

An aerial photograph of a winding asphalt road that snakes through a series of rolling, grass-covered hills. The hills are a vibrant green, and the road is a dark grey. The perspective is from a high angle, looking down the length of the road as it curves through the landscape. The sky is visible at the top, showing some light clouds.

# Climate Action Plan

**Delivering on our  
net zero commitments**

2024

**Federated  
Hermes**   
Limited

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For professional investors only



## Introduction

As long-term stewards of capital, Federated Hermes Limited ("FHL") believes that climate change represents a systemic risk to financial markets, the global economy, and our ability to create wealth responsibly for our clients and their investors.

The Paris Agreement, adopted by 196 parties at the UN Climate Change Conference ("COP21") in 2015, sets out the goal of keeping the global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. It also includes a commitment to 'making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'.<sup>1</sup>

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, we take the view that we should work with clients to contribute to global efforts to limit warming to 1.5°C. Our goal is to drive change in the real economy.

This is an inseparable part of our fiduciary responsibility to seek to maximise long-term financial returns on investment on behalf of our clients. 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 goals of the Paris Agreement: an outcome that is fundamentally in the long-term financial interests of our clients.

This Plan applies to investment portfolios managed by Hermes Investment Management Limited ("HIML"), Hermes GPE LLP ("HGPE") and Hermes Alternative Investment Management Limited ("HAIML"). It also applies to investment portfolios managed by Hermes Fund Managers Ireland Limited ("HFMIL") where discretionary investment management has been delegated to HIML and/or HGPE. Private equity, direct lending, sovereign debt and liquidity are currently out of scope of this Plan. HIML, HGPE, HAIML and, to the extent this Policy is applicable to it, HFMIL are collectively referred to as "FHL" in this document.

In 2021, FHL joined the Net Zero Asset Managers ("NZAM") initiative. In doing so, we set out our ambition to reach net zero across the assets under management ("AUM") in scope of this commitment by 2050.<sup>2</sup> As at 30 September 2024, this represents 66% of our total AUM. We are focused on ensuring achievement of this goal delivers decarbonisation in the real economy.

We remain committed to playing our part in achieving the goal of the Paris Agreement to limit the temperature increase to 1.5°C, even as we acknowledge the challenges presented by the current global emissions trajectory and temperature trends, including a temporary overshoot of this critical global threshold. June 2024 marked the first 12-month period in which temperatures reached more than 1.5°C above pre-industrial times.<sup>3</sup> This temporary breach underscores the urgent need to accelerate efforts to reduce emissions, drive innovation, and foster systemic change. Even if the efforts to limit the global temperature increase to 1.5°C are not successful, in a below 2°C or a 2°C scenario, companies which have sought to align with a 1.5°C pathway will still be well positioned to deal with stricter climate regulations from governments. By maintaining ambitious targets aligned with the goals of the Paris Agreement, we aim to mitigate future climate risks, align with the expectations of key stakeholders including clients and policymakers, and contribute to a more sustainable and resilient global economy. Achievement of our targets will, however, require governments and policy makers to deliver on their commitments to achieve the goals of the Paris Agreement.

This Climate Action Plan sets out why and how we will seek to work with clients and investee companies on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets within the scope of our commitment. It also outlines the interim targets we have set along the way.

We recognise that the global challenges of climate change, biodiversity loss, and social justice are highly interlinked and, therefore, we seek to deliver our commitments in ways that contribute to tackling these issues together. Marine and terrestrial ecosystems globally are being altered by climate change, resulting in significant species losses and key

<sup>1</sup> United Nations, "Paris Agreement" (2015).

<sup>2</sup> Private equity, direct lending, sovereign debt and liquidity are currently out of scope. For these asset classes, we recognise that methodological best practices are still emerging and that data coverage and quality need further improvement to evaluate alignment with the Paris Agreement goals. We will look to address this over time through ongoing industry and issuer engagement and our active involvement in numerous climate disclosure related initiatives. While we hope to cover all asset classes over time, the overall AUM figure may change if the amount invested in each asset class changes significantly. In public equity and fixed income, there are certain instruments such as FX, cash, indices, ABS, CLOs, CDOs issued by companies for which we do not have climate data and are therefore currently out of scope.

<sup>3</sup> Copernicus, "June 2024 marks 12th month of global temperature reaching 1.5°C above pre-industrial" (July 2024).

ecosystem decline. There is a growing recognition of the financial risks associated with companies' impacts and dependencies on nature and the ecosystem services it provides. At FHL we take an integrated approach to the management of climate- and nature-related risks and opportunities across our business.

Climate change and the energy transition will also have significant impacts on society. There is an urgent need for ambitious, net zero targets; clear, credible transition plans; and ambitious implementation of those plans from governments, corporates and financial institutions globally if we are to have a timely, orderly, and just transition. Companies must explicitly consider how their actions, or lack of, on climate change will negatively influence stakeholders and seek to mitigate the social impacts of transition plans. 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.

**There is an urgent need for ambitious, net zero targets; clear, credible transition plans; and ambitious implementation of those plans from governments, corporates and financial institutions globally if we are to have a timely, orderly, and just transition.**

In seeking to deliver our climate goals, we therefore continue to focus our advocacy and engagement on related issues such as halting and reversing deforestation, protecting nature, and promoting social justice.

The approach we set out below is not set in stone and we expect it will evolve in the context of future technological, market, regulatory and political change. In future iterations of this plan, we will adapt our approach to respond to these changes and continued advancement of climate science.

### An urgent need to act

Time is running out to meet the Paris Agreement's goal of limiting average global temperature increase to 1.5°C and alarmingly we are already experiencing temporary breaches to the critical temperature threshold. If global emissions remain at the current levels, the remaining carbon budget to limit warming to 1.5°C (with a 50% chance) will be exhausted in the next six years.<sup>4</sup> As a result, urgent change is needed, and the crucial window for action is the next five years.

The pathways ahead for investee companies are varied and uncertain, especially in the multiple jurisdictions where climate policies are absent or in early stages of development.

A net zero global economy by 2050 will require a far-reaching transformation of critical infrastructure, buildings, transportation, industry, and land use. We also know these changes will need to happen in the context of adaptation to the growing physical changes to the climate that are already in motion.



### Governance

We have strong governance structures in place to provide oversight and approval of the firm's target setting. The Sustainability Regulations and Stewardship Oversight Committee is responsible for reviewing new or updated targets relating to investment or engagement activities, and amendments to this document, the Climate Action Plan. To the extent there are any material changes, the Senior Management Team will be updated as part of an annual update.

More detail on the governance structures and the integration of climate into our investment process, as well as reporting against our targets, can be found in our [Climate- and Nature-related Financial Disclosures Report](#).

### Our approach

We aim to deliver on our net zero aspirations by focusing on delivery against four specific pillars:

- 1 Operational emissions: playing our part by reducing our firm's direct environmental impact.
- 2 Advocacy: engaging constructively with regulators and policymakers to ensure the development of policy and best practice to facilitate the transition to a net zero carbon economy.
- 3 Reducing our financed emissions by encouraging our investee companies to set credible targets and strategies validated by the latest climate science and taking a proactive and industry-specific approach which prioritises the highest emitting, misaligned companies.
- 4 Continuing to work on product innovation and increasing investment inflows into climate and nature-based solutions.

<sup>4</sup> Earth System Science Data, "Global Carbon Budget 2024" (November 2024).

## 1 Operational emissions

*Our firm's direct environmental impact and associated climate risk exposure is primarily driven by the operation of our offices and business travel.*

We aim to minimise our carbon footprint and use of environmental resources through our sourcing decisions and our carbon offsetting program, as well as through promoting behavioural changes amongst our employees, suppliers and other stakeholders.

We offset our own Scope 1 and 2 operational emissions – as well as our corporate travel emissions by air and rail – and have been doing so since 2016 through high quality offsetting.

### Our operational (Scopes 1 & 2) emissions reduction targets:

We are targeting a further reduction in our energy intensity (based on our Scope 1 & 2 operational emissions per FTE) of 25% by 2030 relative to the 2019 baseline.<sup>5</sup>

Our operational emissions targets are reviewed annually.

Our 2019 baseline was:

- Absolute energy consumption:
  - Scope 1 – 1.13 tCO<sub>2</sub>e;
  - Scope 2 – 202.1 tCO<sub>2</sub>e
- Energy Intensity – 0.39 tCO<sub>2</sub>e/FTEs<sup>6</sup>

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 Environmental Management System to maximise efficiency gains and ensure that the targets remain fit for purpose.

When reporting on progress against our targets, we seek to include reported or estimated data for FTEs from our other offices and estimations for gas and electricity consumption in these additional offices (which may include Scope 3 emissions in some cases).<sup>7</sup>

Due to the evolving needs of the business, FHL will no longer be working towards a corporate travel emissions reduction target.

## 2 Advocacy

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 it from operating in the best interests of its ultimate asset owners. We advocate for solutions to overcome these barriers and help facilitate an economy-wide transition to a net zero emissions, resilient and nature positive economy. We also engage in industry discussions to advance best practice in assessing and mitigating climate and nature risks.

We contribute to policy discussions both directly and in collaborative initiatives. We are a member of a number of industry bodies and initiatives around the world on climate and nature issues, including the Institutional Investors Group on Climate Change ("IIGCC"), Glasgow Financial Alliance for Net Zero ("GFANZ"), FCA-PRA UK Climate Financial Risk Forum, Financing a Just Transition Alliance, and Finance for Biodiversity Foundation.

Increasingly, in partnership with such initiatives, we are intensifying our country-level engagement in order to raise ambition and credibility of NDCs ("Nationally Determined Contributions"), National Biodiversity Strategies and Action Plans ("NBSAPs") and national policy on climate and nature issues, including deforestation, and therefore create an enabling environment for corporates. This in turn should also benefit our clients and their end beneficiaries through the mitigation of climate change and nature loss and the corresponding financial risks.



<sup>5</sup> The 2019 emissions intensity baseline was based on the Scope 1 and 2 electricity and gas consumption and fulltime employees ("FTEs") for 150 Cheapside (London) and Gutter Lane (the London offices of HGPE), as well as 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% renewable electricity for our head office (150 Cheapside). Reductions in our energy intensity will therefore result from energy efficiency measures and grid decarbonisation.

<sup>6</sup> 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.

<sup>7</sup> FHL uses the main requirements of the GHG Protocol Corporate Standard (revised edition) as a basis to report operational emissions. Data is gathered at site level to compile the carbon footprint.

### 3 Reducing financed emissions driven by engagement

Becoming fully net zero means focusing on our investments too. These are part of our Scope 3 emissions.

Our approach is focused on driving decarbonisation in the real economy. We have therefore set targets for the proportion of our holdings that will be aligned with a 1.5°C trajectory; these will drive our engagement with portfolio companies to achieve decarbonisation at the company level and not just in our portfolios. We will continue to report progress on an annual basis.

This section focuses on our efforts to reduce our financed emissions throughout engagement. For information on how we integrate climate-related risks and opportunities into our investment decision making, please see our Responsible Investment Policy and our Climate- and Nature-related Financial Disclosures Report on our [website](#).

#### Paris Alignment and Net Zero Goals: how do they fit together?

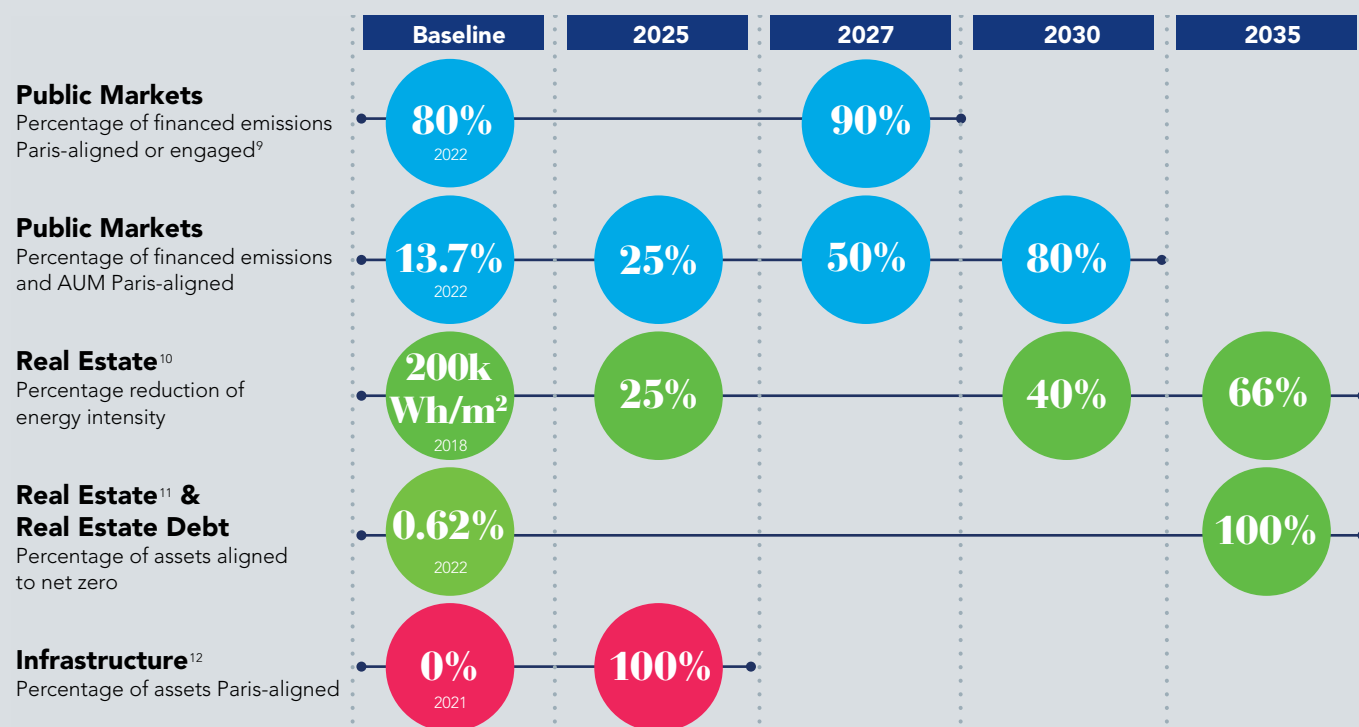
In our view, net zero is an absolute state we are seeking to achieve as a business, where our own activities and the activities of our investments contribute on an absolute or net basis (for example through offsetting any residual emissions) to a zero-emission economy in 2050 at the latest. Paris Alignment, on the other hand, is a transitional state and reflects the process of pivoting business strategy, operations and sales in such a way that greenhouse gas ("GHG") emissions from the firm and its activities are reduced in line with a credible and timely pathway to net zero.

## Our climate goals

### FHL has committed to achieving net zero by 2050 but we will try to get there sooner.

As we strive to reduce our portfolio emissions, we have set the following interim milestones:<sup>8</sup>

**Figure 1.** Our interim targets across public and private markets



Source: FHL as at 30th November 2024.

<sup>8</sup> 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, liquidity, sovereign debt, FX, cash, indices and, ABS, CLOs and CDOs issued by companies. Target dates refer to year-end.

<sup>9</sup> When calculating our baseline alignment, we had access through a third-party provider only to Scope 1, 2 and upstream Scope 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.

<sup>10</sup> This applies to all managed assets in our real estate portfolio.

<sup>11</sup> This applies to all managed assets in our real estate portfolio.

<sup>12</sup> Between setting the target in 2021 and the latest 2024 assessment, Infrastructure have continued to develop the methodology in line with FHL's approach and best practice guidance. Therefore, a direct comparison cannot be made between the two assessments, however, it has been provided to give an indication of progress made to date.



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, and in the context of our legal duties to clients. Standardised methodologies for aligning the management of assets with net zero goals do not yet exist in certain asset classes and sectors, and government-level climate commitments are currently not 1.5°C-aligned in many markets in which we invest. Therefore, where our ability to align our approach to investment with the goal of net zero emissions by 2050 is constrained, we commit to work with clients and industry initiatives to seek to overcome any methodological and data limitations, as well as advocating for the policy ambition necessary to achieve net zero by 2050 globally.

### Approach to controversial activities

FHL takes a dynamic approach to exclusions, which are determined at the fund level. We have also developed an approach to controversial activities that highlights business activities that carry significant environmental and social harm as well as activities that could carry harm dependent on how the company conducts its business. For activities that carry significant harm, categorised as "highly controversial activities", the fund managers are required to set out their investment and engagement thesis using our proprietary Transparency and Accountability ("T&A") Framework. Thermal coal, tar sands and shale energy are captured within our high controversial activities category. Further details of our approach can be found in our Approach to Controversial Activities, within the [Responsible Investment Policy](#).



## Public markets

**FHL will work with clients towards our commitment to reach 25% of in scope AUM and financed emissions (Scope 1, 2 and material Scope 3) to be 1.5°C aligned by 2025: 50% by 2027 and 80% by 2030 and achieving net zero by 2050 or sooner.<sup>13</sup>**

**FHL aims for 80% of our financed emissions (Scope 1, 2 and material 3) to be Paris-aligned or engaged on climate change, which will grow to 90% by 2027.** In updating our targets in 2024, we chose to include aligned names in this 80% to align with the Net Zero Investment Framework ("NZIF") 2.0 recommendations.<sup>14</sup> This allows us to focus our engagement on companies that are not yet Paris-aligned. We have also updated the target date for 90% of our financed emissions to be aligned or engaged by 2027. However, by targeting 2027 we continue to maintain a more ambitious target date than industry guidance, as the NZIF guidance recommends financial institutions target 90% of financed emissions to be engaged or aligned by 2030.

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% or 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.

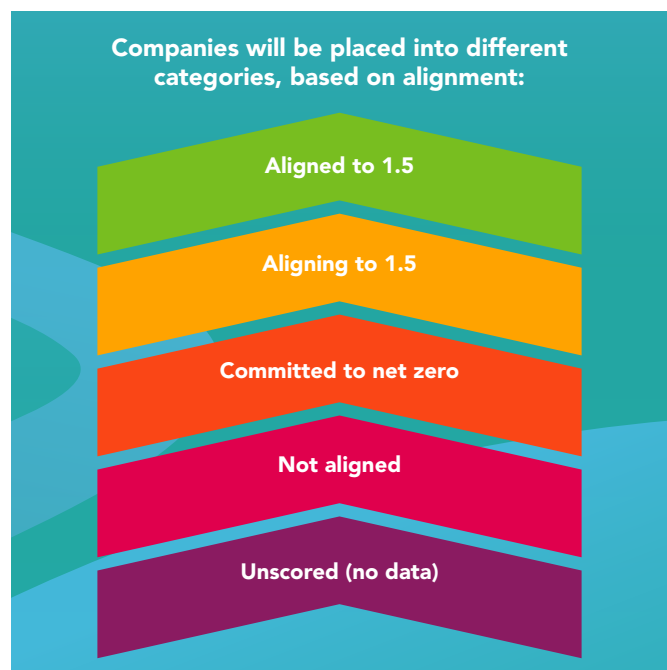
<sup>13</sup> The scope of our interim targets applies to all our assets under management apart from private equity, sovereign debt, liquidity and direct lending. In public equity and fixed income, there are certain instruments such as FX, cash, indices, ABS, CLOs, CDOs issued by companies for which we do not have climate data and are therefore currently out of scope.

<sup>14</sup> Institutional Investor Group on Climate Change (2024) [Net Zero Investment Framework](#).

## Paris Alignment methodology

We 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. We use this for our public markets company assessments. The methodology primarily assesses the alignment of a company's GHG targets and associated emissions trajectory to a 1.5°C-aligned decarbonisation pathway, applicable to the relevant sector and geography where possible. The methodology uses authoritative benchmark pathways, such as those developed by the Science-based Targets Initiative ("SBTi"), the International Energy Agency, and the Transition Pathway Initiative ("TPI"). Where sector-specific benchmarks are not available, we currently use the SBTi cross-sector pathway, which requires a 4.2% per annum linear reduction in absolute Scope 1 and 2 emissions in the near-term and at least 90% reduction by 2050 with residual emissions offset. We will evaluate any alternative methodologies should these become available and are credibly and robustly science-based.

**Figure 2.** Alignment of companies based on climate change ambitions



Source: EOS at Federated Hermes Limited, as at 30th November 2024

Companies are placed into different categories of alignment – 'aligned' and 'aligning':

- **Aligned to 1.5°C** – includes companies that have demonstrated a coherent ambition to reduce emissions sufficiently to align with 1.5°C. An SBTi validated target is a preferred indicator of alignment. To remain in this category over time, companies must, since setting the targets, deliver emissions reductions substantially aligned to the relevant emissions reduction trajectory on a 3-year rolling average basis.
- **Aligning to 1.5°C** – includes companies that have announced an ambition to reduce emissions sufficiently to align with 2°C or lower or have committed to align to 1.5°C. A commitment to set an SBTi-validated target is recommended (or an already validated 2°C or well-below 2°C target). These criteria are underpinned by the expectation that such companies will in future increase the ambition of targets to be 1.5°C-aligned.
- **Committed to net zero** – includes companies that have publicly announced a net zero ambition to reduce emissions by 2050 or sooner.
- **Not aligned** – includes companies that have not yet made a net zero commitment or have announced levels of ambition that are deemed inadequate to align with 2°C.
- **Unscored (no data)** – includes companies that have demonstrated some ambition to reduce emissions but there is no robust methodology or data available to assess this ambition relative to a temperature outcome.

We will continue to develop and integrate credibility tests to gauge how well companies are performing against their targets, as well as qualitative assessments for how well we expect companies to perform against their targets. These assessments will identify companies failing to take sufficient action to meet their targets and provide further inputs to engagement and investment decision making.

We will continue to review and evolve the Paris-alignment methodology in line with best practice, including updated inputs and definitions. We will also continue to monitor the challenges and limitations that the industry faces, including data availability, quality, consistency, and current methodological limitations of portfolio alignment metrics.



## Our public markets' portfolios

Around 50% of our investments across our public markets' portfolios have already established their path to net zero in some form.

When publishing our baseline alignment, we only had access through a third-party provider 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. Our 2022 baseline figures are therefore based on Scope 1 and 2 and upstream only Scope 3 emissions, whereas for 2024 we now base our analysis on both upstream and downstream material Scope 3 emissions. We have included analysis based on Scope 1 and 2 and upstream only Scope 3 emissions for comparison only in the table below.

**Figure 3.** Breakdown of FHL public markets assets under management in scope of targets<sup>15</sup>

	May 2022		October 2024		
	% AUM	% financed emissions (Scope 1, 2 and upstream 3)	% of AUM	% of financed emission (Scope 1, 2 and upstream 3)	% of financed emission (Scope 1, 2 and material 3)
Aligned	13.7%	8.3%	27.3%	14.1%	28.7%
Aligning	18.9%	22.5%	9.6%	8.5%	8.8%
Committed to Net Zero	21.0%	17.5%	26.2%	27.1%	23.3%
Not aligned	35.9%	41.1%	27.7%	23.5%	27.7%
Unscored	10.5%	10.6%	9.2%	26.7%	11.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Sources: MSCI, SBTi, Trucost as at 30th October 2024. We currently assess the alignment of our holdings by the GHG reduction targets the company has set.

## An engagement driven approach

We focus our engagement on behalf of clients on those companies where we have identified inadequate action relating to the climate transition to challenge them to accelerate their climate ambition. In doing this, we act to protect the financial interests of our clients and their investors and deliver long-term value for their stakeholders.

As an overview, we expect companies to actively demonstrate that their emission reduction targets and strategies are aligned to the 1.5°C goal of the Paris Agreement. Companies should commit to reaching net zero emissions by 2050 at the latest and set short and medium-term targets that are science-based, in line with what is required for a 1.5°C pathway. These targets should be backed up with a credible transition plan that articulates how the decarbonisation levers selected are expected to be sustainable and competitive once nature-related risks and dependencies are also considered, noting that targets should be met primarily through emissions abatement rather than offsetting. Companies should also consider the social impacts of their transition plans. We expect risk management and disclosure to be in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), with companies reflecting risks and opportunities in the annual audited accounts. Material capital expenditure investments should be demonstrably consistent with the goals of the Paris Agreement. Effective governance of climate-related risks and opportunities,

including board oversight and ensuring that direct and indirect lobbying activities are aligned to the goals of the Paris Agreement, is also critical. Companies should assess exposure to the physical risks of climate change and develop adaptation plans accordingly. In the short-term, we also expect companies to deliver emissions reductions that correspond to their climate strategies, and we will hold to account companies that fail to deliver on their targets, in the absence of mitigating circumstances, for example by considering voting against the reappointment of responsible directors.

Engagement strategies are tailored to the region, sector and company context but include a combination of approaches, such as letters to the board, one-to-one meetings, collaborative engagement, and escalation strategies where appropriate. We will engage in line with the expectations outlined in the EOS Engagement Plan<sup>16</sup>, and best-practice frameworks, such as the Climate Action 100+ Benchmark<sup>17</sup> and the IIGCC Net Zero Investment Framework<sup>18</sup>, Stewardship Toolkit<sup>19</sup>, and sector-specific climate change expectations.<sup>20</sup> For a company to be considered as engaged and be counted towards our engagement target, at a minimum there must be some form of direct communication with the company, such as a letter, meeting or call.

Engagement will be prioritised based on the materiality of financed emissions, the size of our investment and the degree of misalignment to the goals of the Paris Agreement. We use emissions data, client holdings, external benchmark

<sup>15</sup> The scope of our interim targets applies to all our assets under management apart from private equity, sovereign debt, liquidity and direct lending. In public equity and fixed income, there are certain instruments such as FX, cash, indices, ABS, CLOs, CDOs issued by companies for which we do not have climate data and are therefore currently out of scope.

<sup>16</sup> EOS library | Federated Hermes Limited.

<sup>17</sup> Net Zero Company Benchmark | Climate Action 100+.

<sup>18</sup> Net Zero Investment Framework.

<sup>19</sup> Net Zero Stewardship Toolkit.

<sup>20</sup> IIGCC Resources.

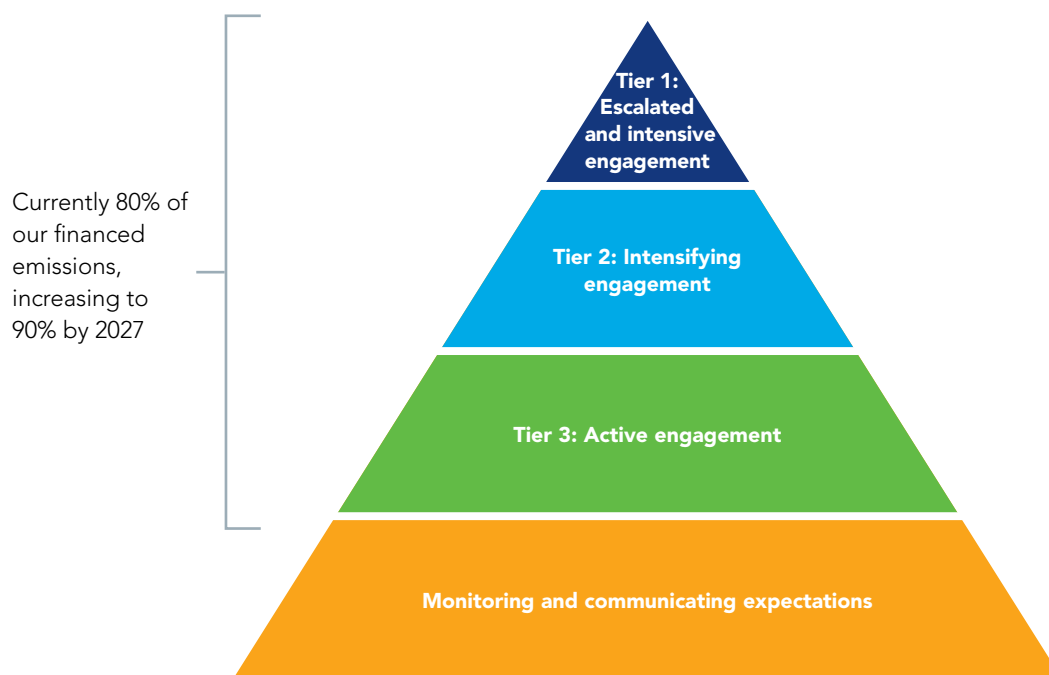


indicators, and considerations of structural exposure to climate transition or physical risks to determine the companies that are flagged as priorities for engagement and escalation.

Companies that are categorised as “Not Aligned” or “Unscored” and identified as engagement priorities will receive the highest intensity of engagement over the next few years, with engagement focused on asking companies to

commit to net zero by 2050 at the latest and set supporting interim emission reduction targets. In general, we will allow approximately up to 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, we will consider using a range of escalation tactics, such as voting against responsible directors.

**Figure 4.** Structuring climate change engagement



Source: EOS at Federated Hermes Limited, as at 30th November 2024.

## Private markets

**Real Estate:** we are working towards a 25% reduction in energy intensity by 2025, 40% reduction by 2030, and 66% reduction by 2035, compared to a 2018 baseline, and achieving net zero in terms of development and operations by 2035.<sup>21</sup>

**Real Estate Debt:** we are working towards achieving net zero by 2035.

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

### Real estate

During 2021, the team issued the [Net-Zero Pathway](#) document which sets out both the interim targets and approach to reaching net zero carbon emissions by 2035 across the managed assets included within our UK real estate portfolio. Since then, we have also published pathways for our residential, international and real estate debt portfolios.

Over the period to 2035, the team aims to deliver 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.** Both pathways and targets were developed using and are aligned with the UK Green Building Council (“UKGBC”) Advancing Net Zero Framework.<sup>22</sup> More information on the real estate’s team approach to net zero can be found in the [Net-Zero Pathway](#) document.

In terms of engagement, the team has an integrated approach using tools and procedures that allow investment and fund managers to supervise and proactively manage FHL’s real estate portfolio. The team ensure ongoing engagement with investment managers, property managers, occupiers, and contractors to develop and deliver the net zero transition plans successfully. The team collaborate with a number of industry working groups such as the Better Buildings Partnership (“BBP”), the UKGBC, and Institutional Investors Group on Climate Change to ensure they remain aware and contribute to industry trends, best practice and innovation.

<sup>21</sup> This applies to all managed assets in our real estate portfolio. Real Estate Debt is not included within this target.

<sup>22</sup> [UKGBC-Net-Zero-Carbon-Energy-Performance-Targets-for-Offices.pdf](#).

## Infrastructure

The infrastructure team adopted a portfolio level target in 2022 for all portfolio companies to be aligned with the Paris Agreement's 1.5°C goal by 2025. We focus on ensuring that portfolio companies have long-term net zero targets for 2050 or sooner and near-term targets aligned with a science-based, 1.5°C-aligned pathway. We undertake a Paris Alignment test for our portfolio companies which, assesses their level of alignment as a key performance indicator to track progress. This test is broadly similar to the Paris Alignment Methodology used for our public market company assessments.

The infrastructure team also engages with our portfolio companies to ensure their long-term business plan factors in climate risks. Based on the EOS stewardship model and using the results of scenario analysis, the team sets priority focus areas and objectives for engagement with the portfolio companies. These are reviewed at least annually as risks evolve throughout holding periods. In some cases, we directly input into and oversee areas of our portfolio companies' mitigation and adaptation strategies.

## 4 Climate solutions

Investment levels in climate finance still remain considerably below what is needed to reach net zero by 2025, despite the additional funding commitments made by governments and businesses.<sup>23</sup> In parallel to our engagement efforts, we will continue to work on product innovation, on a client-led basis, as clients increase their focus on climate risk and, importantly, opportunity.

We will also look to continue to increase investment inflows into climate and nature-based solutions between now and 2030. As such, 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.

### 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 preindustrial 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 develop an initial approach to maximise the number of companies that can be rigorously assessed and targets which cover a large proportion of our AUM (66%).

At the same time, we are conscious that the methods and data are still evolving, and as such we will continue to look to incorporate the most robust and forward-looking approaches over time and report progress on an annual basis.

<sup>23</sup> World Economic Forum, "Just how big is the decarbonization investment opportunity?" (January 2024)

## Federated Hermes

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
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by five decades of experience
- **Private markets:** private equity, private credit, real estate and infrastructure
- **Stewardship:** corporate engagement, proxy voting and policy advocacy

For more information, visit [www.hermes-investment.com](https://www.hermes-investment.com) or connect with us on social media:

