

# PRIME ADVOCATES

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To the Board of Directors of  
**Federated Hermes Limited**  
150 Cheapside  
London  
EC2V 6ET

Date: 29th February 2024

## Independent Assurance Report

We have undertaken a limited assurance engagement (the “**Assurance**”) on the information disclosed as part of the sustainability reporting of Federated Hermes Limited (the “**Firm**” or “**FHL**”) in the period from June end 2022 to July 2023. The limited assurance engagement related only to FHL’s stewardship and ESG integration (“**S-ESG Integration**”) within its public equity, public credit, real estate\* and infrastructure\*\* investment portfolios. The full form of the assurance report has been presented to FHL.

### Assurance Summary: S-ESG Integration

Overall: Meets/Exceeds ✓ ◆	Scope of conceptual stewardship & ESG application	Processes, procedures and implementation
Equity (listed)	◆	✓ / ◆
Credit (listed)	◆	✓ / ◆
Real Estate	◆	✓ / ◆
Infrastructure	✓ / ◆	✓

✗ Fail   ✓ Meet   ◆ Exceed

### Selected subject matter for stewardship & ESG assurance:

- The scope of FHL stewardship & ESG integration (including EOS engagement) policies and procedures;
- FHL (including EOS engagement) policies and procedures, systems and controls regarding FHL S-ESG Integration implementation;
- Representations and assertions in FHL reports and financial statements about ESG matters;
- Compliance with regulatory requirements and best practice standards;
- Internal systems, controls and processes for ESG integration; and
- ESG and engagement outputs and reasonable verification.

## Assurance criteria

The assurance criteria we used were divided into the three categories:

- i) compliance with applicable ESG regulatory requirements, including but not limited to the EU Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy Regulation, Non-Financial Reporting Directive (NFRD), EU Shareholder Rights Directive II, the UK Stewardship Code 2020, Alternative Investment Fund Managers' Directive amendment EU 231/2103 (AIFMD), the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulation 2022 and the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013;
- ii) adherence to leading voluntary codes of practice identified by Prime Advocates, such as the UN Principles for Responsible Investment (PRI), the Taskforce on Climate-Related Financial Disclosures (TCFD), the Taskforce on Nature-related Financial Disclosures (TNFD), the Net Zero Asset Managers initiative (NZAMi), Paris Agreement alignment, UN Global Compact, UN Environment Programme – Target Setting Protocol, SASB Standards, the Global Reporting Initiative (GRI), the Global Real Estate Sustainability Benchmark (GRESB), Better Building Partnership Climate Change Commitment, the Building Research Establishment Environmental Assessment Method (BREEAM) and the UK Green Building Council Net Zero Framework etc.; and
- iii) assessment criteria derived from our own proprietary ESG methodology.

The criteria used to evaluate and assure the subject matter mirror FHL's methodology, were designed for the sole purpose of carrying out an effective Assurance engagement of Federated Hermes Limited and may therefore not be suitable for any other purpose.

## Key assurance procedures:

- Review of the key documentation related to the subject matter detailed above to determine if FHL fails, matches or exceeds S-ESG Integration regulatory requirements and best practice;
- Assessment of the adequacy of ESG processes, procedures and oversight at a theoretical level;
- Review of the documentation of the systems and processes for compiling, analysing, and aggregating sustainability data and testing such documentation on a sample basis;
- Review of material and proportionally aligned ESG topics to the FHL relevant portfolios, against key issues raised in stakeholder dialogues, areas of performance covered in external diligence media reports and best practice sustainability reports;
- Interviews with senior management and other professionals regarding the firm's sustainability strategy;
- Interviews with professionals responsible for implementing the firm's stewardship and ESG integration and developing and updating its systems for measuring and monitoring ESG data [e.g., Carbon Intelligence, EOS engager questionnaires and interviews];
- Assessment of the implementation of stewardship and ESG processes, procedures and oversight;
- Assessment of the risks of material misstatements in the subject matter with regard to the applicable criteria;
- Composition of independent conclusions based on the results of our assessment; and
- Presentation of the report to the Directors of Federated Hermes Limited.

## Limitations of the engagement

Our engagement was limited to the information presented related to the S-ESG Integration for FHL's portfolio investments in public equity, public credit, real estate & infrastructure, as listed above. We have not assessed the following ESG information disclosed by FHL and such data is outside of scope for the Assurance:

- FHL Responsible Firm data (e.g. ESG factors re: employee rewards, remuneration, diversity and inclusion, FHL responsible pledge);

- Sectors related to REITS, private equity, private debt and PE multi asset classes;
- Client Mandates with specific policies relevant to FHL fund offerings and stewardship services
- Federated Hermes Impact Opportunities Fund's optimised impact criteria; and
- EOS/ FHL stewardship services other than in connection with engagement services applied for FHL's ESG integration across its investments.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in scope than for, a full reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an unlimited reasonable assurance engagement. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

## Responsibility of management

The management of FHL is responsible for the preparation of presented ESG data in accordance with the applicable criteria. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation of the ESG data/ reports/ statements that is free from material misstatement, whether due to fraud or error.

## Professional standards, independence and competence

We undertook limited assurance on selected material performance indicators in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000 (Revised)) for FHL ESG integration and engagement via EOS Stewardship. In accordance with ISAE 3000 (Revised), we reviewed the processes, systems and competencies used to compile the areas upon which we provide assurance. This involved identification and confirmation of FHL implementation processes re: S-ESG Integration and controls, using ISAE3000 & AA1000AS to assure the processes FHL used to identify, assess and tackle ESG issues arising from FHL's operations (including: determination of ESG criteria & evaluation [above theoretical statements/ policies], assessment of the value of FHL's processes to obtain accurate information relating to material topics, evaluation criteria, internal learning and applications, controls/ checks, oversight levels and escalation for non-performance [senior/ ultimately board level] & reviews leading to improvement).

As a regulated UK law firm specialising in social finance/ impact finance and as a ESG advisory boutique, we applied robust and reasoned analytical and due diligence methods. We complied with Prime Advocates' independence policies, which address and in certain cases exceed the requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants in a role as independent auditors. Therefore, we are precluded (and prevent individuals with conflicts from partaking in preparation of this Report) from taking financial, commercial, governance and ownership positions which materially affect (or may be perceived to affect) the assurer's independence and impartiality. Prime Advocates has confirmed to the directors of FHL that it has maintained appropriate independence and objectivity throughout the preceding year (June 2022 – July 2023) and no prohibited services or activities impair Prime Advocates' independence and objectivity.

Prime Advocates' assurance report does not include testing of source data especially standardised 3<sup>rd</sup> party data providers' data (unless specifically identified as undertaken) or the operating effectiveness of processes and internal controls above the requirements for effective Prime Advocates ESG Assurance.

## Our responsibility

In our role as an evaluator of the data provided to us by FHL, we are responsible for the evaluation of the subject matter against the criteria as devised by us. Based on a consideration of risks and materiality we have

undertaken procedures to seek to obtain sufficient appropriate evidence. The procedures selected depend solely on our judgment.

Our responsibility as an assurance practitioner is to independently express a limited assurance conclusion on the information disclosed and reported on the subject matter based on the procedures we have performed and the evidence we have obtained. In accordance with ISAE 3000 (Revised), we are responsible for planning and performing the engagement in a way that allows us to obtain limited assurance about whether the report is free from material misstatement.

In accordance with the engagement agreement, our duty of care for this engagement only extends to the Board of Directors of Federated Hermes Limited. The Board of Directors is the sole intended audience of this report and as such the information contained within it may not be relevant or useful for any other party.

## Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that FHL's S-ESG Integration within its portfolio investment for public equity, public credit, real estate and infrastructure has not been prepared, in all material respects, in accordance with the identified applicable appropriate criteria. We are satisfied, subject to our limited reasonable assurance, that FHL **EXCEEDS** regulatory requirements and current best practice for S-ESG Integration.

## Key findings

Whilst we were satisfied with the Firm's performance in the round, we identified the following areas of attainment and areas for improvement:

### Areas of attainment/ excellence:

- FHL's enhanced excellent holistic, adaptive and material ESG data-driven focused approach to S-ESG Integration, pervasively applied and accessible across all investments and strategy types. [All]
- Expert internal senior ESG expertise of the Responsibility Office applied across all asset classes to varying degrees, reinforced by cross-departmental collaboration via FHL's Responsibility Working Group. [All]
- FHL's "sustainable wealth creation" pedigree and leading industry position. Utilisation of FHL's market-leading Public Policy/ advocacy teams allowed for FHL to influence and innovate on ESG themes, progressing the market and assisting their portfolios' S-ESG Integration. [All]
- Effective leverage of the market-leading EOS stewardship engagement service, adding deep S-ESG Integration expertise and investee relationship power and knowledge, active management, oversight controls and stewardship/ ESG issue engagement power. [All]
- Application of EOS' engagement methodology and Public Policy expertise for better sustainability engagement for FHL Infrastructure's long term assets. [Infrastructure]
- FHL attained best practice on the collection, management, independent due diligence and disclosure of quantitative ESG data across its investments. Further internalisation of ESG data management, further direct data sourcing and product development commenced for technology gains (with commitment for further automated meter reading systems improvement). [Real Estate]
- FHL outperformed best practice on the conceptual scoping and practical solution development for S-ESG Integration of sustainability systems risks and opportunities. FHL exceeds best practice with the integration of material sustainability investment considerations of key market factors including natural capital, reversing biodiversity loss, deforestation, halting Anti-Microbial Resistance, tax (well-functioning societal health etc.), digital rights and diversity. [ALL].
- FHL's progressive work on climate change (transitional and physical factors) and automated S-ESG integration processes (including data collection, scenario analysis and good standards setting) as developed in house or by collaborative market leadership or developed with experts to enable effective integration methodologies. [ALL]

### Areas for improvement:

- Irrespective of FHL's leading work on measurement and target setting on progressive sustainability areas (see below), such areas lack market data and are estimate dependent. Continued primary data gathering and quantitative tool innovation is needed for areas pertaining to reduction in Biodiversity loss, Deforestation and non-gender diversity. We note FHL's market leading biodiversity and natural capital tools/ approaches coming live outside of this Assurance period. [All]
- Further transparency and FHL senior periodic (reported) oversight on the determinants of, and the application of, engagement "viability" considerations. [Equity/ Credit]
- Application of a publicly reported Transparency and Accountability Framework further to the implementation of the Controversial Activities Policy. [Equity/ Credit]
- Additional KPI data, integrity checks and verification processes needed where assets are not majority owned or are tenanted. Continuation of the work commenced on the application of bespoke data capture questionnaires and direct ESG data point collection processes. [Real Estate/ Infrastructure]

\* Operating via FHL subsidiary: Hermes Real Estate Investment Management Limited

\*\*Operating via FHL affiliate and Federated Hermes Inc. subsidiary: Hermes GPE LLP



**Lead Assurer**  
On behalf of **Prime Advocates Limited**