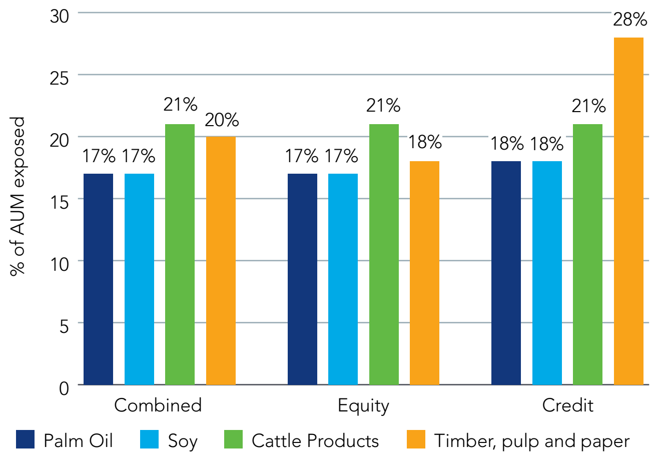
Figure 25a below shows the proportion of our AUM in public markets which is at high-risk of exposure to commodity-driven deforestation based on sector analysis. Figure 25b further splits this data out into the key forest-risk commodities and shows that timber, pulp, and paper is the most common commodity for those investments in sectors at high risk of exposure to forest-risk commodities. This analysis is based only on sectors and does not assess whether companies have actual exposure to these commodities. Therefore, this data cannot be used alone to assess a company's deforestation risk and additional research is required.

Figure 25a. Public markets exposure (% of AUM) to sectors at high risk of exposure to commodity-driven deforestation in FHL shareholder and participating funds (credit and equity)



Source: Federated Hermes, Global Canopy, as at 31 December 2023.

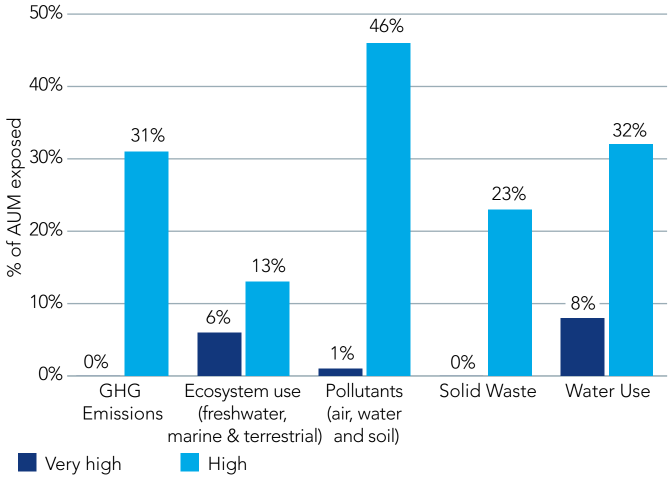
Figure 25b. Public markets exposure (% of AUM) to potential forest-risk commodities, identified through sector at risk analysis in FHL shareholder and participating funds (credit and equity).



Source: Federated Hermes, Global Canopy, as at 31 December 2023.

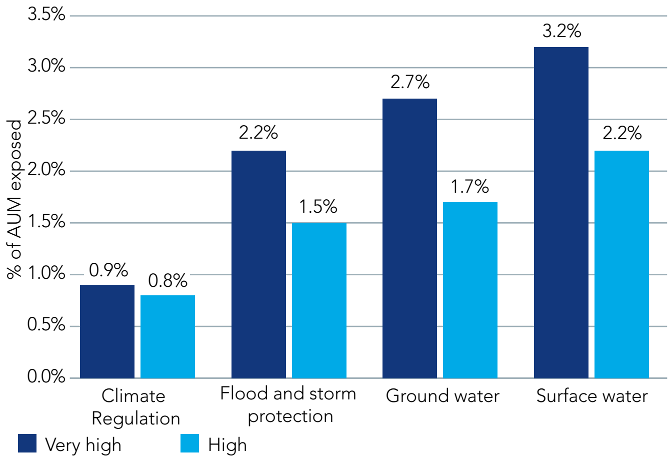
In line with our commitment to strive to eliminate commodity-driven deforestation from our portfolios by 2025 at COP26, in 2023 we published our first reporting on deforestation risk assessment and mitigation activities across our public markets, real estate, infrastructure and direct lending AUM. In public markets, for example, we disclosed the proportion of AUM which is on the Forest 500 list. Global Canopy's Forest 500 list ranks the most influential companies driving tropical deforestation. The list focuses on the 350 companies with greatest influence on tropical deforestation, based on their exposure to forest-risk commodities, and the 150 financial institutions which are providing the most finance to them. It ranks them based on the strength and implementation of their commitments on deforestation and human rights. We also looked at the engagement coverage of these companies on the issue of deforestation. Approximately 50% of names held in our public markets' strategies on the Forest 500 list were being engaged on deforestation as at 30 September 2023. In 2024, we will continue to enhance our deforestation exposure analysis and reporting in public markets as data availability improve.

Figure 26a. Public markets exposure (% of AUM) to potential impacts on biodiversity (very high and high materiality) in FHL shareholder and participating funds (credit and equity)



Source: Federated Hermes, ENCORE, as at 31 December 2023.

Figure 26b. Public markets exposure (% of AUM) to potential dependencies on biodiversity (very high and high materiality) in FHL shareholder and participating funds (credit and equity)



Source: Federated Hermes, ENCORE, as at 31 December 2023.

As a first step towards assessing our impacts and dependencies on biodiversity, we first looked at our exposure to the sectors identified as at risk by the Taskforce on Nature-related Finance Disclosures ("TNFD"). 32% of our public markets AUM sits in these sectors at risk (as at 31 December 2023).

We have also analysed our exposure to sub-industries that have potential high and very high impacts and dependencies. Figure 26a and b show that through our sub-industry exposure, we have the greatest exposure to sub-sectors with potential impact on biodiversity through pollutants, and potential dependency on water (both surface and ground water). This analysis is based only on sectors and sub-industries and does not assess companies' actual impacts and dependencies, and therefore is somewhat more limited in its use in the investment process for understanding a company's nature-based risk. It can be used to identify material sectors and industries that we should focus on and the type of analysis to be performed based on the type of exposure. This provides the investment teams a good starting point in their investment process. We will continue to develop our approach to assessing our exposures during 2024.

We provide additional reporting for some of our strategies. For example, our Impact Opportunities annual report, published in October 2023, contained positive impact metrics estimating the total impact of investee companies during 2022. This included 80.1m megawatt hours of clean energy generated and 912,000 tons of waste recycled through product solutions, plus a further 496,000 through recycling programmes in operations.[6]

Our Impact Opportunities annual report, published in October 2023, contained positive impact metrics estimating the total impact of investee companies during 2022. This included

80.1m megawatt hours of clean energy generated

[6] FHL, "Impact Opportunities Annual Report" (2023). Data is sourced from Net Purpose and Federated Hermes Impact calculations, as at 30 September 2023.

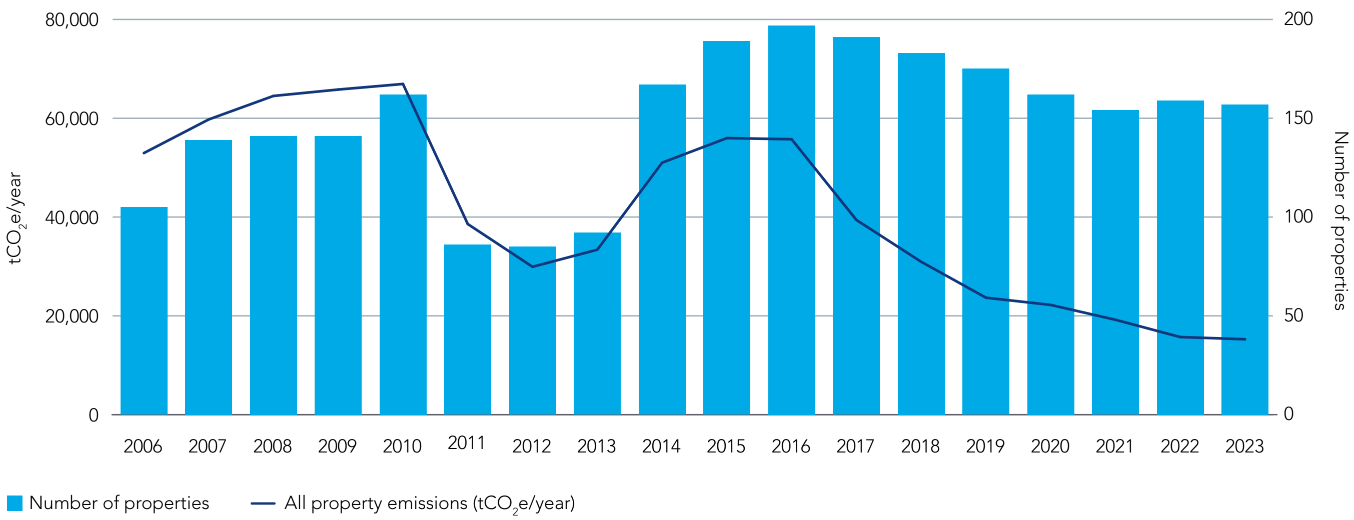
Real Estate

In 2019 we set a target to reach net zero by 2035 this includes all scopes of carbon emissions from both landlord and occupier use. In the last 12 months there has been a reduction of 57% (Location Based emissions) from the 2018 baseline. During 2023, we have focused on establishing costed net zero plans for assets working with a number of specialist consultants and taking action to deploy on site photovoltaic energy generation at both industrial and retail assets alongside targeting low embodied carbon developments at new buildings in Leeds, Birmingham, and Manchester.

Figure 28a shows the long-term performance of our portfolio. It depicts the annual emissions from energy usage for areas we manage in our real estate portfolio. The chart includes only the properties within our real estate portfolio for which we supply energy. There may be areas within these properties for which we do not supply energy as they are managed by our tenants, and which are therefore not captured in the chart below. Due to variation in the size and energy needs of individual assets, it is not feasible to normalise the carbon footprint for the whole portfolio by floor area. However, the chart below shows that in 2010 66,939 tCO_2e were emitted by 162 properties and in 2023 only 15,262 tCO_2e were emitted by 157 properties.

During 2023, proactive property management including onsite renewable generation and smart building technology have helped to ensure that absolute carbon emissions continued to fall. This was also supplemented by the continued decarbonisation of the UK grid and use of 100% green electricity for all assets where we have freedom to negotiate supply contracts. In the last 12 months we have gained control of further energy procurement leaving only one asset where we are reliant on a grid-based supply.

Figure 27a. Changes in absolute carbon emissions (Scope 1 and 2) for all properties in landlord-controlled standing portfolio between 2006 and 2023



Source: Federated Hermes, Accenture Adapt Platform, as at 31 December 2023.

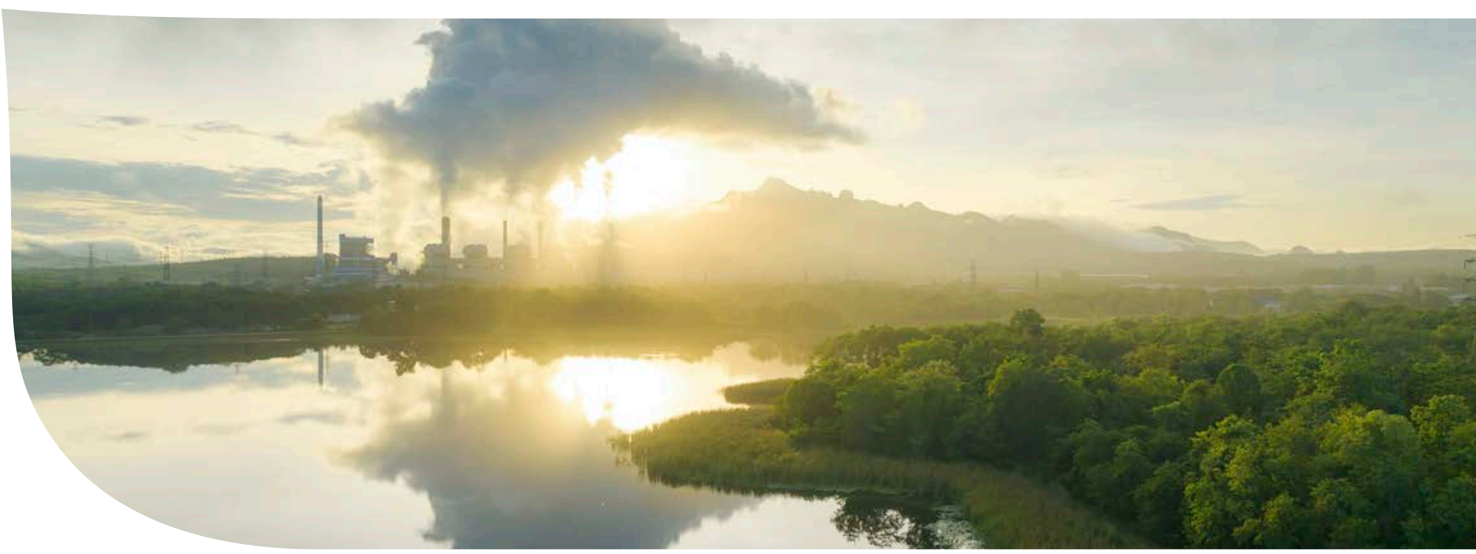
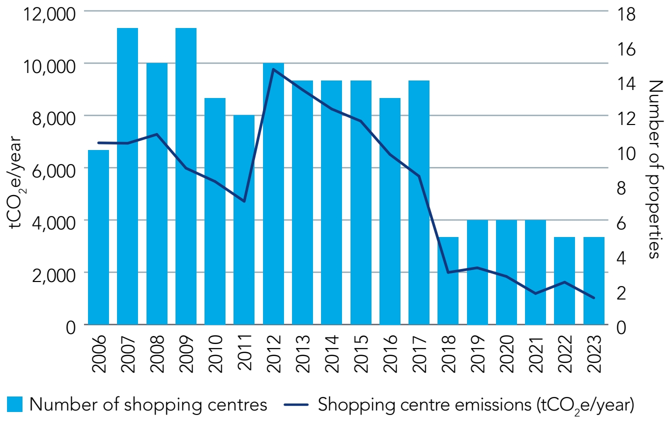
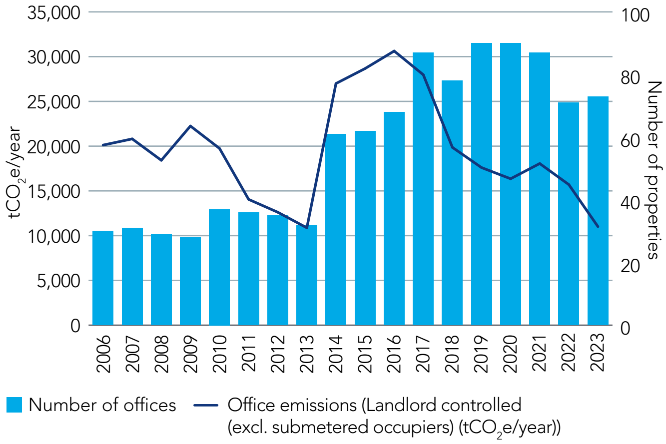


Figure 27b. Changes in absolute carbon emissions (Scope 1 and 2) for shopping centres in landlord-controlled standing portfolio between 2006 and 2023



Source: Federated Hermes, Accenture Adapt Platform, as at 31 December 2023.

Figure 27c: Changes in absolute carbon emissions (Scope 1 and 2) for offices in landlord-controlled standing portfolio between 2006 and 2023



Source: Federated Hermes, Accenture Adapt Platform, as at 31 December 2023.

We have been able to make reductions through new technology deployment.

As of 31 December 2023, offices account for 75% of overall portfolio emissions, compared with 9% for shopping centres. Other retail and industrial buildings account for 15%.

The above figure shows the annual change in CO_2 emissions on a like-for-like basis for each real-estate asset class over a period of 12 months. In all asset classes we have seen a mixed picture on energy consumption. Where we are landlords and we can control operations, we have been able to make reductions through new technology deployment such as smart building technology, energy procurement and on-site renewable generation. Other assets where the control is limited have seen increases against the previous year, in part due to restrictions on trading within the first part of 2022.

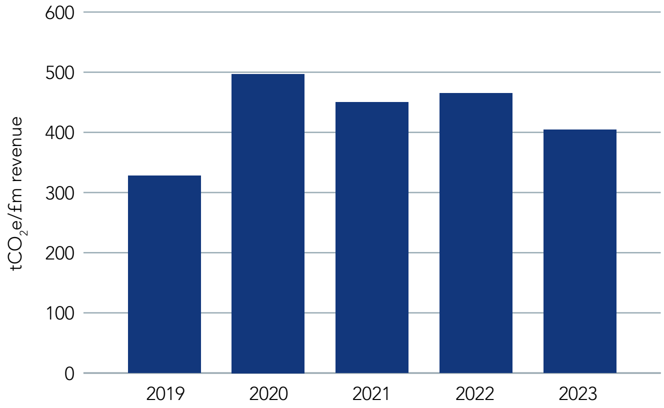
Infrastructure

Our infrastructure team has been collating Scope 1 and 2 carbon emissions data from its portfolio companies since 2017. All companies, except one renewable Special Purpose Vehicle, report on their Scope 1 and 2 emissions (representing over 99% coverage overall by NAV as at 31 December 2023).[7] We use this data to monitor the emissions of our infrastructure portfolio. When calculating the emissions of our portfolio, we use gross figures and do not include any 'avoided' emissions from renewable energy generation. Gross Scope 1 and 2 emissions across the portfolio companies we are invested in decreased by 12.7% in 2023 versus 2022. The largest emitters, Cadent (the UK's largest gas distribution network) and Viridor (a leading UK recycling, resource and waste management company) together make up 81% of gross emissions in the infrastructure portfolio (37% and 44% respectively). The decrease year-on-year was primarily driven by the disposal of Viridor's landfill business. If the emissions reduction associated with the landfill business is excluded, the decrease across the portfolio would have been 2.2%. Cadent's gas leakages, comprising c.95% of its overall greenhouse gas emissions, continue to decrease as a result of an ongoing mains replacement programme, which is overhauling largely iron pipes with modern alternatives. The individual emissions for eight of the nine direct investments that report on Scope 1 and 2 emissions decreased in 2023 versus 2022, with the other company recording a marginal increase.

The infrastructure team also engages with portfolio companies to report Scope 3 emissions, and 79% of companies by NAV now report on these, an increase of 6% versus 2022 as our fund investments started to report on Scope 3 emissions.

Alongside the reduction in absolute emissions, as shown in Figure 27, the WACI decreased 13.0% between 2022 and 2023. The emissions reductions were supported by robust trading across most of the portfolio in 2023. We continue to engage with all portfolio companies to establish targets and further reduce their emissions in line with the needs of the Paris Agreement and UK carbon budgets.[8]

Figure 28. The weighted average carbon intensity of our infrastructure portfolio (tCO_2e/£m revenue, weighted by the proportion of each investment in the portfolio)[9]



Source: Federated Hermes as at 31 December 2023.

Corporate Targets & Metrics

Corporate emissions targets

Operational emissions reduction targets:

Our operational emissions targets are reviewed annually and are based on data captured in the Federated Hermes Environmental Management System ("EMS") and Streamlined Energy and Carbon Reporting ("SECR") methodologies. Our 2019 baseline was:

- Absolute total emissions: Scope 1 – 1.13 tCO_2e; Scope 2 – 202.1 tCO_2e
- Emissions Intensity (Scope 1 & 2): 0.44 tCO_2e/FTE[10]

We are targeting a further reduction in our energy intensity (based on our operational emissions per FTE) of 25% by 2030 relative to the 2019 baseline.

Using an intensity metric as the basis of our operational emissions target allows us to track progress whilst allowing for changing office space and FTE numbers, which in turn will have a direct impact on office size, energy consumption and emissions. As the organisation's size evolves, we will work with our external environmental consultants combined with the internal knowledge base via our EMS to maximise efficiency gains and ensure that the targets remain fit for purpose.

The 2019 emissions intensity baseline was based on the Scope 1 and 2 electricity and gas consumption and FTEs for 150 Cheapside (London), Gutter Lane (the London offices of HGPE) and estimates for MEPC offices only. We have used location-based emissions factors – in line with SECR methodologies – to calculate the emissions associated with our energy consumption on site and corresponding energy intensity. This means that any use of renewable energy is not represented in these metrics, as they are based on the average emissions intensity of the grid, although our Landlord sources 100%

[7] Some of the underlying emissions figures are draft and could be subject to change and/or restatement.

[8] Note, interest in Anglian Water was divested in 2022; A Shade Greener I & II was divested in 2023. This does not have a material impact on the WACI.

[9] If the Viridor landfill business were included in the 2023 calculation, the 2023 WACI would have been 421.

[10] Energy intensity for our offices is calculated by dividing energy consumption by the number of FTEs. This is calculated on a monthly basis and averaged over the year.

renewable electricity for our head office (150 Cheapside). Reductions in our energy intensity will therefore result from energy efficiency measures and grid decarbonisation.

We committed to track progress against our targets including FTEs from our other offices and estimations for gas and electricity consumption in these additional offices.[11] Therefore, our reporting on progress towards our target for 2023 includes reported or estimated emissions and headcount data for all of our offices, which in some cases includes Scope 3 emissions.[12] In 2023, our operational emissions intensity was 0.33 tCO_2e/FTE, which represents a 25% reduction from our 2019 baseline.

Travel emission reduction targets:

One of the key risks identified by EMS and the CNWG in relation to climate is company risk from operational emissions, notably travel emissions. As a result, in 2021 we established ambitious reduction targets for employee travel. We have committed to reducing our emissions from business-related travel by 50% from a 2019 baseline by 2030, whilst establishing internal mechanisms to monitor annual progress including monthly emissions tracking and updated guidance within our Travel Policy. As we implemented monitoring against our targets during 2023, we found that a per capita target is more relevant and meaningful than an absolute target. A per capita target allows for us to expand the scope of which colleagues are included in our target, as well as allowing for the growth of the business.

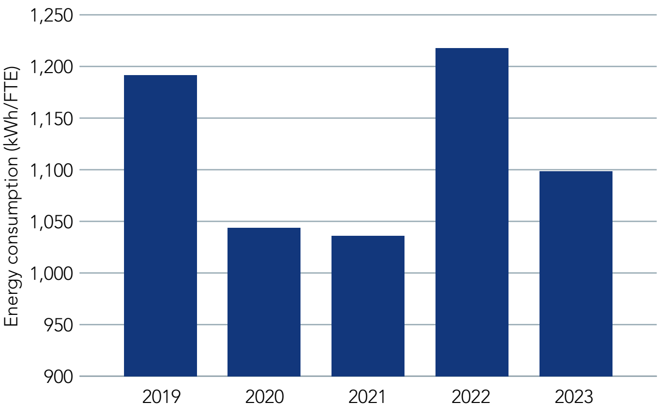
We have committed to reducing our per capita emissions from business-related travel by 50% from a 2019 baseline by 2030.

Our 2019 baseline was 4.33 tCO_2e/FTE. In 2023, our per capita emissions from business-related travel were 3.55 tCO_2e/FTE.[13] This represents an 18% reduction from the 2019 baseline.[14]

As anticipated, our travel emissions increased over 2023 as the company entered a period of growth and travel increased again as Covid-19-related restrictions eased. We describe in the Strategy section how we are seeking to identify opportunities to reduce emissions in the future.

Corporate emissions metrics

Figure 29. Energy consumption (kWh) per full time employee at 150 Cheapside offices in 2023



Source: Federated Hermes, Cushman and Wakefield as at 31 December 2023.

Energy consumption in 2023 was 1,099 kWh per full time equivalent ("FTE")[15] at 150 Cheapside.

We continue to report energy consumption across all of our offices. Our Scope 1 and 2 energy consumption from our offices, plus estimated consumption from our serviced offices, in 2023 was 1,452 kWh per FTE. 11% of this figure is based on estimated data. These figures are calculated using a location-based methodology. This means that any use of renewable energy is not represented in these metrics, as they are based on the average emissions intensity of the grid, although our Landlord sources 100% renewable electricity for our head office (150 Cheapside).

The reduction in energy consumption per FTE is a result of multiple factors including energy efficiency improvements on site, such as lighting and control upgrades, as well as a higher density work environment where more employees are assigned to the largest contributor to our Scope 1 and 2 emissions – 150 Cheapside. With this higher occupancy density, our 150 Cheapside offices uses more energy overall, but core functions have a baseline that is not affected by slight changes in building occupancy.

[11] FHL has used the main requirements of the GHG Protocol Corporate Standard (revised edition) as a basis to report operational emissions. Data was gathered at site level to compile the carbon footprint. The International Energy Agency (IEA) and DEFRA UK Government Conversion Factors for GHG Company Reporting have been used to convert activity data into tCO_2e emissions. For measuring progress against our targets, actual data will be prioritised, however in instances where this is not available, consumption data will be estimated using the following methods: Average daily consumption for any unknown period within the same reporting year, substituting actual consumption for known periods in place of those missing, apportioning building level consumption data based on the company's leased floor area, or the 2021 CIBSE Guide F Benchmarks where no data was available (using the associated asset type's benchmark and multiplying this by the occupied floor area of the assets). For measuring progress against our targets, we have used IEA Conversion Factors for UK and non-UK offices to allow comparability.

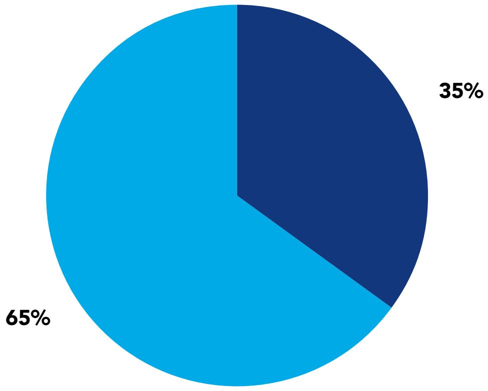
[12] Our non-UK offices fall under our Scope 3 emissions as they are serviced offices, however we have also included them in our calculations alongside our Scope 1 and 2 emissions from our UK offices for completeness. For 2023, 150 Cheapside and Silverstone Park gas emissions have been reclassified as Scope 3 due to lack of operational control by FHL but have still been included in our calculations alongside our Scope 1 and 2 emissions from our UK offices for completeness. Transmission and distribution emissions are also included where we have control over consumption and procurement.

[13] These figures are based largely on reported data, with estimated data based on average emissions per FTE for 12% and 11% of employees in 2019 and 2023 respectively.

[14] In absolute terms, travel emissions were down from 1,840tCO_2e in 2019 to 2,209 tCO_2e in 2023, an increase of 20%.

[15] Full time equivalent figures include temporary staff. Part time employee headcount is pro-rated based on the number of days worked. Employees on parental leave and long-term sick leave are not included. Consultants, non-executive directors, and visitors such as auditors are not included. The figures are based on a two-point average (based on headcount at the start and end of the calendar year).

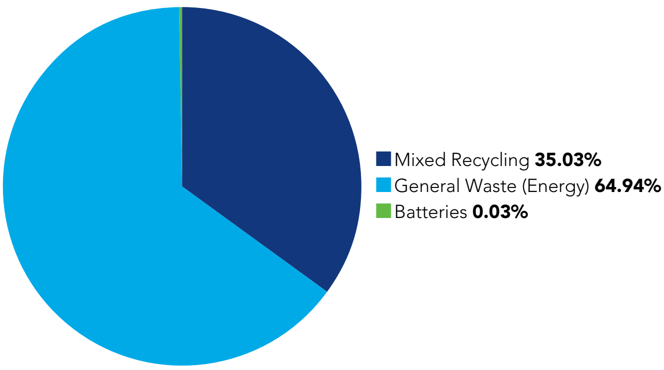
Figure 30. Recycled vs non-recycled waste (kg) (150 Cheapside) in 2023



	Recycled	Not Recycled
Volumes of Waste (Kg/FTE)	75	138
Proportion of Waste	**35%**	**65%**

Source: Federated Hermes, Cushman and Wakefield as at 31 December 2023.

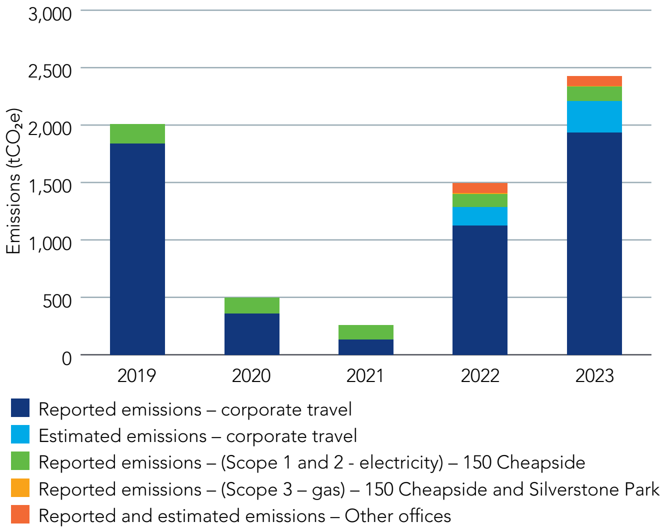
Figure 31: Proportion of waste per disposal type at 150 Cheapside Offices in 2023



Source: Federated Hermes, Cushman and Wakefield as at 31 December 2023.

As described in the Risk Management section, the methodology for reporting on waste volumes and diversion from landfill proportion has been updated for 2023 due to the pursuit of more accurate data. To achieve this, the streams of food and glass waste have been removed from the analysis to reflect the low to zero amounts of segregated waste in these streams disposed of by FHL compared with the other tenants occupying the building. This removal of two significant recycling streams has reduced our recycling percentage significantly to 35%. This however is likely to be a worst-case figure, as the limited data granularity only allows for the apportionment of the whole building data by floor area, which may mean that other tenants within the building are impacting our recycling rate by disposing of greater amounts to general waste, therefore offsetting recycling amounts.

Figure 32. Travel and Building emissions in 2023



Year	2019	2020	2021	2022[16]	2023[17]
Reported Emissions – Corporate Travel	1,840	360	134	1,125	1,935
Estimated Emissions – Corporate Travel	-	-	-	160	274
Reported Emissions (Scope 1 and 2 – Electricity) – 150 Cheapside	168	136	124	115	125
Reported Emissions (Scope 3 – Gas) – 150 Cheapside and Silverstone Park[18]	-	-	-	6.86	6.75
Reported and Estimated Emissions – Other Offices	-	-	-	86	83
Total Emissions	**2,008**	**496**	**258**	**1,493**	**2,424**

Source: Federated Hermes, Reed & Mackay as at 31 December 2023.

We continue to report the total Scope 1 and 2 building emissions across all of our offices. The Scope 1 and 2 building emissions from all of our offices, plus estimations from electricity use in our serviced offices, in 2023 was 208 tCO_2e, a 3.61% increase on the previous year. Whilst energy reduction measures were made in 150 Cheapside and Gutter Lane and our energy consumption per FTE decreased, increased headcount resulted in our Scope 1 and 2 building emissions from all of our offices increasing over 2023. 16% of this figure is based on estimated data, which is higher than the 8% estimated in 2022 due to lower data availability for international APAC offices. These figures are calculated using a location-based methodology. This means that any use of renewable energy is not represented in these metrics, as they are based on the average emissions intensity of the grid, although our Landlord sources 100% renewable electricity for our head office (150 Cheapside).

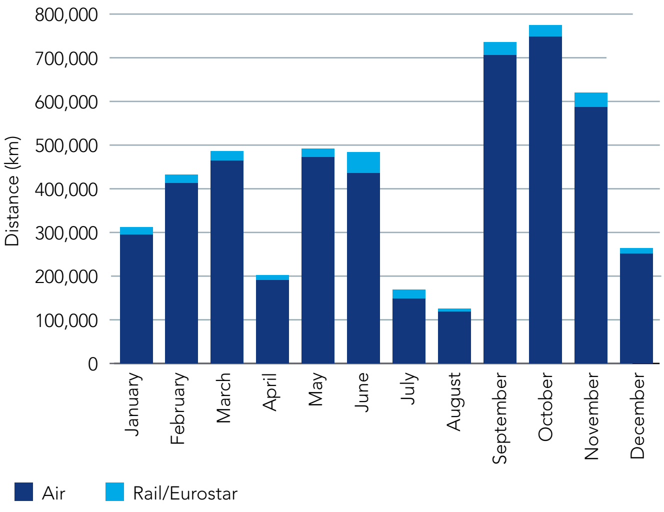
[16] The 2022 travel emissions data has been subject to data revisions following additional information provision by our travel provider. These discrepancies are the result of the booking and logging of travel data toward the end of the month, which is captured in the end of month data freeze, and the subsequent cancelation of these trips. These changes are only captured when the data is superseded with additional data provisions. The 2022 operational emissions data has also been subject to data revisions. As we have moved to using IEA emissions factors in analyses where non-UK offices are included, we have updated our 2022 emissions figures accordingly.

[17] The 2023 emissions data is provisional to allow for any changes to the emissions factors.

[18] For 2023, 150 Cheapside and Silverstone Park gas emissions have been reclassified as Scope 3 due to lack of operational control by FHL.

As well as including our reported emissions for corporate travel by rail and air, we have also included estimated travel emissions based on a per capita average for those colleagues for whom we do not have travel data.

Figure 33: Total distance of corporate travel in 2023



Distance (km)	2022[19]	Proportion of total	2023	Proportion of total
Distance travelled by rail/Eurostar	148,192	4%	267,494	5%
Distance travelled by airplane	3,565,165	96%	4,830,469	95%
Total distance	**3,713,357**	**100%**	**5,097,963**	**100%**

Source: Federated Hermes, Reed and Mackay as at 31 December 2023.

We made a significant change to the travel policy in 2023 to reduce business class flights, which has helped to reduce emissions between our two main offices in London and Pittsburgh and will help reduce our emissions in future years.

As anticipated, our travel emissions increased over 2023 as the company entered a period of growth and travel increased again as Covid-19-related restrictions eased. We will continue to strive towards our travel emissions reduction target by working with our travel provider to identify opportunities whilst still facilitating effective business operations. These opportunities include further changes to the travel policy and further use of technology.

As well as measuring its GHG emissions, FHL aims to offset its Scope 1 and Scope 2 emissions and corporate air and rail travel emissions. Due to an internal change in responsibility for managing our offsets and our external offsetting partner having paused their offering, during 2024 we have selected a new provider to offset our 2021, 2022 and 2023 operational and travel emissions.

In calculating our 2022 and 2023 offsets, we have included reported or estimated emissions for all of our offices, including those outside of the UK. This also includes some Scope 3 emissions.[20] As with the reporting of our operational emissions, we use a location-based methodology to calculate the operational emissions for our offsetting, meaning that we calculate the total using grid intensity and do not factor in that our Landlord purchases renewable data for our head office. We have also included estimated travel emissions based on a per capita average for those colleagues for whom we do not have travel data.

[19] The 2022 travel emissions data has been subject to data revisions following additional information provision by our travel provider. These discrepancies are the result of the booking and logging of travel data toward the end of the month, which is captured in the end of month data freeze, and the subsequent cancelation of these trips. These changes are only captured when the data is superseded with additional data provisions.

[20] Our non-UK offices fall under our Scope 3 emissions as they are serviced offices, however we have also included them in our calculations alongside our Scope 1 and 2 emissions from our UK offices for completeness. For 2023, 150 Cheapside and Silverstone Park gas emissions have been reclassified as Scope 3 due to lack of operational control by FHL but have still been included in our calculations alongside our Scope 1 and 2 emissions from our UK offices for completeness. Transmission and distribution emissions are also included where we have control over consumption and procurement.

[21] This total reflects the restating of our 2022 emissions figures described earlier in this section.

We worked with external partners to acknowledge and address the impact of our unavoidable emissions through use of carbon finance. To offset our 2021, 2022 and 2023 operational and travel emissions, in 2024 we invested in a high-quality carbon removal project to remove a total of 4,175 tCO_2e[21] in a developing country context which met our standards, while also featuring strong nature and social co-benefits:

Miro is a West African forestry company, operating FSC-certified plantations that are a combination of sustainable timber production and conservation areas. They are an implementation provider for reforestation projects, with experience in forestry programmes and over 20,000 hectares already under management across Ghana and Sierra Leone. As the largest forestry group in West Africa, Miro's in-country operations employ 1,500 people and have built over 200km of roads for timber operations, with more than $100m invested in the region to-date (which has lost nearly 90% of its forests to deforestation). The project we purchased credits from in Ghana is registered under the Verra Afforestation, Reforestation and Revegetation ("ARR") methodology AR-ACM0003 and constitutes carbon removals. The project plants trees within the heavily degraded Boumfoum, Chirimfa, and Awura forest areas, as well as works with local farmers to implement agroforestry techniques for healthy soil, with the aim of establishing 12,000 hectares of sustainable plantations. We selected this project based on Miro's forestry-specific expertise and track record in the region, ensuring continuity and success of the reforestation activities, and to support ongoing project scaling and expansion.

The path ahead

We recognise there is still significant work needed to be done to limit temperature warming to less than 1.5°C above pre-industrial levels. We will continue to leverage our engagement and proxy voting capabilities to elevate the ambition and action of our portfolio companies, and we will continue to support a focused range of advocacy initiatives in an effort to encourage a transformation of the whole industry. FHL has sought to report on a wide range of environmental metrics, in an effort to understand the climate-related risks, and where possible nature-related risks, our portfolios are exposed to. We continue to further incorporate nature into our approach and explore metrics to better identify the positive opportunities offered by the transition. The TCFD and TNFD recommendations on metrics formed the basis for ongoing dialogue across our firm on how to provide robust, best-in-class disclosure. At the same time, we are aware that the methods and data required to evaluate climate and nature exposure are still advancing and maturing, and as such we will continue to focus our efforts on incorporating the most robust and forward-looking approaches over time.

Appendix I – Climate-related Financial Disclosures Entity Report for Hermes GPE LLP

Task Force on Climate-related Financial Disclosures

Entity Report for Hermes GPE LLP 2023

About the Firm

Hermes GPE LLP ("**HGPE**" or "**the Firm**") is an asset manager based in the UK that is authorised and regulated by the Financial Conduct Authority ("**FCA**"). The Firm is a subsidiary of Federated Hermes Limited ("**FHL**"), and its ultimate parent undertaking is Federated Hermes, Inc. ("**FHI**").

Purpose of this document

As an FCA-regulated asset manager, HGPE is required to make certain climate-related disclosures regarding its consideration of climate-related matters when managing assets on behalf of its clients. The Firm is required to publish a "**TCFD entity report**" that is consistent with the Task Force on Climate-Related Financial Disclosures ("**TCFD**") Recommendations and Recommended Disclosures. The TCFD entity report must describe the Firm's governance, strategy and risk management arrangements with respect to climate-related matters, as well as relevant climate-related metrics and targets.

Approach to disclosure

Federated Hermes takes an integrated approach to the management of climate and nature related risks and opportunities across its business. We publish a Climate and Nature Related Financial Disclosures Report for FHL and certain of its subsidiaries including the Firm (the "FHL TCNFD Report"). This document supplements, and should be read in conjunction with, the FHL TCNFD Report for 2023. The table below identifies parts of the FHL TCNFD Report for 2023 that are relevant to HGPE.

Reporting period for this TCFD entity report

This document, together with the FHL TCNFD Report for 2023, comprises the TCFD entity report for HGPE for the period of 1 January 2023 to 31 December 2023 ("**2023 HGPE TCFD Report**"). The data in the 2023 HGPE TCFD Report is as of 31 December 2023 [unless otherwise indicated].

Scope of this TCFD entity report

The 2023 HGPE TCFD Report provides information relating to HGPE's TCFD "in-scope" business which consists of the private market strategies of private equity and infrastructure. These investment strategies are available to investors through our range of unauthorised/unlisted alternative Investment funds (AIFs) and individual management arrangement (also known as segregated mandates).

References to "Federated Hermes" in this document refer to FHL, the Firm and the other subsidiaries of FHL within the scope of the FHL TCNFD Report (see page 6).

Product specific disclosures

In the event that there is any material difference between the relevant governance, strategy or risk management arrangements disclosed in this 2023 HGPE TCFD Report and the approach taken for a particular product within HGPE's TCFD in-scope business.

Compliance statement

We confirm that the disclosures made in this document together with the parts of the FHL TCNFD Report relevant to HGPE's consideration of climate-related matters (as indicated in the table below), comply with the requirements relating to TCFD entity reports at Chapter 2 of the FCA's Environmental, Social and Governance Sourcebook.

Steve McGoohan

Director

Hermes GPE LLP

[1] Required by chapters 2.1 and 2.2 of the Environmental, Social and Governance Sourcebook issued by the FCA.

[2] The Recommendations of the Task Force on Climate-related Financial Disclosures (Final Report) dated June 2017 ("**TCFD Report**") as supplemented by other documents published by the TCFD including the Annex to the TCFD Report entitled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' dated October 2021.

Governance

Recommended disclosure (a) – Board/governing body oversight

Describe the board/governing body's oversight of climate-related risks and opportunities.

Please see the "Governance" section (pages 9-11) in the FHL TCNFD Report. The following table identifies the governance bodies that are relevant to the Firm's operations, and the frequency of consideration of climate-related issues.

Governance body	Responsibility for climate-related risks and opportunities	Frequency of climate focussed discussions
HGPE governing body	Oversight of HGPE's business, including its operations, systems and controls, and the conduct of activities and provision of services by HGPE.	[0][3]
Governance Oversight Committee (GOC)	Oversees sub-committees, group committees, departments, business units, control functions and senior personnel involved in HGPE's business. Acts under the authority of, and reports to, HGPE's governing body.	N/A[4]
Sustainability Regulations and Stewardship Oversight Committee (SRSOC)	Oversees the formulation and delivery of engagement, voting and climate policies that are adopted by HGPE, [and is responsible for proposing climate-related targets that may be adopted by Federated Hermes and apply to HGPE]. The SRSOC is supported by Federated Hermes' Responsibility Office and stewardship team, (described below). The SRSOC also oversees compliance with climate-related disclosure requirements. Acts under the authority of, and reports to, the GOC.	[Quarterly][5]

Recommended disclosure (b) – Management role

Describe management's role in assessing and managing climate-related risks and opportunities.

Please see the "Governance" section (pages 9-11) in the FHL TCNFD Report. The following table identifies the way the Firm's management and senior leaders are able to monitor and assess climate-related risks and opportunities.

Committees, working groups and functions supporting management	Responsibilities
Responsibility Working Group (RWG)	Acts as a communication forum that discusses a range of topics that relate to the delivery of responsible wealth creation for clients that have appointed HGPE to provide investment management services. The RWG shares best practices across Federated Hermes Ltd including HGPE.
Climate and Nature Working Group (CNWG)	Provides feedback and recommendations on climate and nature related issues to business functions, including those supporting HGPE, with a view to developing and implementing a climate change and nature strategy and risk management approach across Federated Hermes Ltd, including HGPE.
Committees, working groups and functions supporting management	**Responsibilities**
Investment teams	HGPE's investment teams are ultimately responsible for its provision of investment management services and the integration of sustainability matters. The investment teams are overseen by the following investment committees: • For the infrastructure investment strategy, the Infrastructure Investment Committee, which is accountable for all sustainability matters related to the infrastructure investment strategy and assets within infrastructure portfolios. • For the private equity investment strategy, the Private Equity Investment Committee (PEIC), which is responsible for all investment risks, including climate change risk. The Private Equity Portfolio Review Committee, a sub-committee of the PEIC, assesses portfolio-level ESG risks including climate change risks on a quarterly basis. These Committees are accountable for all sustainability matters related to the private equity investment strategy and assets within the private equity portfolios. Investment teams have access to the Responsibility Office, including the ESG Integration team within the Responsibility Office, and EOS, including the tools, data, analysis and expertise of those functions.
Responsibility Office	Supports HGPE's implementation of Federated Hermes' responsible investor and responsible owner strategy. The Responsibility Office makes data, tools and analysis available to HGPE personnel, undertakes policy and advocacy activities for the benefit of Federated Hermes, and monitors and proposes updates to the Climate Action Plan. It provides reporting to the SRSOC, GOC and HGPE's board of directors. The Head of Responsibility reports directly to the FHL CEO.
Risk and Compliance	These control functions provide independent oversight of HGPE's activities, including the Firm's management of climate-related risks and compliance with relevant law and regulation.

[3] Commencing in 2024 the HGPE governing body receives a formal annual update on the implementation of its climate investment and engagement activities, and other updates as necessary. (In previous years updates were provided to FHL.) The stated frequency does not include the HGPE governing body's consideration of climate-related matters at other times (such as when considering risk management, capital adequacy, and investment and product updates).

[4] The GOC was established in 2024, and therefore no frequency information is provided for 2023.

[5] The SRSOC was established in 2024 as a successor of the Governance Committee; the frequency information for 2023 is that for the Governance Committee.

Strategy

Recommended disclosure (a) – Identification of risks/opportunities
Describe the climate-related risks and opportunities that the organisation has identified over the short, medium and long term.

Please see the "Strategy" section (pages 12-25) in the FHL TCNFD Report, and in particular the section headed "Climate-related risks and opportunities" (pages 12-14).

Recommended disclosure (b) – Impact on organisation and transition planning
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Please see the "Strategy" section (pages 12-25), and specifically the section called "*The impact of climate- and nature-related risks and opportunities on our business, strategy, and financial planning*" (page 16) in the FHL TCNFD Report.

In relation to the Firm's corporate operations: Please see the section headed: (i) "Alignment across our business and with our third-party suppliers" (pages 17-18); (ii) "Corporate environmental impacts" (pages 21-23); and (iii) "Corporate Travel Policy" (page 23).

In relation to the development of products manufactured by the Firm: Please see the section headed "Product development" (page 17).

In relation to the Firm's investment management activities: The strategy for the Firm's provision of investment management services and activities is described under "Implementing our strategy" (see page 19), which includes a description of the "Climate Action Plan" (see page 19-20), as well within the "Risk Management" section, specifically Infrastructure and Private Equity sub-sections (pages 41-43). There may be differences in how our strategy is implemented for the different investment strategies provided by the Firm. For instance:

- For our infrastructure investment strategy, please see page 25.

Recommended disclosure (c) – Scenario analysis
Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

Please see the "Strategy" section (pages 12-25) in the FHL TCNFD Report, and in particular the section headed "Assessing the resilience of our strategy under different scenarios" on page 23, which focuses on the investment management activities of the Firm. That applies to the following investment strategies provided by the Firm:

- Infrastructure

The following asset classes provided by the Firm are not covered by the scenario analysis described in the FHL TCNFD Report:

- Private equity

Risk management

Recommended disclosure (a) – Identifying climate-related risks.
Describe the organisation's processes for identifying and assessing climate-related risks.

Please see the "Risk management" section (pages 26-45) in the FHL TCNFD Report, including the description of the Risk Management Function that is in place for the Firm. In particular, please see the section headed "Investment risk management" (pages 27-29) and the sub-sections headed "Risk Prioritisation" and "Risk Identification" (pages 27-29).

The climate-related risk identification and assessment arrangements for the Firm are as follows:

- For our infrastructure investment strategy
- For our private equity investment strategy

Recommended disclosure (b) – Managing climate-related risks.
Describe the organisation's processes for managing climate-related risks.

Please see the "Risk management" section (pages 26-45) in the FHL TCNFD Report. This includes information for the following asset classes provided by the Firm:

- For our infrastructure investment strategy
- For our private equity investment strategy

Recommended disclosure (c) – Integration into overall risk management
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Please see the "Risk management" section (pages 26-45) in the FHL TCNFD Report.

Metrics and targets

Recommended disclosure (a) – Metrics for assessment of climate-related risks and opportunities
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Infrastructure

Federated Hermes Infrastructure collects ESG and climate related KPIs on an annual basis directly from each of our portfolio companies, including Scope 1, 2, and 3 emissions. This is used to track the weighted average carbon intensity ("WACI") of the portfolio annually. Federated Hermes Infrastructure also engages with management teams of portfolio companies to understand whether executive remuneration is linked to sustainability outcomes, and this is tracked as part of our annual ESG data collection. We make this information available to our investors as part of our annual reporting. We also provided quarterly updates where applicable.

These metrics and other relevant ESG and climate metrics are considered in the investment process through assessing opportunities against our internal Federated Hermes Infrastructure ESG Materiality Matrix. If an investment progresses then targeted due diligence takes place to further analyse and, if possible, quantify the level of risk or opportunity, including that related to climate change. The outputs from this process are presented to the Infrastructure Investment Committee and considered as part of the overall investment decision.

In 2021, we conducted a scenario analysis exercise to assess physical and transition climate risks and opportunities across our portfolio with Environmental Resource Management ("ERM"), a leading climate risk consultancy. We worked with ERM in 2024 to review recent updates to the climate scenario data used in the assessment in order to understand the potential for changes in the portfolio's exposure to climate-related risks and opportunities. This review will focus future scenario analysis to understand the latest exposures of each investment.

Private Equity

Private equity use Holtara for emissions estimations for holdings in our private equity funds, using an input output model, where net asset value ("NAV"), sector and geography are inputted and the model outputs emissions. The limitations of this model are that it relies on sector and geographic averages.

We use Scope 1 emissions (tCO_2e); Scope 2 emissions (tCO_2e); total operational carbon footprint – Scope 1 + 2 (tCO_2e); Scope 3 emissions (tCO_2e) and Scope 1 and 2 WACI (tCO_2e/£m val.) [where using "tCO_2e/£m val" we calculate WACI by £m of NAV so as to minimise estimated data from WACI by revenue.]

Recommended disclosure (b) – Metrics for GHG emissions

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Infrastructure

Since 2017, Federated Hermes Infrastructure has collated and reported Scope 1, Scope 2 and Scope 3, where available, emissions data associated with the investments in our portfolio. By Net Asset Value we have 99% coverage of Scope 1 and 2 emissions reported by December 2023. Federated Hermes Infrastructure uses this data to calculate and report the WACI for the portfolio (including Scope 1 and 2 emissions). When calculating our portfolio's emissions, we use gross figures and do not include avoided emissions from renewable energy generation. Steady gross emissions and WACI reductions have occurred since 2021, showing the positive impacts made across our portfolio. We continue to support our portfolio companies to establish targets and reduce emissions further in line with the Paris Agreement.

Infrastructure	Scope 1 financed emissions (tCO_2e)	Scope 2 financed emissions (location-based where available) (tCO_2e)	Total Scope 1 + 2 financed emissions (tCO_2e)	Scope 3 financed emissions (tCO_2e)	S1+2 WACI (tCO_2e/£m revenue)	S1–3 WACI (tCO_2e/£m revenue)
All infrastructure holdings	350,070	23,696	373,766	42,553	406.0	443.3

Source: Portfolio companies, reporting year 2023.

Private Equity

Private Equity	Scope 1 emissions (tCO_2e)	Scope 2 emissions (tCO_2e)	Total operational carbon footprint – Scope 1 + 2 (tCO_2e)	Scope 3 emissions (tCO_2e)	S1+2 WACI (tCO_2e/£m val.)	S1-3 WACI (tCO_2e/£m val.)
All Private Equity holdings	41,311	25,662	66,972	292,092	17.8	96.3

Source: Holtara as at 31 December 2023.

Recommended disclosure (c) – Targets and performance against targets
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Infrastructure

We adopted a Federated Hermes Infrastructure portfolio level target in 2022 for all portfolio companies to be aligned with the Paris Agreement's 1.5°C goal by 2025. We use a bespoke methodology focused on ensuring that portfolio companies have long-term net zero targets for 2050 or sooner and near-term targets aligned with the 1.5C goal of the Paris Agreement. These targets should be science-based through validation, for example by the SBTi. Using this methodology, we undertake a Paris Alignment test for our portfolio companies which scores them and classifies their level of alignment as a key performance indicator to track progress. Our investments may have additional climate and energy-related targets, aside from emissions reduction targets, at the company level.

Our 2023 assessment of our investments' alignment with the Paris Agreement, using data as at 31 December 2022, showed the following distribution of AUM across our categories of alignment:[6]

- 0% Aligned
- 9% Aligning
- 58% Committed to Net Zero
- 21% Not Aligned
- 12% Out of Scope (including two renewable energy assets and two social infrastructure funds with an external manager)

To achieve this target and appropriately manage climate-related risks and opportunities, our climate strategy and responsible investment policy is built around our active asset management approach through primarily direct equity stakes in portfolio companies that prioritises a strong governance foundation and focus on sustainability to deliver long-term, sustainable wealth for investors. To achieve this, sustainability factors and the consideration of climate-related risks and opportunities are fully integrated into the investment lifecycle.

Private Equity

Private equity does not have specific metrics targets. We are targeting to improve the data quality of our GHG emissions, and we engage with our general partners ("GPs") and portfolio companies to receive this information. We receive data from our portfolio by 30 June 2024, which means that it is not possible include in this report. However, we expect to include actuals together with estimated figures in product level TCFD reports.

[6] Note, at time of writing the 2024 assessment was not available.

Appendix II – Climate-related Financial Disclosures Entity Report for Hermes Investment Management Limited 2023

Task Force on Climate-related Financial Disclosures

Entity Report for Hermes Investment Management Limited 2023

About the Firm

Hermes Investment Management Limited ("**HIML**" or "**the Firm**") is an asset manager based in the UK that is authorised and regulated by the Financial Conduct Authority ("**FCA**"). The Firm is a subsidiary of Federated Hermes Limited ("FHL"), and its ultimate parent undertaking is Federated Hermes, Inc. ("FHI").

Purpose of this document

As an FCA-regulated asset manager, HIML is required to make certain climate-related disclosures regarding its consideration of climate-related matters when managing assets on behalf of its clients.[1] The Firm is required to publish a "**TCFD entity report**" that is consistent with the Task Force on Climate-Related Financial Disclosures ("**TCFD**") Recommendations and Recommended Disclosures.[2] The TCFD entity report must describe the Firm's governance, strategy and risk management arrangements with respect to climate-related matters, as well as relevant climate-related metrics and targets.

Approach to disclosure

Federated Hermes takes an integrated approach to the management of climate and nature related risks and opportunities across its business. We publish a Climate and Nature Related Financial Disclosures Report for FHL and certain of its subsidiaries, including the Firm (the "FHL TCNFD Report"). This document supplements, and should be read in conjunction with, the FHL TCNFD Report for 2023. The table below identifies parts of the FHL TCNFD Report for 2023 that are relevant to HIML.

Reporting period for this TCFD entity report

This document, together with the FHL TCNFD Report for 2023, comprises the TCFD entity report for HIML for the period of 1 January 2023 to 31 December 2023 ("**2023 HIML TCFD Report**"). The data in the 2023 HIML TCFD Report is as of 31 December 2023 [unless otherwise indicated].

Scope of this TCFD entity report

The 2023 HIML TCFD Report provides information relating to HIML's TCFD in-scope business", which consists of the provision of public equity markets, public credit markets investment strategies. These investment strategies are available to investors through our range of investment funds[3] and through individual management arrangements (also known as segregated mandates).

References to "Federated Hermes" in this document refer to FHL, the Firm and the other subsidiaries of FHL within the scope of the FHL TCNFD Report (see page 6).

Product specific disclosures

In the event that there is any material difference between the relevant governance, strategy or risk management arrangements disclosed in this 2023 HIML TCFD Report and the approach taken for a particular product within HIML's TCFD in-scope business, an explanation of such difference will be provided in Appendix III (see page 75).

Compliance statement

We confirm that the disclosures made in this document together with the parts of the FHL TCNFD Report relevant to HIML's consideration of climate-related matters (as indicated in the table below), comply with the requirements relating to TCFD entity reports at Chapter 2 of the FCA's Environmental, Social and Governance Sourcebook.

Saker Nusseibeh, CBE

Director

Hermes Investment Management Limited

[1] Required by chapters 2.1 and 2.2 of the Environmental, Social and Governance Sourcebook issued by the FCA.

[2] The Recommendations of the Task Force on Climate-related Financial Disclosures (Final Report) dated June 2017 ("**TCFD Report**") as supplemented by other documents published by the TCFD including the Annex to the TCFD Report entitled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' dated October 2021.

[3] Our funds are established as sub-funds of Federated Hermes International Funds plc. Further details are available on our website, https://www.hermes-investment.com/uk/en

Governance

Recommended disclosure (a) – Board/governing body oversight

Describe the board/governing body's oversight of climate-related risks and opportunities.

Please see the "Governance" section (pages 9-11) in the FHL TCNFD Report. The following table identifies the governance bodies that are relevant to the Firm's operations, and the frequency of consideration of climate-related issues.

Governance body	Responsibility for climate-related risks and opportunities	Frequency of climate focussed discussions
HIML board of directors	Oversight of HIML's business, including its operations, systems and controls, and the conduct of activities and provision of services by HIML.	1[3]
Governance Oversight Committee (GOC)	Oversees sub-committees, group committees, departments, business units, control functions and senior personnel involved in HIML's business. Acts under the authority of, and reports to, HIML's board of directors.	N/A[4]
Sustainability Regulations and Stewardship Oversight Committee (SRSOC)	Oversees the formulation and delivery of engagement, voting and climate policies that are adopted by HIML, [and is responsible for proposing climate-related targets that may be adopted by Federated Hermes and apply to HIML]. The SRSOC is supported by Federated Hermes' Responsibility Office and stewardship team, EOS (both described below). The SRSOC also oversees compliance with climate-related disclosure requirements. Acts under the authority of, and reports to, the GOC.	[Quarterly][5]

Recommended disclosure (b) – Management role

Describe management's role in assessing and managing climate-related risks and opportunities.

Please see the "Governance" section (pages 9-11) in the FHL TCNFD Report. The following table identifies the way the Firm's management and senior leaders are able to monitor and assess climate-related risks and opportunities.

Committees, working groups and functions supporting management	Responsibilities
Responsibility Working Group (RWC)	Acts as a communication forum that discusses a range of topics that relate to the delivery of responsible wealth creation for clients that have appointed HIML to provide investment management services. The RWC shares best practices across Federated Hermes Ltd including HIML.
Climate and Nature Working Group (CNWG)	Provides feedback and recommendations on climate and nature related issues to business functions, including those supporting HIML, with a view to developing and implementing a climate change and nature strategy and risk management approach across Federated Hermes, including HIML.
Committees, working groups and functions supporting management	**Responsibilities**
Investment teams	HIML's investment teams are ultimately responsible for its provision of investment management services and the integration of sustainability matters. Investment teams have access to the Responsibility Office, including the ESG Integration team within the Responsibility Office, and EOS, including the tools, data, analysis and expertise of those functions.
Responsibility Office	Supports HIML's implementation of Federated Hermes' responsible investor and responsible owner strategy. The Responsibility Office makes data, tools and analysis available to HIML personnel, undertakes policy and advocacy activities for the benefit of Federated Hermes, and monitors and proposes updates to the Climate Action Plan. It provides reporting to the SRSOC, GOC and HGPE's board of directors. The Head of Responsibility reports directly to the FHL CEO.
Stewardship team (EOS)	Provides engagement services for the public markets – equity and credit – strategies provided by HIML. This includes engaging with investee companies held by portfolios managed by HIML and providing tools and data to support HIML's investment teams.
Risk and Compliance	These control functions provide independent oversight of HIML's activities, including the Firm's management of climate-related risks and compliance with relevant law, regulation and best practice.

[3] Commencing in 2024 the HIML board receives a formal annual update on the implementation of its climate investment and engagement activities, and other updates as necessary. In previous years updates were provided to FHL, with the HIML board considering climate-related risk specific to HIML (as a legal entity) through its internal capital adequacy and risk assessment (ICARA). The stated frequency does not include the HIML board's consideration of climate-related matters at other times (such as when considering risk management, and investment and product updates).

[4] The GOC was established in 2024, and therefore no frequency information is provided for 2023.

[5] The SRSOC was established in 2024 as a successor of the Governance Committee; the frequency information for 2023 is that for the Governance Committee.

Strategy

Recommended disclosure (a) – Identification of risks/opportunities
Describe the climate-related risks and opportunities that the organisation has identified over the short, medium and long term.

Please see the "Strategy" section (pages 12-25) in the FHL TCNFD Report, and in particular the section headed "Climate-related risks and opportunities" (pages 12-14).

Recommended disclosure (b) – Impact on organisation and transition planning
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Please see the "Strategy" section (pages 12-25) in the FHL TCNFD Report, and specifically the section called "The impact of climate- and nature-related risks and opportunities on our business, strategy, and financial planning" (page 16) in the FHL TCNFD Report.

In relation to the Firm's corporate operations: Please see in particular the section headed: (i) "Alignment across our business and with our third-party suppliers" (pages 17-18); (ii) "Corporate environmental impacts" (pages 21-23); and (iii) "Corporate Travel Policy" (page 23).

In relation to the development of products manufactured by the Firm: Please see in particular the section headed "Product development" (page 17).

In relation to the Firm's investment management activities: For our public equity markets and public credit markets investment strategies, please see in particular the sections headed:

- "Our approach to responsible investing" (page 12)
- "Implementing our strategy" (page 19)
- "Climate Action Plan" (pages 19-20).
- Under "Risk Management", "Public markets – Engagement" and "Advocacy: delivering positive industry-wide change" (pages 26-45)

There may be differences in how our strategy is implemented for different investment products – please see "Product specific disclosures" in the letter above.

Recommended disclosure (c) – Scenario analysis
Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

Please see the "Strategy" section (pages 12-25) in the FHL TCNFD Report, and in particular the section headed "Assessing the resilience of our strategy under different scenarios" on page 23, which focuses on the investment management activities of the Firm. This applies to the following investment strategies provided by the Firm:

- Public equity markets
- Public credit markets

Risk management

Recommended disclosure (a) – Identifying climate-related risks.
Describe the organisation's processes for identifying and assessing climate-related risks.

Please see the "Risk management" section (pages 26-45) in the FHL TCNFD Report, and in particular:

- The description of the Risk Management Function that is in place for the Firm, under "Risk management function" (pages 26-27).
- The section headed "Investment risk management" (pages 27-29) including the sub-sections headed "Risk Prioritisation" and "Risk Identification".

These climate-related risk identification and assessment arrangements apply to the following asset classes provided by the Firm:

- Public equity markets
- Public credit markets

Recommended disclosure (b) – Managing climate-related risks.
Describe the organisation's processes for managing climate-related risks.

Please see the "Risk management" section (pages 26-45) in the FHL TCNFD Report, and in particular the section headed "Public markets – Assessment and Integration" (pages 29-32) and "Public markets – Engagement" and "Engagement on climate change" (pages 33-34). This applies to the following asset classes provided by the Firm:

- Public equity markets
- Public credit markets

Recommended disclosure (c) – Integration into overall risk management
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Please see the "Risk management" section (pages 26-45) in the FHL TCNFD Report.

Metrics and targets

Recommended disclosure (a) – Metrics for assessment of climate-related risks and opportunities
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Across all our strategies we aim for high carbon data coverage. In 2021, we developed our own internal issuer hierarchy to improve data coverage in the public credit space. We also developed our own internal baseline methodology which excludes certain securities where there is lack of ESG data (cash, FX, long CDS, index or pooled product, sovereign, derivative where underlying is a government entity). This makes up 4.2% of our total public equity and credit AUM (excluding cash and FX exposure). We are also not yet able to measure the carbon footprint of our sovereign and structured credit. This is due to a lack of data and available methodologies in this space. This is an area of focus, and we are evaluating estimation methodology to fill in the gaps.

In 2022, we further enhanced our methodology for calculating carbon metrics. In addition to those exclusions described above, securities for which we have no data (reported or estimated), primarily due to lack of coverage by third-party data providers, are excluded from the calculation. This includes removal of these names from the AUM figures used in our carbon metric calculations. This ensures that we are not understating our carbon exposure by excluding companies with no data from the numerator but including them in the denominator. This has only been applied to 2022 data onwards.

We calculate aggregated emissions in line with the TCFD recommendations.

We use S&P for our GHG emissions data for publicly listed companies on Scope 1, 2 and upstream 3 emissions. They estimate emissions where there are gaps in reported data using their environmentally extended input-output (EEIO) model which combines industry-specific environmental impact data with quantitative macroeconomic data on the flows of goods and services between different sectors of the economy.

Recommended disclosure (b) – Metrics for GHG emissions
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

	Scope 1 and 2	Scope 3
Total carbon emissions (tCO_2e)	3,211,959.75	5,650,478.79
Carbon footprint (tCO_2e); per $million invested)	114.25	200.99
Weighted average carbon intensity (WACI) (tCO_2e) per $million revenue)	147.39	278.24

Source: Trucost for carbon emissions.

Recommended disclosure (c) – Targets and performance against targets
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Federated Hermes has adopted a Climate Action Plan, which sets targets (including interim targets) for reducing portfolio emissions. This involves setting minimum thresholds for:

(i) the proportion of assets under management ("AUM") invested in companies that have emission reduction targets aligned with limiting the temperature increase to 1.5°C above pre-industrial levels in accordance with the Paris Agreement ("**1.5°C Aligned**"); and

(ii) the proportion of financed emissions (Scope 1 and 2, and where material Scope 3) arising from AUM that are attributable to companies that have emission reduction targets that are 1.5°C Aligned.

For the investment strategies provided by HIML, the following targets have been set for the public markets investment strategy:

- We are targeting 25% of in-scope AUM, and 25% of financed emissions arising from that strategy, should be 1.5°C Aligned by 2025. This threshold will increase to 50% by 2027, and 80% by 2030.
- We are targeting that for 90% of financed emissions arising from the strategy, the emitting companies will be subject to direct or collective engagement and stewardship actions by 2030 (increased from 80% as at the end of 2022).

For further information on the Metrics and Targets within our Climate Action Plan, including information on asset classes that are currently excluded (including amongst others direct lending, sovereign debt, FX and cash) please see page 46 onwards of the FHL TCNFD Report. This includes information on progress against our targets, including the alignment of HIML's public markets investment strategy as at 31 December in 2022 and 2023 (see Figure 15 on page 48).

Appendix III – ESG 2.2.1R (2) Climate-related Financial Disclosures Entity Report for Hermes Investment Management Limited 2023

With reference to the section called Product Specific Disclosures section of the Hermes Investment Management Ltd 2023 report in Appendix II (see page 70) and the FCA Handbook ESG 2.2.1 R (2) rule, the below four portfolios represent those which deviate because they have a secondary investment objective which is ESG/sustainability related, which presents potential different approaches to governance, strategy or risk management.

1. Federated Hermes Biodiversity Equity Fund

The investment objectives of the strategy are: (i) to achieve capital growth over a rolling five-year period; and (ii) to invest in companies that are helping to protect and restore biodiversity or are reducing the threat to biodiversity through their measurable contribution to reducing one or more of land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, or deforestation. Within this climate risk is a critical factor.

Identification

The team then seeks to understand which stocks are environmental leaders and will utilise screens such as the environmental scores of companies to try and unearth new investment ideas. It is during this process that climate risks will be identified. Please note that the team does not screen out stocks solely based on environmental scores given that newer, less mature companies typically have lower scores due to lack of disclosure. Instead, engagement is used as a tool to supplement the team's understanding of these companies' environmental profiles.

The team has established a thematic framework consisting of six themes identified as having the greatest direct impact on biodiversity: land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation.

Each theme is made up of one or more industry sub-vertical themes that in turn correspond to at least one of the UN SDGs. The strategy's initial investment universe will consist of all the companies within each of the industries that fall into each of these sub-vertical themes.

For example, the unsustainable farming theme, breaks down into three discrete industry sub-vertical themes: pasture farming, arable farming and olericulture & pomology. Industries such as meat alternatives and animal health products fall within the pasture farming sub-vertical theme. Thus, all the companies that fall within these two industries will form part of the initial investment universe for the strategy.

Assessment

The team investigates each company's impacts and dependencies on biodiversity. They look to develop a thesis for how a company is having a clear positive impact on biodiversity through reducing biodiversity loss from operations and/or providing solutions to help prevent loss or help restore biodiversity. They also seek to establish whether biodiversity and ecosystem services are relevant to the business and investigate where and how the company is dependent on nature and what risks are associated with these dependencies.

The team will create a detailed biodiversity note, outlining the business, highlighting the biodiversity theme(s) that the company is helping towards, and including a detailed explanation of the biodiversity thesis for the company. A final section is also included, highlighting areas for engagement with the company that will be discussed with and elaborated on by the dedicated engager.

The screened universe (combined with thematic research, engagement, and company meetings) will yield a watchlist of circa 150 companies. A long-term sustainability assessment is then undertaken. The team evaluates the ESG profile of companies by carrying out their own fundamental ESG

Environmental

- Climate change (captures pollution and waste)
- Water
- Biodiversity (captures natural resource stewardship, e.g., sustainable food systems)

Social

- Human rights and labour
- Employee turnover/health and safety
- Conduct and culture (captures anti-bribery act, AI and data governance, i.e., cybersecurity)

Governance

- Board composition
- Executive remuneration (not purely about level of pay but also structure and how pay package aligns with investors
- Shareholder rights and protection (e.g., dual share classes, voting rights)

assessment of companies. The team focuses on nine key aspects, including climate change during which climate related risks will be identified and assessed in depth.

The team's proprietary Impact Database is also a central feature of their research process. It enables them, as part of their impact assessment process, to quantify the impacts of companies with metrics that are aligned to the UN SDGs. While an idea might originate from an external source, they are all validated and researched internally.

They have carefully selected a number of impact metrics that they have grouped into relevant themes. These metrics capture the impact provided by each company's products and services and break down into the following two categories:

- Operations-based metrics that relate to a company's operations. Examples include impact data such as scope 1 and scope 2 carbon emissions or waste produced in operations.
- Solutions-based metrics that relate to the specific outcomes that a company is looking to provide. For example, the impact of a company looking to decarbonise heavy-duty motive might be measured by looking at the carbon emissions avoided through use of the company's technology (CO_2 MT).

Two of the 11 themes relate specifically to climate risks and the team will consider the KPIs as shown below:

Class	Type	KPI
Climate Change	Operations	Annualised metric T CO_2 emitted (Scope 1 + 2)
	Solutions	Metric T CO_2 avoided
Clean energy generation	Solutions	MW installed renewable capacity
	Solutions	MWH renewable energy generated

In general, operations-based metrics are relevant for all companies held and are often dependent on some level of company disclosure whilst solution-based metrics differ in that they are company specific, i.e., since every company is unique, a thorough understanding of business models is required to accurately appraise impact.

The team has at their disposal a set of proprietary ESG tools to support this analysis as detailed above. The team will only invest in companies that are assessed to have strong ESG credentials. If the team chooses to invest, they will engage with companies on any possible areas of improvement and to encourage even greater positive net impacts.

Output from the team's detailed research process is summarised within each company's research note and discussed at team meetings to decide whether or not a company should be added to the portfolio. The team produces a detailed research pack to support and document each investment case, which includes: a biodiversity assessment, the company's positioning in the market, the investment thesis, potential risks to that thesis, valuation work, ESG considerations, biodiversity impact measurement and ongoing proposed engagement.

Research is archived, updated periodically as appropriate, and available to all members of the team. Research notes are also used to support engagement with company management.

Management/Monitoring

Post initial investment, and as part of their risk management process, the team have a dedicated engager and also work alongside our stewardship team, EOS, to monitor and document how investee companies are both progressing towards delivering their biodiversity impact and improving their ESG profiles. Additionally, the validity of each company's original investment impact thesis is also regularly reviewed and new information assimilated into expectations for the stock. The team's weekly meetings provide an opportunity to discuss research notes and stock updates including any recent changes to the thesis, concerns or recommendations to trade.

The main climate related indicators used are annualised metric tonnes of CO_2 emitted (scope 1 & 2), metric tonnes CO_2 avoided, MW installed renewable capacity, MWH renewable energy generated, m^3 water used, m^3 water saved, metric tonnes waste generated, metric tonnes waste recycled, metric tonnes food loss/waste avoided, hectares forest or land restored or conserved, and number of species preserved.

2. Federated Hermes SDG Engagement Equity Fund

The SDG Engagement Equity Strategy has a dual objective, namely, to generate attractive investment returns and positive social and environmental impacts through engagements with investee companies.

Identification

As part of the investment team's ex-ante investment and ESG assessments of potential investee companies (and subsequently on an ongoing basis) the team appraise a company's exposure to and management of climate-related risks. This assessment would be expected to appraise a company exposure to transition and physical climate-risks (as well as opportunities). This assessment is informed by a combination of quantitative and qualitative analysis of company disclosures, third-party research and data and company engagement.

Assessment

The team in turn considers whether any risks (or opportunities) identified can be qualitatively or quantitatively factored into an investment appraisal – this may be in the form of explicit adjustments to prospective revenues or costs, or more commonly, less explicitly in the form of potential rating implications or conviction levels. Alongside the assessment of the implication for the investment case, the team also considers whether the issue identified can be better managed (or capitalised upon) by the company and if so whether change can be brought about as a result of engagement.

Management/Monitoring

On an ongoing basis the team monitors an investee company's performance with respect to management of its climate-related risks. This extends to monitoring KPIs such as a company's absolute emissions levels and carbon intensity (t GHG per $m sales) and the adequacy of any targets that have been set to realise the necessary reductions in emissions generated across a company's operations or through its supply chain. Where concerns persist, engagement will increase in intensity and the progress of said engagement will in turn inform the investment team's ongoing view of the attractiveness of the holding.

3. Federated Hermes Sustainable Global Equity Fund

The Sustainable Global Equity strategy has a dual investment objective; to generate capital growth over rolling five-year periods while exhibiting a smaller environmental footprint than the index thus climate risk factors are a critical consideration.

Identification

Idea generation is the lifeblood of the investment process. The team seeks to identify the most exciting ideas in a thematic framework. We view the market through four broad themes, of which two cover the planet – environmental preservation and efficient production & resource usage (detailed below) – and two cover people – health & wellbeing and social inclusion. Each theme is closely aligned to the UN SDGs and all stocks within the strategy are exposed to at least one of the four sustainable themes.

Environmental Preservation:

Energy Transition

Biodiversity

Future mobility

Decarbonization

Electrification

- **Efficient Production & Resource Usage:**

Circular economy

Better and faster decision-making

Water preservation

Supply chain efficiency

Green materials

Industry and specific company fundamental analysis combined with company meetings, mean the team can ascertain any climate risks within the company.

Assessment

The team assesses the sustainability of each company from an ESG perspective, including climate risks. This is predominantly focused on the operational metrics within the business. Broadly we assess three criteria when looking at the ESG profile:

- **Quantitative metrics:** we believe measurable ESG metrics are among the most important data points in trying to identify ESG leaders. The majority of reported data from companies relates to policy, which is typically a less valuable input into the team's process. The team assess and compare companies with peers on a variety of metrics, considering both the absolute level and the rate of change. The team makes use of proprietary tools such as the Carbon Tool, Portfolio Snapshot and ESG Dashboard. Any notable quantitative metrics from external ESG research providers will be considered at this stage.
- **Engagement/corporate openness:** EOS engages with many of the world's largest companies, interacting with companies on behalf of clients with over $1trn of assets under advice. Their rich insights help inform our company-specific and sector understanding, particularly on ESG issues. The team believes the approachability and openness of management and board directors can be a telling indicator of the culture within a business. In addition to responsiveness, other key considerations for the team when assessing on this metric include sustainability KPI's and goals, ongoing monitoring and measurement of those KPI's, audited sustainability report, and overall ESG disclosure.
- **Materiality:** the relative importance of different ESG metrics vary enormously depending on the stock, the industry, and the geography. Material ESG topics are those that could have meaningful financial consequences. To assess materiality, the team are principally guided by their understanding of the company, while utilising international frameworks like SASB as a sense check. The team recognise that materiality is a fluid concept, and changes over time depending on trends changes in the competitive landscape, regulation shifts, innovation and other factors.

The team also assess the effect of the products and services on broader society. The team seek to identify companies whose products and services are aligned to one of the four sustainable themes, which in turn are mapped to the UN SDG's. In this analysis, the team analyse the net effect on broader stakeholders, considering positive, neutral, and negative effects. The team works closely with the Impact Opportunities team to assess the intentionality, additionality, nature and balance of each company's products & services. Additionality is a particularly vital component in our impact analysis given the considerable value to products and services which have incremental benefit above what is already available.

Managing/Monitoring

The team actively monitors the characteristics of the portfolio. The overriding focus of the approach is on the merits of the individual stocks held, and this is the prime area they monitor daily. Given the sustainability focus, the team also monitors these attributes at a stock and portfolio level, and report on this to clients on a quarterly and annual basis.

Stewardship plays a vital role in the team's ongoing monitoring of the portfolio. With the assistance of EOS, the Sustainable Global Equities team internally monitors how companies are improving their ESG profile. The benefit of keeping records of achievements assists the team with assessing company progress towards meeting ESG targets and helps them with the key points of discussion when engaging with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective.

The sustainable outcomes are also measured and monitored using available third-party data relating to the carbon, water and waste metrics by comparing the following characteristics of the companies held with those in the benchmark:

- Total carbon emissions normalised by the market value of the portfolio, expressed in tons CO_2 per $ million invested
- Total waste (landfill, nuclear and incinerated) for a portfolio normalised by the market value of the portfolio, expressed in tonnes per $ million invested
- Total water used (cooling, processed and purchased) normalised by the market value of the portfolio, expressed in m^3 per $ million invested.

The investment team also monitor a range of climate indicators as part of the investment strategy:

- GHG emissions, carbon footprint, GHG intensity, exposure to fossil fuels and energy production from non-renewables.

4. Federated Hermes Impact Opportunities Equity Fund

The investment objective of the strategy is to generate attractive long-term capital appreciation, outperforming equity markets over the long term, through the selection of companies that provide an innovative solution to unmet needs in society, thereby delivering positive social and environmental impacts alongside attractive financial returns. Climate risk will be present within each company, either operationally e.g., Manufacturing company or be at the centre of its service or product e.g., Wind farms.

Identification

Some ESG datasets do provide data that can be used in an impact process – climate risk considerations such as trends in carbon emissions, or community spending, and women in the workforce – but the majority focus on companies' operations as opposed to how their products and services contribute to delivering solutions to unmet needs.

The team therefore seeks to build a watchlist of companies it believes could be potential candidates for inclusion in the strategy via its three-part idea generation process, all of which contain an element of climate risk.

- Thematic Research: The team conducts research on its investible themes – energy transition, water, circular economy, future mobility, education, financial inclusion, health and wellbeing, food security and impact enablers – to better understand the dynamics in social and environmental unmet needs over the long term and how market-based solutions may be attractive. It also enables them to develop frameworks for how to best identify, assess and measure impacts, and discover companies that are best positioned to benefit from these structural growth trends.
- Company meetings: The team takes time to meet companies to better understand their business. They not only try to meet with senior management, but also with operational management and the board of directors, to get a more rounded, objective view.
- Investment teams and EOS: The team discusses impact and sustainability ideas and themes on a regular basis with experts from our other equity teams, as well as our private market teams.

They also use more traditional ESG screens to make sure companies not only have a potentially attractive exposure to the UN SDGs, but also operate in a sustainable way and reduce negative externalities that may undermine their mission.

Environmental

- Climate change (captures pollution and waste)
- Water
- Biodiversity (captures natural resource stewardship, e.g., sustainable food systems)

Social

- Human rights and labour
- Employee turnover/health and safety
- Conduct and culture (captures anti-bribery act, AI and data governance, i.e., cybersecurity)

Governance

- Board composition
- Executive remuneration (not purely about level of pay but also structure and how pay package aligns with investors
- Shareholder rights and protection (e.g., dual share classes, voting rights)

Assessment

The team scrutinises each investment candidate thoroughly to make sure it is in line with their core belief of focusing on companies that provide solutions to sustainable development challenges. This UN SDG alignment is an essential condition for companies to make it onto the watchlist. Each company's impact has to be linked to at least one UN SDG.

Two of the nine impact themes developed by the team are climate risk related and companies will be aligned to one or more of these themes and analysed with the aid of the ESG tools detailed above as well as their own subjective research and analysis derived through company meetings and engagement.

- **Energy transition:** Transforming the energy system to power a low carbon economy.
- **Circular economy:** Enhancing resource efficiency and waste reduction.

Having great ESG credentials or being a thought leader in sustainability is not enough. A company's products must have a positive impact. Not only that, the product must be central to the company's existence (intentionality); a large utility may invest significantly in renewable energy, for example, but as a proportion of its overall income it would be less significant and, therefore not a core component of its business. However, a company which has placed wind power at the centre of its business strategy, would meet these criteria. It is also important to understand how the product has a positive impact beyond what would have otherwise occurred – its additionality. This has a clear link with innovation, but also extends to services that have the potential to improve society.

Long-term sustainability validation is another key part of a company's assessment during which the team looks at ESG factors by carrying out their own fundamental ESG assessment of companies. The team focuses on nine key aspects, of which climate change is one.

The team produces detailed documents for each investment, with a description of the company's net impact contribution, its place in the market, the investment thesis, potential risks to that thesis, valuation (relative to historic levels and the peer group), ESG considerations, impact measurement and ongoing engagement. These reports are created to express the investment case for each stock in the portfolio as succinctly as possible to form the basis for discussions amongst analysts and the portfolio manager. The reports are periodically updated, or more frequently when there is significant change affecting the stock.

All research reports are maintained in a collective database so that everyone has access to this information.

Managing/Monitoring

The team will only invest in companies that are assessed to have strong ESG credentials. They will then work alongside our stewardship team, EOS, to monitor how companies are both progressing towards delivering impact and improving their ESG profile.

All stocks are bought on a long-term basis, as the impact and financial opportunity identified in the investment thesis will likely take time to play out. To ensure that downside risk is managed, the team monitors the progress of the company in achieving its goal as part of an important feedback loop. The original impact thesis is also revisited regularly to assess whether the opportunity still exists and to what extent, if at all, the financial impact has changed.

The main climate related indicators used are annualised metric tonnes of CO_2 emitted (scope 1 & 2), metric tonnes CO_2 avoided, MW installed renewable capacity, MWH renewable energy generated, m^3 water used, m^3 water saved, metric tonnes waste generated, metric tonnes waste recycled, metric tonnes food loss/waste avoided, hectares forest or land restored or conserved, and number of species preserved.

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Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, to contribute to positive outcomes that benefit the wider world.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
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- **Liquidity:** solutions driven by five decades of experience
- **Private markets:** private equity, private credit, real estate, infrastructure and natural capital
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