

Biodiversity Equity 2023-2024

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Annual report 2024

**Federated
Hermes** 
Limited

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Contents

Our philosophy	3
Impact overview	4
Thematic focus: Our unsustainable world (and our investment approach)	6
Case studies Deforestation, water, plastics, textiles	9

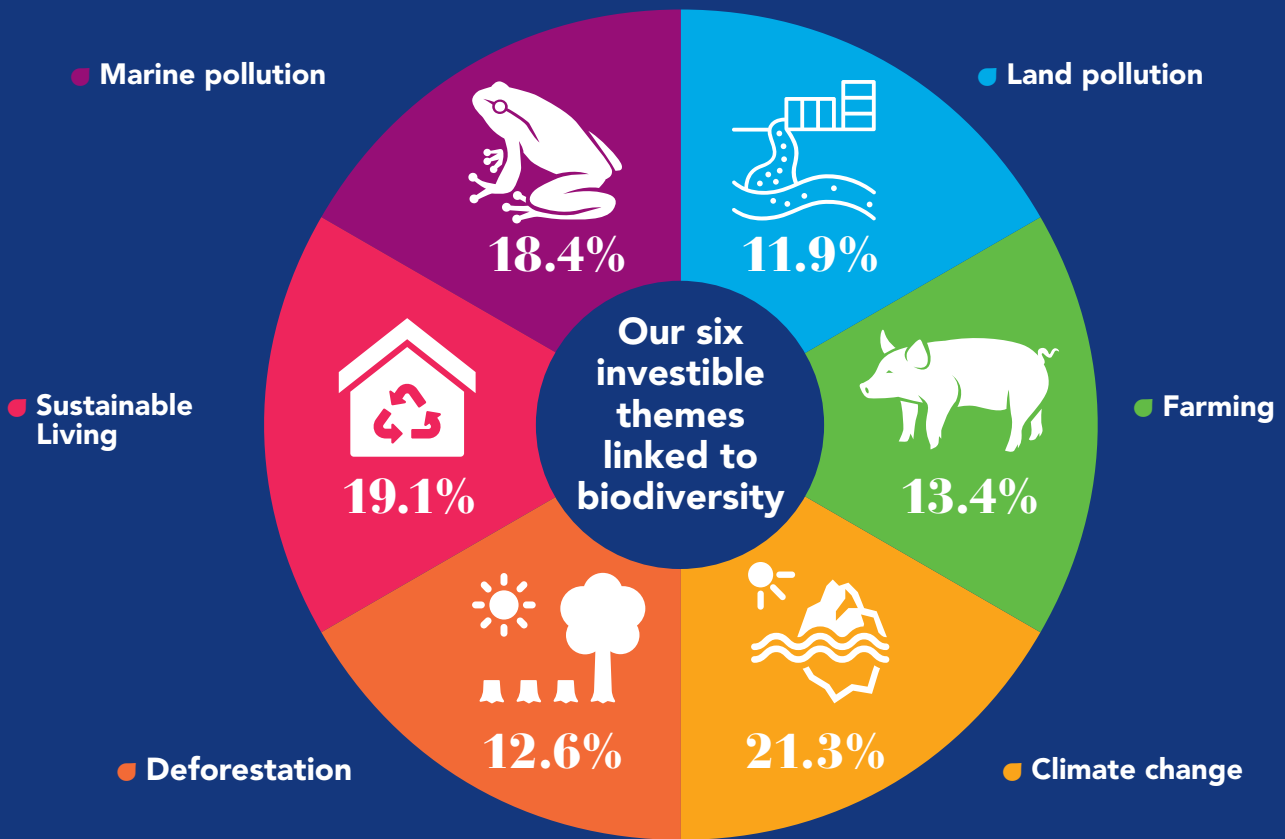


Our philosophy

The Federated Hermes Biodiversity Equity Strategy aims to achieve long-term capital appreciation by investing in a concentrated portfolio of best-in-class companies that provide solutions to avert loss of biodiversity and support its restoration.

Thematic framework

We have extensively researched the major regional and global threats to biodiversity and have defined six investable themes: land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation. Each of these themes has multiple sub-verticals that are aligned to specific UN Sustainable Development Goals (SDGs).



Source: Federated Hermes Limited, as at 31 December 2024. NB: the remaining 3.3% portfolio exposure does not fall under our six investable themes linked to biodiversity.

Federated Hermes Limited is a pioneer of investing in biodiversity, with a strong record advocating and engaging around the theme. We are members of industry organisations including the Finance for Biodiversity Pledge, the PRI Sustainable Commodities Practitioners’ Group, the SPOTT Supporter Network, the Partnership for Biodiversity Accounting Financials, and the PRI plastics working group.

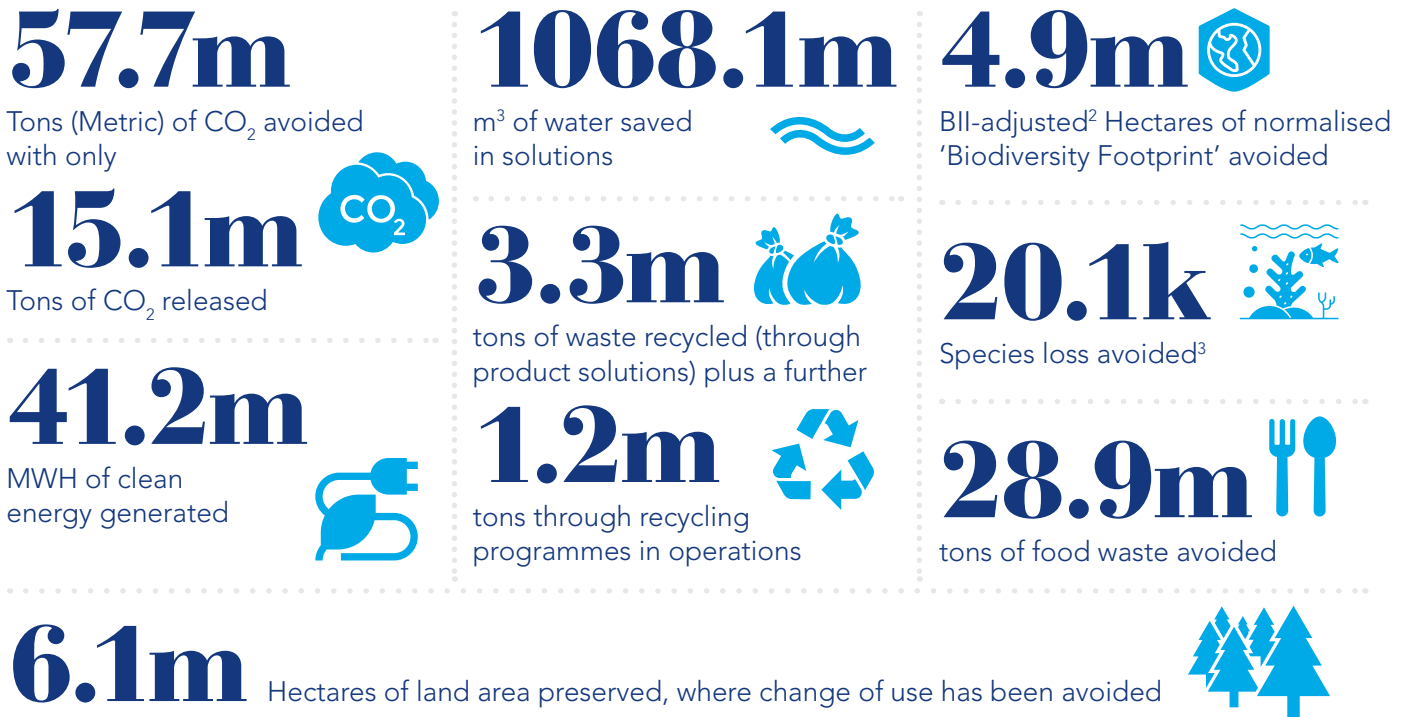


Biodiversity Impact Performance, 2023

Total company level impact of stocks, 2023¹

Using our proprietary Federated Hermes Biodiversity Impact Database, which we launched in 2023, we are able to present our impact data on an aggregated, cross-company basis. We have extended our original Impact measurement database, launched in 2020, creating **three new bespoke biodiversity metrics** as well as qualifying **10 existing metrics** as being biodiversity-aligned.

Put simply, these metrics depict our estimate of the total impact that our portfolio companies delivered in 2023. Our database draws on data from company, sector and industry reports.



¹ Most recent date for available full-year data. Figures for 2024 will be available in 2025.

² The Natural History Museum's Biodiversity Intactness Index (BII) estimates how much of a region's natural biodiversity is still left on average.

³ The term *species loss avoided* refers to the reduction in the likelihood that a species will become extinct or significantly decline in population due to specific conservation actions. Essentially, it measures the positive impact of efforts to protect and preserve species that are at risk.

This metric is an estimated value of the regional or global impact of reduction in species loss over one year compared to a reference scenario. This metric pertains to species richness, which refers to the number of species in a given area. It is calculated using reported data, scientific facts and/or a defined theory of change for a company's specific products and services.

Impact achieved by capital deployed, 2023⁴

10.5k 

Tons of CO₂ avoided with only 1.9k Tons of CO₂ released

614.7 

Tons of waste recycled (through product solutions) plus a further

4.2k 

Hectares of land area preserved, where change of use has been avoided

6.6k 

MWH of clean energy generated

165.6 

Tons through recycling programmes in operations

3.1k 

BII-adjusted Hectares of normalised 'Biodiversity Footprint' avoided

96.4k m³

of water saved in solutions

3.2k 

Tons of food waste avoided

5.3 

Species loss avoided

Source: Federated Hermes Impact Calculations, Net Purpose, Natural History Museum as at 31 December 2023.



⁴ Most recent date for available full-year data. Figures for 2024 will be available in 2025.

Our unsustainable world (and our investment approach)

A stock take of current environmental trends makes for a litany of waste, mismanagement and unsustainable consumption. Investors have both the means and the opportunity to make a difference.

Increasing resource use is the main driver of a triple planetary crisis: climate change, biodiversity loss and pollution. Unfortunately, we as humans have failed to manage our global portfolio of assets sustainably. Estimates show that between 1992 and 2014, produced capital per person doubled, and human capital per person increased by about 13% globally; but that the stock of natural capital per person declined by nearly 40%.⁵ We have been taking nature for granted, and while humanity has prospered immensely in recent decades, the ways in which we have achieved such prosperity means that it has come at a devastating cost to nature and the environment. The main reason for such destruction has been our consumption patterns which today are characterised by a 'buy and discard' mentality.

Global resource use has more than tripled since 1970, causing environmental and social harms ranging from biodiversity loss to human rights concerns in mining. For example, material resource extraction and processing accounts for:

- Over 55% of climate change impacts
- Up to 40% of airborne particulate matter health impacts
- 90% of water stress and
- 90% of land-use related biodiversity loss

Between 2000 and 2022, increasing affluence became the single largest driver of the growth of global resource use, followed by population increase.

While technology previously served to decrease resource use in all seven regions across the world, it has now driven increases in two regions. If historical trends continue, global resource use would grow by 60% from 2020 levels by 2060, contrary to the target of reducing global material resource consumption by more than half by 2050.

In today's world, our society relies on non-renewable resources, yet yearly, we directly waste or mismanage much of it (see table below).

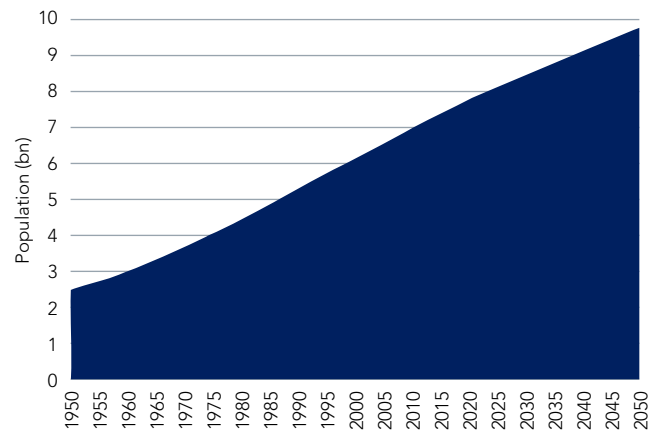
A society of waste

Resource	Percentage wasted
Water withdrawn	78%
Food produced	49%
Energy produced	31%
Ores extracted	85%
Non-metallic minerals extracted	26%

Source: [Scientists' warning against the society of waste – ScienceDirect](#).

Estimates of our total impact on nature suggest that we would require 1.6 Earths to maintain the world's current living standards. Given the lack of resources, and the growing population (see following chart), the only way forward is to start living sustainably and for the circular economy, with the concept of 'reduce, reuse and recycle' to become the global standard.

Development of the global population from 1950 to 2050



Source: Statista 2024.

The solution – a circular economy

A circular economy is a system where materials never become waste and nature is regenerated. In a circular economy, products and materials are kept in circulation through processes like maintenance, reuse, refurbishment, remanufacture, recycling, and composting.

The circular economy is based on three key principles:

- 1 **Eliminate waste and pollution:** Our economy currently works in a 'take-make-waste' system. To change from a linear supply chain to a circular one, we need to start with changing the design of products such that we can reduce waste in the production process and the products can be reused and recycled.
- 2 **Circulate products and materials by keeping materials in use for as long as possible:** There are two cycles to keep products in use: the technical cycle and the biological cycle. In the technical cycle, products are reused, repaired, remanufactured, and recycled. In the biological cycle, biodegradable materials are returned to the earth through processes like composting and anaerobic digestion.
- 3 **Regenerate nature:** By shifting from a linear to a circular economy, we can start building natural capital rather than degrading nature. For example, regenerative agriculture allows nature to rebuild soil nutrients and increase biodiversity by returning biological materials to the earth. Currently, most of these materials are lost after use and the land used to grow them is depleted of nutrients.

⁵ Royal Society: [The Economics of Biodiversity: The Dasgupta Review](#), 2 February 2021.

In addition to these principles, products and their materials must be kept in circulation at their highest value for as long as possible. ‘Closing the loop’ is done in two stages: recovering and retaining the value of the materials and components from waste products, and then using them to make new products. This displaces the sourcing of virgin, non-renewable materials that otherwise would have been used and reduces the consequential environmental impacts of extracting these materials.

Longer use of products is another key aspect of the circular economy, as it slows down the material circulation. Extending the product life defers the need to replace the product and therefore reduces the need for additional resources. It also reduces total emissions that come with the manufacturing process in the period by reducing the amount of production.



The regulatory requirement – why business needs to act

Given the visible consequences of our unsustainable living patterns and a ‘business as usual’ corporate mentality, policy makers globally have started to introduce ambitious regulation, with the EU leading the way. Below we have highlighted some of the examples of regulation that promote a circular economy.

- 1 The EU Circular Economy Action Plan was first adopted in 2015 and amended in 2020 to align with the objectives of the EU Green Deal. The Action Plan has three goals:
 - Preventing resource scarcity and reducing Europe’s reliance on imported raw materials.
 - Reducing the region’s environmental impacts and meeting its Climate Neutrality target.
 - Creating new economic opportunities and improving the region’s competitiveness. The main legislations already adopted under the Action Plan include the Waste Framework Directive, which introduced the first Extended Producer Responsibility (EPR) framework and recycling targets, and the Single Use Plastics Directive, which banned the 10 most commonly found single-use plastic items on European beaches.

- 2 The EU’s Packaging and Packaging Waste Regulation is the most ambitious regulation on packaging globally with the following key measures and targets:
 - 90% of beverage packaging (including plastic bottles and aluminium cans) to be collected separately by 2029.
 - Mandatory deposit return schemes (already in place in 15 EU countries).
 - A standardized calculation of recycling rates across the EU, which better accounts for losses that could arise during waste collection and sorting. The region’s recycling targets have been maintained to 50% by 2026 and 55% by 2030.
 - All plastic packaging to be recyclable by 2030.
 - 10% of packaging for both alcohol and non-alcohol beverage (excluding wine, spirits, and milk) to be made available in reusable packaging by 2030, increasing to 40% by 2040.
 - 30% of recycled content in non-food and some food-grade plastic packaging by 2030 and 65% by 2040. The target is significantly lower for food packaging other than PET at 10%.

Targets of the EU Packaging and Packaging Waste Regulation

Targets	2026	2030	2035	2040
Absolute reduction in the amount of packaging used		-5%	-10%	-15%
Packaging recyclability		100% designed for material recycling	100% collected separately	
Recycled content of plastic packaging		30-35%		50-65%
Collection rate of plastic packaging		90%		
Recycling rate of plastic packaging	50%	55%		

Source: JPMorgan

Furthermore, other regulatory developments to be aware of are:

- Negotiations on a revised Waste Framework Directive, which proposes to expand Extended Producer Responsibility (EPR) to fashion brands and textile producers and set mandatory reduction targets on food waste
- The Global Plastics Treaty, which, while it failed to be finalised at November's Intergovernmental Negotiation Committee (INC-5) Summit, still offers hope for adoption of stricter regulations beyond Europe.

Our investment approach

All of these regulations will have both positive and negative investment implications.

As part of our investment process, we focus on identifying the companies that are well-positioned to benefit from the trends outlined above, as well as driving positive outcomes through their operations and the products and services they provide. By incorporating the principles of a circular economy into investment applications, we see opportunities across many industries.

At each stage of a product's life cycle, there are opportunities for businesses to incorporate circular economy principles to improve efficiency, reduce waste, and capture new markets. This can help companies achieve financial outperformance over the longer-term – but it can also generate the broader societal and environmental benefits that come from protecting and restoring nature.

Opportunities can range from reducing waste in manufacturing processes to improving efficiency at the distribution stage. Companies can also look to lengthen their products' lifetimes through rental, repair and resale but also by managing waste and turning waste into renewable products.

Stages of a product's lifecycle where businesses can incorporate circular economy principles



Case studies

It takes time, resources and expertise to identify companies that can both protect biodiversity and provide investors with an attractive return. Here we highlight a selection of companies in our investment portfolio that interact with four key biodiversity themes: deforestation, water, plastics and textiles.



Deforestation

If we are going to get anywhere near 1.5°C, two things need to happen, we need to redesign our food systems and we need to stop deforestation. Today, 50% of all the habitable land globally is used for agriculture, the majority of which is used for animal grazing. Commercial agriculture drives 71% of tropical deforestation and accounts for more greenhouse gas emissions annually than the transportation sector. According to the Global Forest Watch⁶, from 2010 to 2023, there was a total of 334 million hectares (Mha) of tree cover loss globally, equivalent to an 8.5% decrease in tree cover since 2010 and 147 gigatonnes of CO₂ emissions. Deforestation is also responsible for the huge increase in invasive species and zoonotic diseases, as animals become displaced from their natural habitats.

From 2010 to 2023,
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Brambles provides supply-chain logistics solutions based on the provision of reusable pallets, crates and containers. Its circular business model facilitates the share and reuse of the world's largest pool of reusable pallets and containers. Its approach to timber sourcing is two-fold. Firstly, forest-free operations from strict sourcing of certified source and, secondly, its 'Forest-positive' strategy that aims to plant 3.2 million trees annually by 2025 (in 2023, it planted 3.85 million trees). Using its network to connect supply-chain participants, it reduces transport distances and the number of platforms required to service supply chains, thereby reducing the carbon footprint of all participants.



Water

Without water there is no life and while 71% of the Earth's surface is covered by water, only 2.5% of that is fresh water, and about 69% of that is locked up in ice or deep underground. Today the majority of water is used by agriculture (70%) and industry (19%) while domestic use is only 11%. Today, 2.2 billion people don't have access to safe water and 3.5 billion people lack access to a safe toilet, a situation which inflicts a huge economic cost⁷. The situation is expected to worsen as by 2025, 50% of the world's population is projected to live in water-stressed areas as a result of climate change, with low-income families bearing the greatest burden and leading to more global inequity.

Today,

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Xylem, a global water technology provider, offers solutions that address all stages of the cycle of water, from water transport, treatment and testing to the uses of water in industrial, residential, commercial and utilities applications. The company mitigates the effects of climate change by providing products that help customers reduce their own environmental footprint. It also helps customers adapt to the effects of climate change, strengthening their communities' resilience, particularly with regard to the increasing number of extreme weather events, such as flooding events and droughts.

⁶ Global Forest Watch, "Global Deforestation Rates & Statistics by Country".

⁷ United Nations: 1 in 3 people globally do not have access to safe drinking water – UNICEF, WHO.



Plastics

Plastics are one of the biggest pollution and health issues globally. Despite technological advances, today we only recycle 9% of all plastic used. Most of our plastic waste, an astonishing 79%, ends up in landfills or in nature while 12% is incinerated. It takes hundreds of years for plastic to degrade. In oceans, plastic waste has been estimated to kill 100,000 marine mammals each year.⁸ But plastic waste is not just an environmental problem: it can also be detrimental to nature and human health. Plastics contain a complex blend of chemical additives and microplastics have been linked to endocrine disruption, weight gain, insulin resistance, infertility, and cancer.

Despite technological advances, today we only recycle

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Kingspan is a global leader in high-performance insulation and building envelopes for the international property and construction industry. This sector is the largest consumer of raw materials, and the company recognises that it has an important role to play in resource usage. Indeed, the company aims to reduce its material negative impacts and promote circular principles into its processes. A key part of this is the use of recycled plastic. In 2023, for example, the company used the equivalent of 858 million recycled PET bottles in its manufacturing processes. Moreover, its procurement and sustainability teams actively work to source recycled raw material options for its key products.



Textiles

The detrimental environmental impact of the textile industry means it is inherently unsustainable and companies must adopt more circular approaches. In particular, the fast fashion business model with its 'take-make-dispose' model has negative impacts on our environment, including carbon emissions that contribute to the climate crisis, the pollution of waterways and soil, and the wastage of planetary resources. According to the UN Environment Programme, the fashion industry accounts for 10% of global carbon emissions, which is more than the amount from international flights and maritime shipping combined. It depletes water sources and pollutes rivers and streams, while 85% of all textiles go to landfill or dumps. Even washing clothes releases 500,000 tons of microfibrils into the ocean each year, the equivalent of 50 billion plastic bottles.⁹ Lastly, the huge social cost of child labour and human slavery prevalent in the textile production pose huge societal problems.

Cintas is the largest uniform and auxiliary products rental company in the US. It enables, promotes and champions circular practices. It enables low-cost alternatives to single use; it promotes circularity and efficient resource management through its increasingly efficient operational activity and product utilisation optimisation. By leveraging industry-leading technology that extends the life of garments, Cintas offers the option of drying, cleaning and processing products more efficiently from a water, energy and chemical perspective than can be accomplished on site, or at home. The resulting reduction in resource intensity helps alleviate pressure on natural resources, and consequently biodiversity.

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⁸ Ocean Blue Project: [Plastic Pollution in the Ocean](#).

⁹ World Economic Forum: [These facts show how unsustainable the fashion industry is](#).

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