Federated Hermes Global Equity ESG

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H1 2024

Federated Hermes Limited

www.hermes-investment.com
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Contents

SECTION 1

Investment review, H1 2024

Key points

- The Strategy's diversified, bottom-up approach has proved successful over the first half of 2024, reflected in the diverse range of sectors that contributed to the excess return in the period.
- Outside of sentiment, there has not been a consistent market driver from a factor viewpoint.
- While markets have narrowed, substantial dispersion within sectors suggests that fundamentals have mattered.
- We expect fundamentals to remain key as markets broaden to a more normal level in the second half of 2024, which gives us cause for optimism.

Market review

Global equity markets performed well in H1 2024, but it has been a period of two halves: While the first quarter was broadly positive, Q2 was more challenging, despite the positive return. In Q1, markets were driven largely by the US and Japan. The strength of US equities over this period was due to several factors: investors continuing to back towards last year's winners, a strong earnings season, and ongoing expectations of interest rate cuts. In Japan, the Nikkei 225 reached an all-time high (in local currency) boosted by better-than-expected earnings and optimism around the economic cycle, coupled with modest inflation, a weakening currency and a shift to positive rates. It has since retreated modestly as long-term rates increased and valuations looked comparatively full.

The Asia ex-Japan region lagged, driven by Hong Kong, which was affected by continued pessimism towards China's economy. There was a brief improvement in fortunes in April, but that has since disappeared. Despite some encouraging economic data from China, domestic demand remains weak and the challenges in the property market that have impacted sentiment are yet to be resolved.

Expectations for interest rate cuts moderated in the US at the start of Q2, which affected sentiment. However, optimism returned in May thanks to improved corporate earnings in the US and reassuring economic data highlighting the reacceleration of the European economy. Notably, by the end of H1, market breadth had narrowed as AI-focused mega-cap companies moved materially higher. However, while there was much focus on this narrow cohort of stocks, dispersion within sectors has been significant, suggesting that fundamentals have mattered.

From a factor viewpoint, the strength of our Alpha Model[3] has contributed towards the strategy's outperformance. Sentiment was particularly strong at the start of the year, reflecting the preference for many of last year's winners, particularly those that had exposure to artificial intelligence (AI) or obesity-related drugs.

Outside of sentiment, there was little consistency. Growth was preferred earlier in the year with investors focused on company outlook statements, judging by the strength of forecast revenue and earnings growth. Profitability was also an important feature, particularly in respect of improving operating and gross margins, which had a positive influence in Q1.

Valuation then came to the fore as we entered Q2 against a backdrop of moderating expectations for rate cuts in the US. Since then, factor returns have been fairly muted, particularly in May, although we have seen some volatility within sentiment and valuation in the final weeks of the period.

Performance review

Against this backdrop, the Strategy outperformed the benchmark MSCI All Country World Index.[2] The Strategy's diversified, bottom-up approach proved successful, reflected in the diverse range of sectors that contributed to the outperformance. Stock selection was the main influence on relative returns, with significant contributions from Information Technology, Industrials, Consumer Staples, and Financials, which outweighed the detraction from Communication Services. From a regional viewpoint, successful selection in Europe and North America outweighed the detraction from Japan.

[1] The Alpha Model is our 'automated analyst' which assesses the attractiveness of every investable company in our universe on a daily basis. The metrics used to select stocks are justified by both economic reasoning and statistical effectiveness, and have a long-term focus that leads to low portfolio turnover. They are grouped into six categories: valuation, sentiment, growth, profitability, corporate behaviour (including governance) and capital structure. The model identifies which stocks have the most attractive combinations of these characteristics and the output is subsequently used to create an optimised portfolio that aims to maximise risk-adjusted returns. The Alpha Model also uses proprietary data from our responsible investment and engagement specialists to incorporate an assessment of corporate governance in every valuation.

[2] **Past performance is not a reliable indicator of future performance**. In US$, net of fees.

H1 review

Performance contributors

Novo Nordisk	Novo reported strong results, driven by Ozempic, as it continues to benefit from positive dynamics in the obesity market, particularly in the US.
ASML	ASML reported decent Q4 results with the company highlighting strong order intake, driven by its EUV (extreme ultraviolet) business.
Trane Technologies	The company reported strong Q1 results as it continues seeing strength in Commercial HVAC, while the residential market shows signs of improvement.

Performance detractors

Exact Science	Exact Sciences' Q1 results were slightly better-than-expected, but Q2 guidance was lower-than-expected making its 2024 guidance, which remained unchanged, harder to achieve.
Zoetis	The company reported mixed results, with disappointment in its companion animals division. It was also affected by the rotation into Value in March.
Weyerhaeuser	Weyerhaeuser has been impacted by falling lumber prices, while the higher-for-longer rate environment has further eroded sentiment.
Meta Platforms	There was also a significant detraction from not owning Meta Platforms.

Outlook

Heading into the second half of 2024, the traditional summer lull in trading volumes is likely to heighten volatility. This could be exacerbated by the political environment, with President Emmanuel Macron's snap election gamble in France backfiring and the looming US Presidential race potentially causing some near-term turbulence.

> **Our strategy is to seek exposures across the style spectrum in a diverse range of companies with attractive combinations of fundamental characteristics.**

We expect that fundamentals will remain important, set against a market that broadens to a more normal level. Earnings comparisons for the winners will make it harder to achieve similar levels of growth, which should draw attention to other areas of the market that have flown under the radar. Moreover, with signs that inflation is cooling, the rate environment also points to a broader market.

Our strategy is to seek exposures across the style spectrum in a diverse range of companies with attractive combinations of fundamental characteristics. While markets could be choppy over the coming months, our expectation is that the market will begin to broaden and that fundamentals will remain important. In each case, we believe this provides cause for optimism.

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SECTION 2

Engagement overview

Alongside our stewardship colleagues in EOS at Federated Hermes Limited,[3] we seek to drive positive change through board and executive-level interactions. Our engagements with portfolio companies take the form of face-to-face meetings with board members, chairs, lead independent directors and chairs of board committees. We also gather information relating to specific engagement objectives and issues through our interactions with divisional heads and investor relations teams. Our proprietary milestone system allows us to track our engagement progress through four key stages from initial raising of concerns through acknowledgement of the issue and commitment to change, to implementation.

We benefit from the wider research universe covered by EOS. The diverse team have backgrounds in law, banking, sciences, academia, accountancy, climate change and corporate strategy, and collectively they are fluent in 10 different languages. This expertise, combined with their cultural understanding and connections, enables local language dialogues which are of great importance.

As ever, voting and engagement are useful as a means of holding companies to account and are an important factor in our assessment of governance. We view them as a key part of demonstrating active ownership and ensuring companies meet the needs of shareholders.

In terms of this year's engagement, the most frequently discussed issues on the social side were human capital and human rights – and both issues have remained high on the ESG agenda for companies. On human capital, our focus on diversity, equity & inclusion continues, with a focus on company strategy, including pay gaps, workforce diversity and (although disclosure has improved) we are looking for an expansion of disclosed metrics. In addition, employment terms and conditions and health & safety have remained important topics.

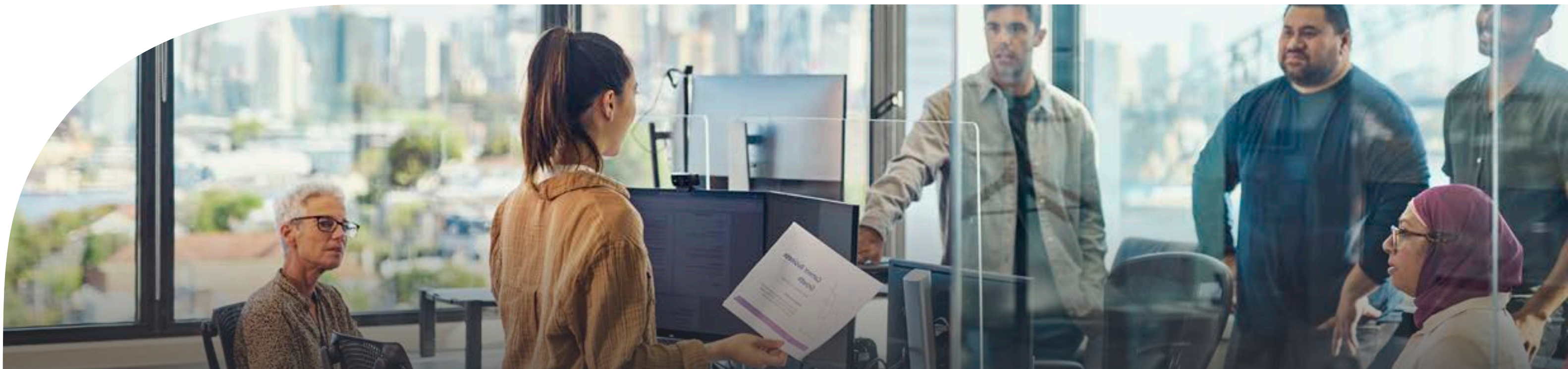
On human rights, we continue to promote the application of the UN Guiding Principles on Business and Human Rights. Supply-chain rights remain an important discussion topic and, in the wake of the hype around artificial intelligence, we have increased our attention to digital rights, such as data privacy and unfair bias.

On the environmental front, climate change continues to be the dominant topic. TCFD[4] reporting, net-zero commitments and more ambitious greenhouse gas emissions targets are all areas that prompt meaningful dialogues with companies and are gaining traction in the market. Natural resource stewardship has also risen up the engagement agenda in 2024, primarily in respect of biodiversity.

Within governance, remuneration continues to be the most highly covered area. Though we have seen improvements with additional metrics linking pay and performance, quantum is frequently an issue and remuneration committees are typically not effectively addressing long-term investor concerns on this topic. We, therefore, seek simpler, more transparent pay structures with a reduced variable-to-fixed pay ratio and a reduction in short-term performance metrics. Board effectiveness & structure also continue to be of interest. Having the requisite skills, diversity of perspectives (including ethnicity, gender, age, background, etc) and independence to drive the strategy and set the culture are all vital to the long-term success of a company.

Figure 1: Measuring progress – Milestones

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



[3] EOS at Federated Hermes Limited (EOS) is a world-leading stewardship service provider. Founded in 2004 on a legacy dating back to 1983, EOS delivers corporate engagement and proxy voting services.

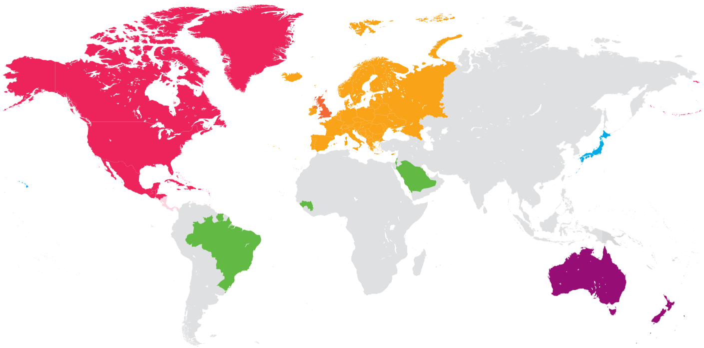
[4] **TCFD:** The Taskforce on Climate-Related Financial Disclosures is an organisation that was established to develop a set of voluntary climate-related financial risk disclosures. These disclosures would ideally be adopted by companies which would help inform investors and other members of the public about the risks they face related to climate change.

Engagement progress, H1 2024

Total number of engagement objectives: **109**

Number of companies engaged: **78**

Companies engaged by region:



Region	Companies engaged
North America	44
United Kingdom	3
Emerging and developing markets	5
Europe	15
Developed Asia	10
Australia & New Zealand	1

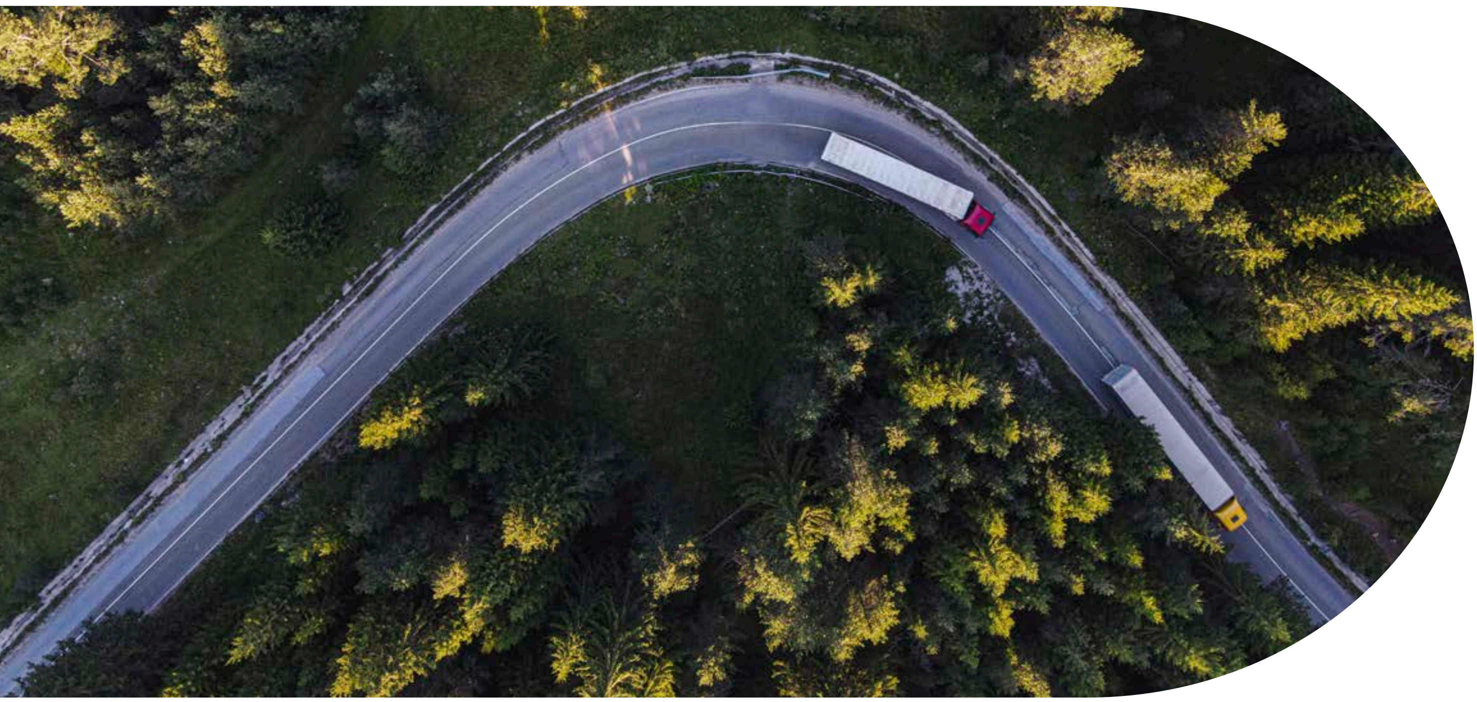
Voting, 2024

Voting is a key part of demonstrating active ownership and ensuring companies are meeting the needs of shareholders.

Voting breakdown

Meetings where we voted in favour:	Meetings where we voted against, against and abstained, or with management by exception:
31.3%	68.6%

Source: Federated Hermes Limited, as at 30 June 2024.



Engagement objectives by theme

Source: Federated Hermes, as at 30 June 2024.

Environmental: issues and objectives engaged

Source: Federated Hermes, as at 30 June 2024.

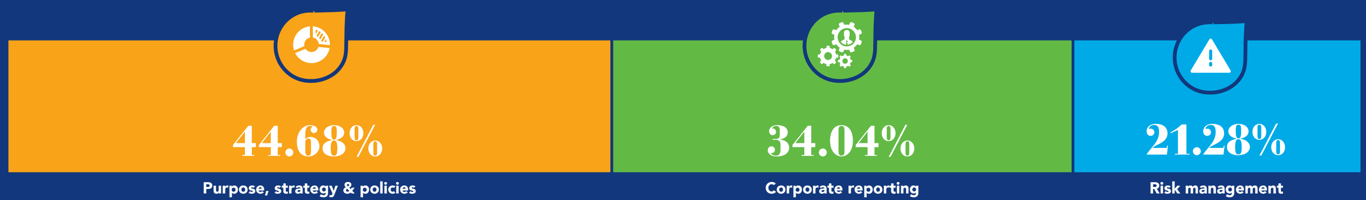
Social and ethical: issues and objectives engaged

Source: Federated Hermes, as at 30 June 2024.

Governance: issues and objectives engaged

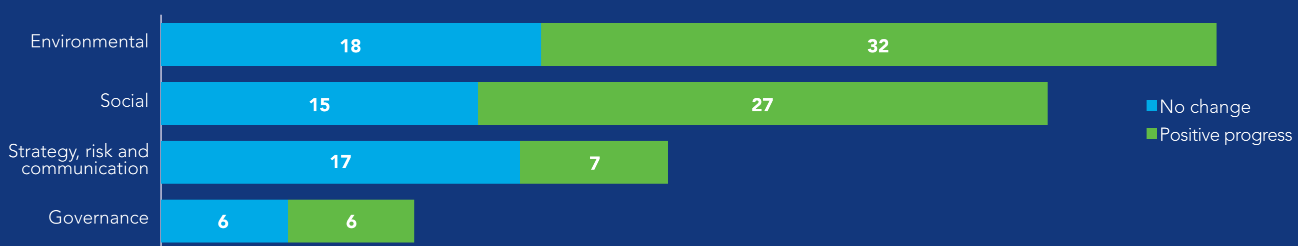
Source: Federated Hermes, as at 30 June 2024.

Strategy, risk and communication: issues and objectives engaged



Source: Federated Hermes, as at 30 June 2024.

Milestone status of engagement



Source: Federated Hermes, as at 30 June 2024.

SECTION 3

ESG outcomes

We recognise that every company has both positive and negative real-world impacts when it comes to its operations. Here we present a snapshot of the fund's environmental metrics, which help us to identify our risk exposures and manage our targets.

Carbon intensity

Tonnes per US$m of sales (scope 1 and 2)

Portfolio **90.2**

Benchmark: **158.6**

43% lower than the benchmark index

Carbon footprint

(scope 1 and 2) per US$m invested

Portfolio **28.1**

Benchmark: **49.9**

44% lower than the benchmark index

Environmental opportunities exposure

41%

Source: Federated Hermes Limited, as at 30 June 2024.

SDG exposure

Here we demonstrate our SDG exposure – that is, companies where there is revenue exposure to investable themes aligned to the UN Sustainable Development Goals (SDGs).[5]

Source: Federated Hermes Limited, as at 30 June 2024. Note that percentages shown add up to more than 100% as companies can be exposed to more than one SDG.

Science-based targets

We continue to see increased momentum behind climate action and carbon risk management, in line with the rollout of the TCFD framework. The fact that more of our portfolio companies are committing to TCFD reporting – and to net zero or science-based decarbonisation targets – is evidence of this trend:

Globally, in total over **7,480** companies are taking science-based climate action, and over **4,565** companies have approved science-based targets.

Source: Science-Based Targets Initiative.

Within the Strategy, **45** companies have validated science-based targets and another 68 have committed to setting them within the next two years.

This represents **49%** of the strategy's holdings.

Source: Federated Hermes, as at 30 June 2024.

[5] **Sustainable Development Goals (SDGs):** Sustainable Development Goals (SDGs): The SDGs are a set of 17 interconnected goals that were adopted by all UN member states in 2015. They are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere, by 2030. Learn more here: https://www.undp.org/sustainable-development-goals.

SECTION 4: THEMATIC FOCUS

In the spotlight: PAI indicators

Fast reading

- Recent pushback against ESG integration is essentially nothing new; meanwhile, progress on an ever more structured, rigorous approach to sustainable investing continues apace.
- Principal Adverse Impact indicators (PAIs) are useful metrics to demonstrate how investments can negatively affect factors relating to sustainability, from carbon emissions to human rights.
- We use PAIs to help us measure the performance of portfolio holdings on key ESG-related issues and support our engagement with companies to address any problems identified.

For ESG investing to be truly effective, high-quality data regarding sustainability factors must be effectively integrated into the investment process. To make this possible, reporting on adverse indicators must be accurate and consistent, and positive progress is being made in this respect.

Despite the pushback against ESG integration by some companies and investors – and in certain cases the backlash, the first half of 2024 has seen some significant steps forward for ESG investing. While negative 'noise' has had a level of impact on sustainable investors and sustainable companies, progress on an ever more structured and rigorous approach continues apace.

We see an ongoing upward trend in shareholder proposals relating to sustainability at company meetings, particularly in North America. In H1 2024, we voted against management or abstained in respect of a total of 49 resolutions.[6]

At the same time, improvements to policy and reporting are ensuring greater transparency and accountability. One important recent development has been the introduction and development of the Principal Adverse Impact (PAI) indicators to measure the performance of investments in relation to key ESG-related factors. Here we highlight three themes for which assessing and managing these issues has taken a step forward in recent times.

What are PAI indicators?

An initiative of the European Union, PAI indicators are a set of metrics designed to show stakeholders how certain investments can negatively affect factors relating to sustainability. They cover a wide range of issues, including the environment, social problems, employee welfare, human rights, corruption and bribery.

The requirement for PAI indicators was brought in as part of the Delegated Regulation of the EU's Sustainable Finance Disclosure Regulation (SFDR). This requires financial market participants and financial advisers to disclose information regarding the performance of investments in relation to PAI factors.

There are 14 mandatory PAI indicators for corporate issuers, covering everything from greenhouse gas emissions to controversial weapons. There are also a further 31 voluntary indicators, including factors such as measurement of water usage, deforestation, rate of accidents and incidents of discrimination (see chart below). As well as the 14 mandatory indicators, investors must choose at least two voluntary indicators to report on, of which at least one must be environment-related and one social-related.

There are 14 mandatory PAI indicators for corporate issuers, covering everything from greenhouse gas emissions to controversial weapons.

[6] Source: Federated Hermes, as at 30 June 2024.

Figure 2: List of mandatory and voluntary PAI indicators

Mandatory

Climate and other environment-related indicators

- GHG emissions (scope 1,2 and 3, and total GHG emissions)
- GHG intensity oif investee companies
- Share of investment in companies active in the fossil fuel sector
- Share of non-renewable energy consumption and production
- Energy consumption intensity per high-impact climate sector
- Activities negatively affecting biodiversity-sensitive areas
- Emissions to water
- Hazardous waste ratio

Social and employee matters, respect for human rights, anti-corruption and anti-bribery matters

- Violations of UN Global Compact Principles and Organizations for Economic Cooperation and Development (OECD) guidelines for multinational enterprises
- Unadjusted gender pay gap
- Board gender diversity
- Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)

Voluntary

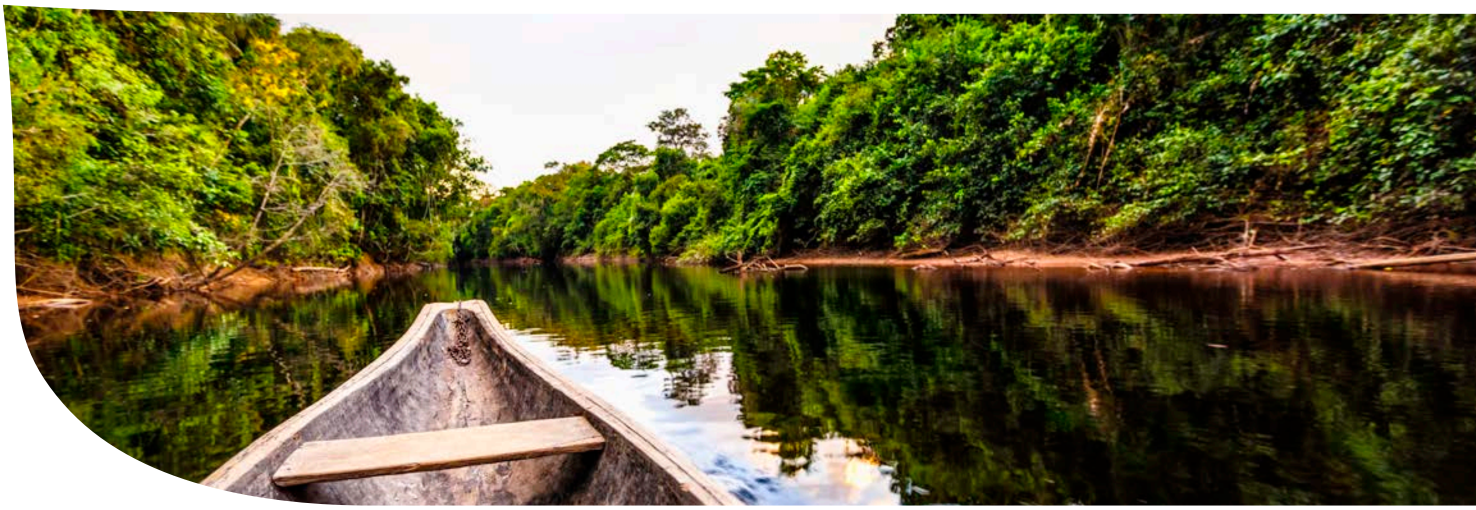
Climate and other environment-related indicators

- Emissions of inorganic pollutants
- Emissions of air pollutants
- Emissions of ozone depletion substances
- Investments in companies without carbon emission reduction initiatives
- Breakdown of energy consumption by type of non-renewable sources of energy
- Water usage and recycling
- Investments in companies without water management policies
- Exposure to areas of high water stress
- Investments in companies producing chemicals
- Land degradation, desertification, soil sealing
- Investments in companies without sustainable land/agriculture practices
- Investments in companies without sustainable ocean/seas practices
- Non-recycled waste ratio
- Natural (threatened) species and protected areas
- Deforestation
- Share of securities not certified as green under a future EU legal act setting up an EU Green Bond Standard

Social and employee matters, respect for human rights, anti-corruption and anti-bribery matters

- Investments in companies without workplace accident prevention policies
- Rate of accidents
- Lack of supplier code of conduct
- Lack of grievance/complaints handling mechanism related to employee matters
- Insufficient whistleblower protection {policy)
- Incidents of discrimination
- Excessive CEO pay ratio
- Lack of human rights policy
- Lack of due diligence
- Lack of processes and measures for preventing trafficking in human beings
- Operations and suppliers at significant risk of incidents of child labor
- Operations and suppliers at significant risk of incidents of forced or compulsory lobor
- Number of identified cases of severe human rights issues and incidents
- Lack of anti-corruption and anti-bribery policies
- Coses of insufficient action token to address breaches of standards of anti-corruption and anti-bribery
- Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws

Source: Worldfavor, as at February 2023.



Here we will focus on three major areas covered by various PAI indicators, namely human rights, diversity and climate change.

Human rights

The wide-ranging social impact of first the Covid-19 pandemic and then the cost-of-living crisis has pushed the issue of human rights into the limelight. Several recent developments in the world of investing reflect this increase in interest.

The United Nations Principles for Responsible Investing (UN PRI) network has been spearheading Advance,[7] a collaborative social initiative aimed at improving corporate human rights performance and practise through investor stewardship. Currently, 115 investors are participating in engagagements with companies, and US$35trillion managed by investors endorsing Advance. The sectors covered by Advance are limited to Metals & Mining and Renewables, however.

Guidance released in February 2024 in relation to the UN Guiding Principles on Business and Human Rights has much wider implications. It highlights three key responsibilities investors should fulfil in relation to human rights:

- **Establish a policy commitment to respect human rights**
- **Implement due diligence processes to prevent and mitigate actual and potential negative human rights outcomes**
- **Enable or provide access to remedy for people affected by their investment decisions**

In the European Union, regulations introduced for investors and corporates – under the SFDR and Corporate Sustainability Due Diligence Directive (CSDDD) respectively – raise the minimum standards market participants must meet in terms of reporting on sustainability factors. They also make it easier for investors to identify where companies are falling short. Based on information made available through these regulations, we note that 98% of the portfolio's holdings have a human rights policy, compared to 89% for the benchmark MSCI ACWI Index.

In the European Union, regulations introduced for investors and corporates – under the SFDR and Corporate Sustainability Due Diligence Directive (CSDDD) respectively – raise the minimum standards market participants must meet in terms of reporting on sustainability factors.

Having existed since 2017, the Corporate Human Rights Benchmark (CHRB)[8] provides useful insights into progress on corporate respect for human rights over time, as well as highlighting the gaps that remain. While some companies are demonstrating transformative change, the average pace of improvement remains too slow. In particular, CHRB assessments highlight the failure of many companies to involve rightsholders effectively and meaningfully throughout key parts of their process to respect human rights.[9] Currently, the CHRB only applies to apparel and extractives (including oil and gas), with the portfolio containing four relevant stocks: Costco, TJX, Fast Retailing and Amazon. These are all companies where we are engaging on human rights, and we have seen notable progress on these issues in 2024.

Diversity

Although companies are improving on diversity, they generally continue to fall short of our expectations. In recent years, we have voted against a considerable proportion of the portfolio due to a lack of both gender and racial diversity at board level. Over the first half of this year, we engaged with nine companies on diversity, equity and inclusion and innovation.

Gender equality is an important focus for investors as part of moving towards progress on the United Nations Sustainable Development Goals (UN SDGs), specifically SDG 5. The EU's

[7] https://www.unpri.org/investment-tools/stewardship/advance
[8] https://www.worldbenchmarkingalliance.org/corporate-human-rights-benchmark/
[9] '2023 Corporate Human Rights Benchmark'. Published by World Benchmarking Alliance, 20 November 2023. https://www.worldbenchmarkingalliance.org/publication/chrb/

PAI indicators include mandatory disclosure of the level of female representation at board level, making gender diversity visible and transparent. Based on PAI indicators, board gender diversity for the portfolio is 36%. This compares to 34% for the benchmark MSCI ACWI Index (based on data sourced from Sustainalytics as at the end of June 2024).

Our diversity voting policies have been updated since last year to reflect a higher standard. We apply them based on the jurisdiction where the company is based, although we may diverge from our normal policies if we perceive it to be in the long-term interests of shareholders.

Portfolio holding Dell is an example of a company where we are engaging on board and executive committee diversity. We have proposed that the company should meet a minimum of 30% gender diversity and 40% overall diversity. Dell have been receptive, recently committing to a further meeting with their nomination and governance committee chair to discuss board refreshment plans.

Climate change

As a high-profile, urgent and widely recognised problem, the need to mitigate the risks of climate change continues to be a pressing issue for companies.

A significant recent development has been the issuance of updated guidance for asset managers from the Institutional Investors Group on Climate Change (IIGCC), in the form of their Net Zero Investment Framework 2.0. Meanwhile, the rollout of finance sector guidance from the Science-Based Targets initiative (SBTi) has led to a noticeable rise in financial services companies setting targets and aligning their reporting to SBTs. More broadly, the phasing in of mandatory Taskforce on Climate-Related Financial Disclosures (TCFD) reporting is highly positive, while Taskforce on Nature-Related Financial Disclosures (TNFD) reporting, though currently voluntary, is a step in the right direction.

On the policy front, the European Parliament has approved the Net Zero Industry Act (NZIA) to bolster EU production of the key technologies needed to decarbonise. This legislation targets 40% domestic production of the bloc's annual deployment needs for net-zero technologies, based on requirements set out in member states' National Energy and Climate Plans (NECPs). As a secondary goal, it targets a 15% share of the total global market in these technologies by value. Technologies to be supported include all renewables, nuclear, industrial decarbonisation, grid, energy storage technologies, and biotech. For example, the NZIA sets a 50 million tonne target for CO_2 storage capacity by 2030 and requires member states to facilitate CO_2 transport infrastructure. This ambitious, transparent strategy enables investors and companies to set their decarbonisation roadmaps with confidence and accelerate progress towards the EU's 2030 climate and energy goals.

At a team level, we continue to scrutinise companies' decarbonisation plans and the target they propose, and welcome 'Say on Climate'[10] votes at companies' annual general meetings.

Conclusion

By focusing on three key areas of sustainability-related reporting, we hope to have highlighted the continuing positive momentum behind ESG integration. While accusations of greenwashing by companies may have been to some extent justified in the past, sustainability-related policy, regulation and reporting is constantly evolving, ensuring increasing rigour and transparency. Long-term investors serious about contributing to – and benefiting from – a more sustainable economy should continue to focus on ESG as the key tool to achieve their objectives.

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

[10] Read more at https://www.sayonclimate.org

SECTION 5: CASE STUDY

Norsk Hydro

Norsk Hydro is a leading global supplier of aluminium products. Headquartered in Oslo, it is active on all five continents and has operations in 50 countries worldwide. As a supplier of low-carbon aluminium, it is uniquely well-placed to help its clients decarbonise their manufacturing operations.

The company's strategy over recent years has focused on Europe and the US in order to diversify its portfolio. Its commitment to offering green and recycled products should play an important role in reducing overall emissions in aluminium manufacturing, as well as helping improve the environmental footprint of the companies it supplies in a range of sectors.

Investment perspective

Norsk Hydro has a strong overall Alpha Score (our estimate of the expected relative return of a company), which is driven by strong scores for corporate behaviour, growth, sentiment and valuation factors.

The company defines its ambition and role in decarbonisation based on three pillars:

1. **Becoming a net-zero company:** Achieving net-zero emissions by 2050, with the firm on track to reduce Scope 1, 2 and 3 emissions by 30% by 2030, from a 2018 baseline
2. **Delivering greener aluminium products to customers:** Developing zero-carbon aluminium through a closed-loop process, which involves recycling scrap aluminium and the use of carbon capture and storage (CCS)
3. **Enabling carbon removal in the broader industry and society:** Increasing renewable energy use and exploring energy storage and green hydrogen to remove reliance on fossil fuels

ESG profile

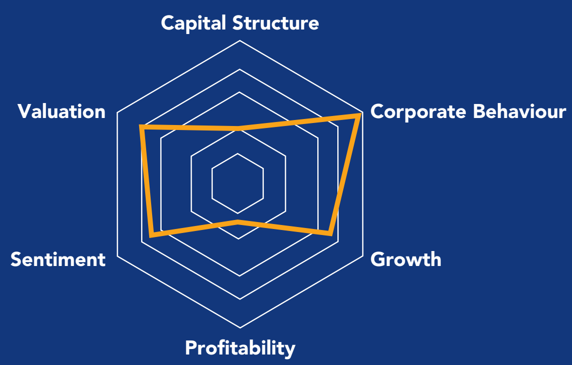
Norsk Hydro is an ESG leader within the Metals & Mining sector. The company achieves an AA rank from MSCI, while our own metrics place it above peers on all ESG pillars, with social and governance particular standouts.

From an environmental perspective, 29% of revenue is aligned to the EU Taxonomy category of Climate Change Mitigation. The firm issued a sustainability-linked bond aligned to EU Taxonomy criteria in November 2022, and in 2023 it commenced implementation of its Just Transition framework.

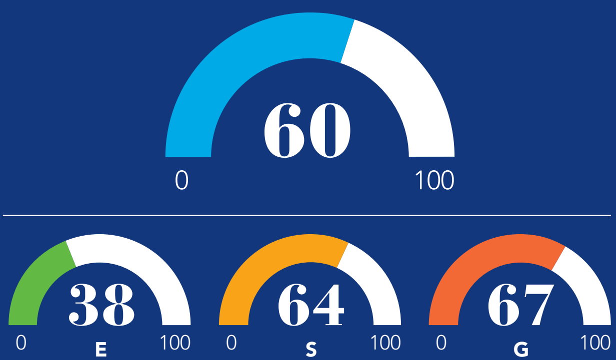
The company performs strongly on health and safety, both in terms of policy and the absence of serious incidents. It also has programmes in place to tackle issues such as diversity, supply chain monitoring, whistleblowing and bribery. Additionally, Norsk Hydro is a founding member of the UN Global Compact and a committed member of the Aluminium Stewardship Initiative (ASI).

The firm's corporate governance practices lead those of global peers. Its board has an independant majority, and it also has fully independent audit and pay committees. In addition, its adherence to the 'one share, one vote' principle aligns the company with shareholder interests.

Alpha Model assessment



QESG



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SECTION 6: CASE STUDY

AstraZeneca

AstraZeneca plc is a British-Swedish multinational engaged in the research, development, and manufacture of pharmaceutical products and biotechnology. It is one of the world's largest pharma companies, enjoying total revenues of US$45.8bn in 2023.

AstraZeneca is perhaps best known for its role in the production of Oxford University's Covid-19 vaccine, but its capabilities cover a far wider scope. Describing itself as a global, science-led biopharmaceutical business, the firm specialises in oncology, metabolism, and solutions for cardiovascular, renal and respiratory diseases.

Investment perspective

While already a globally important healthcare brand, AstraZeneca's profile provides significant potential for growth. Management have expressed confidence in achieving US$80bn in revenues by 2030, highlighting significant opportunities in oncology and respiratory products as key growth drivers. Based on our proprietary Alpha Model, the company looks attractive across most factor categories, but particularly profitability, growth and corporate behaviour.

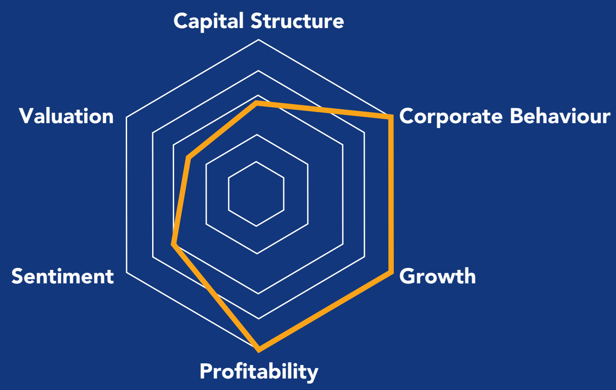
ESG profile

Already a sector leader across all ESG pillars, AstraZeneca continues to show improvement following recent engagement success.

One of the company's most material areas of focus is access to healthcare. Here, the company has strategic aims with regards to equitable access, affordability and the resilience of the health system. A key initiative is the Partnership for Health System Sustainability and Resilience (PHSSR), launched in 2020 with the London School of Economics and World Economic Forum. PHSSR is a non-profit, multi-country and cross-sector collaboration that combines expertise in health research, innovation and policy, engaging with national stakeholders to drive change and improve health system resilience.

Climate change is also a key theme for AstraZeneca. It has a target to reduce Scope 1 & 2 emissions by 98% by 2026, from a 2015 baseline, as well as reducing Scope 3 emissions by 50% by 2030, this time based on a 2019 baseline. So far it has achieved a 68% reduction in Scope 1 & 2 emissions, and while overall Scope 3 emissions have increased, Scope 3 emissions intensity has reduced by 24%. In addition, AstraZeneca's CEO Pascal Soriot chairs the Sustainable Markets Initiative Health Systems Task Force at COP. This body aims to accelerate the delivery of net-zero health systems, and is in advanced discussions in China and India to scale renewable power across supply chains.

Alpha Model assessment



Engagement

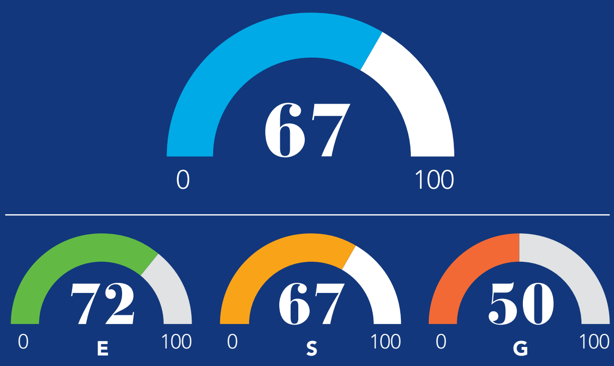
Our engagement with AstraZeneca originally commenced in 2009 with a number of governance objectives. We have also followed with keen interest the recent change in chair and continue to push for improved practise across a number of areas.

Since 2012, the company has grown successfully and delivered on an ambitious long-term strategy at the hands of its CEO. This has included the roll out of a successful Covid-19 vaccine which boosted the company's reputation, social value, and employee morale.

Engagement with the company has been constructive, and one area where we have made progress is with regards to CEO succession planning. Although the CEO is turning 65, the board expect him to continue for several years. The chair's focus is on ensuring several internal candidates get the full range of experience required to be competitive when the CEO role becomes vacant.

We sought reassurance over the diversity of this pipeline and were satisfied with the response, which addressed gender, ethnicity, and geographic factors. The company is also conducting desk research on external candidates, but felt it too early to engage on this formally. We also obtained reassurance that it is possible a future CEO would not be remunerated as generously as the current incumbent.

QESG



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