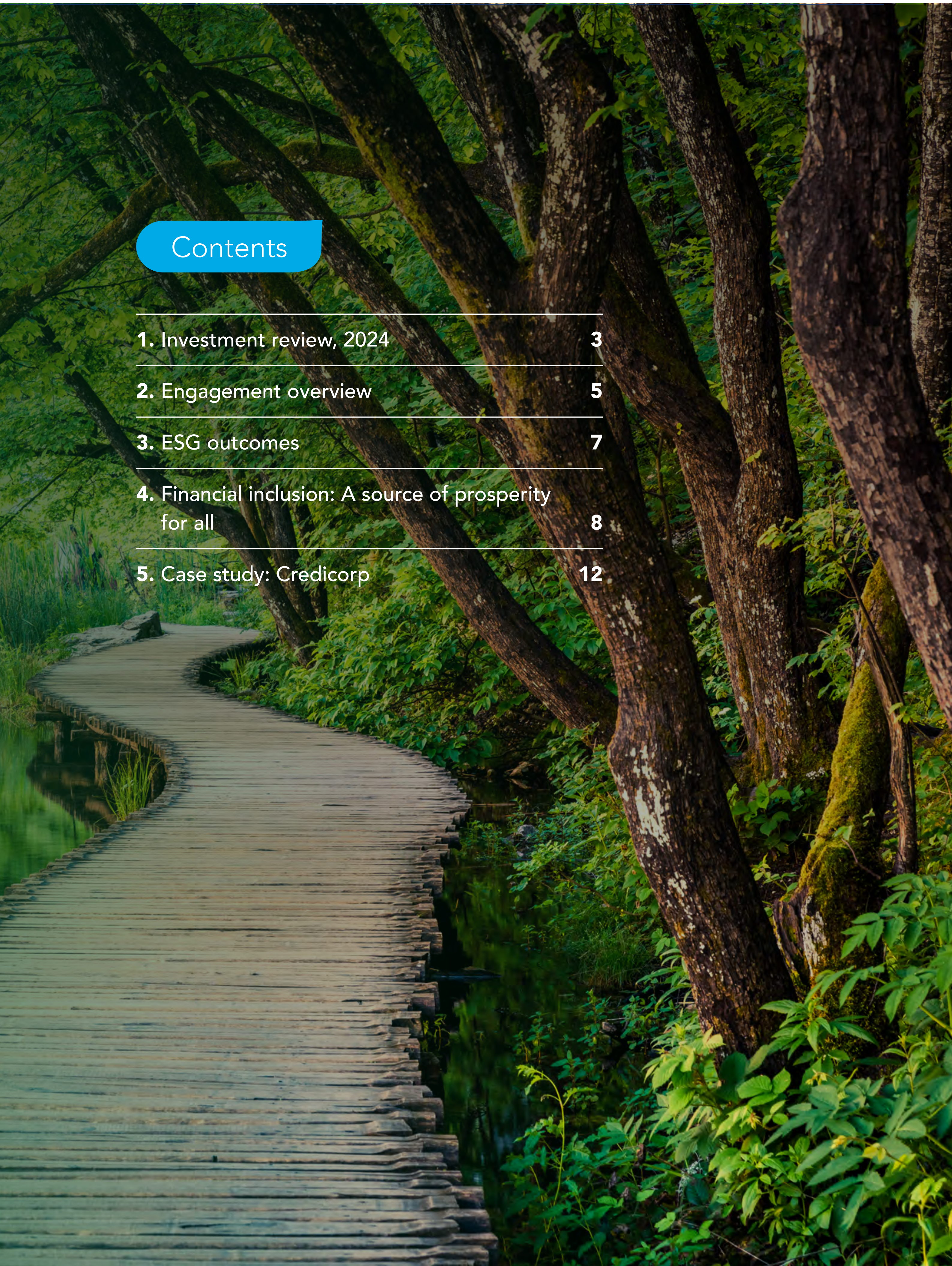
Federated Hermes Sustainable Global Equity

Martin Todd
Portfolio Manager

2024 Annual Report

Federated Hermes Limited

www.hermes-investment.com
For professional investors only



Contents

SECTION 1

Investment review

Market performance

2024 was another impressive year for equities, as continued US strength buoyed developed market equities, with US economic exceptionalism remaining largely intact despite high rates and rising unemployment. The continued enthusiasm for generative artificial intelligence (AI) and other innovations led to significant concentration, with the performance of a handful of US mega-cap technology stocks driving returns.

US performance was in contrast to some other major regions. For example, European economic momentum weakened significantly over the year as sectors such as manufacturing were hit by higher energy costs and lack of export demand. Towards the end of the year, the result of the US Presidential election further exacerbated regional differences, with US domestic stocks benefitting from the prospect of deregulation, tax cuts and more nationalistic trade policy. The potential of tariffs, meanwhile, dampened sentiment in other regions. In this environment, the benchmark MSCI All Country World Index (MSCI ACWI) returned 19.59% in 2024.[1]

Investment strategy

Federated Hermes Sustainable Global Equity is a high-conviction global equity strategy. It aims to generate attractive financial returns by investing in companies that are aligned with achieving positive outcomes for society and the environment, and ultimately support the United Nations Sustainable Development Goals (UN SDGs).

This is a concentrated, high active-share strategy that follows a 'best ideas' approach. We believe 'impactful', 'leading' and 'improving' companies all play a critical role in the transition towards a more sustainable future and are well-positioned to benefit from sustainability tailwinds. We believe sustainable investments are companies with a business model creating value for society, with a positive or improving ESG profile, and whose activities have an overall positive impact through their products and services. Our long-term holding periods and stewardship expertise enable us to develop effective long-term engagement with these companies that delivers additional impact.

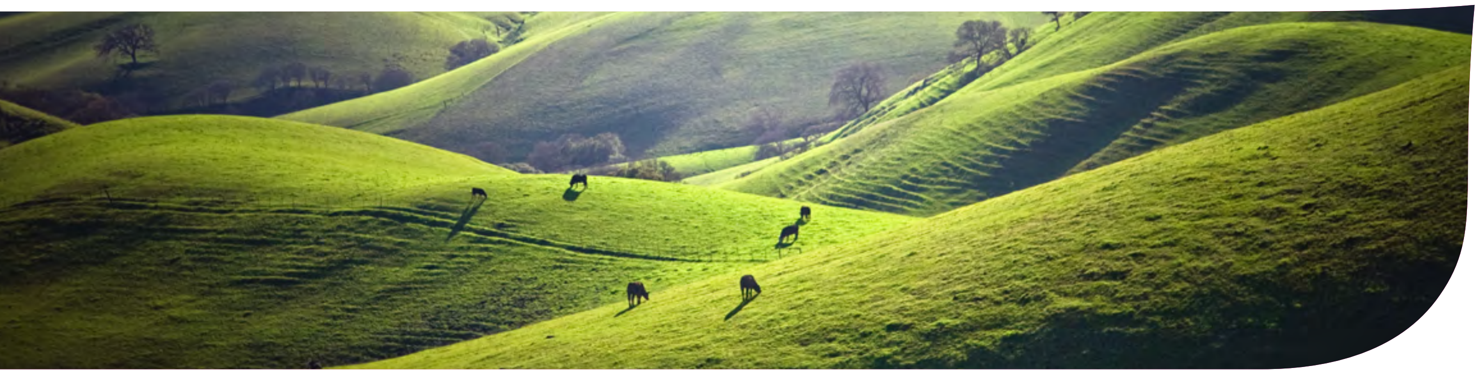
The Strategy addresses four sustainable themes with each having a variety of investible sub-themes. Two of the overarching themes relate to the environment – environmental preservation and efficient production and resource usage – and two relate to society – health and wellbeing and social inclusion. From a sector perspective, the Strategy remains overweight in Industrials, Information Technology and Healthcare, and underweight Consumer Discretionary and Utilities, with zero-weight in Energy and Communication Services. Over the 2024 period, we initiated two new positions – Trex Company and Reinsurance Group America (RGA). We closed out five positions – Qiagen, Vestas Wind Systems, Sika, Valeo and Barratt Redrow.

Trex is a leader in the composite decking industry and benefits from its considerable brand recognition. It has a wide product range across multiple price points and a strong distribution network, both online and in store. Trex is also supported by a number of accelerating tailwinds, such as growing consumer demand for composite decking over wood decking.

RGA, a global reinsurance company focused on life and health-related reinsurance solutions, is set to benefit from growth opportunities in Asian markets as well as in the US.

The Strategy exited the small position in Qiagen due to muted growth amid continued underlying weakness within the life sciences market. Vestas Wind Systems was closed out due to declining conviction amidst weaker demand trends and increased competition from China. Sika was exited due to return on investment (ROI) falling on mergers & acquisitions (M&A) activity. Valeo was exited due to multiple macro headwinds on the horizon, and the gloomy outlook for European original equipment manufacturers (OEMs). Barratt Redrow was sold in the aftermath of October's UK budget as affordability remains challenging, planning consent is not easing and higher employer taxes will be difficult to pass on.

[1] Bloomberg, as at 31 December 2024.



Performance review[2]

Past performance is not a reliable indicator of future returns.

The Strategy returned 12.31%, underperforming its benchmark, the MSCI All Country World Index (ACWI) by 441bps. Despite lagging the benchmark, we nonetheless view 2024 performance as respectable given the extreme narrowness of global equity markets. The Strategy's performance in 2024 was a tale of two halves: performance started off strong in H1, outperforming the benchmark by 202bps, before a disappointing second half of the year where relative gains were given back and more.

Q4 was a particularly tough quarter versus the benchmark as the Strategy's positioning and structural biases were insufficiently exposed to the sectors and regions that benefitted from US President Donald Trump's election victory. Ultimately, the greatest detractor over this period was what we did not own (notably Tesla, Apple and Broadcom), as opposed to what we did. Stock selection in Financials and Consumer Discretionary were the largest detractors in 2024 on a relative basis. Our zero-weight in Communication Services and overweight to Healthcare also detracted. This offset positive contributions from stock selection in Consumer Staples and Information Technology.

Nvidia, the world leading manufacturer of graphics processing units (GPUs), was our best performing stock in 2024. Nvidia continued to benefit from remarkable demand for its AI-related products and, through continued innovation and partnerships with industry giants, it is well positioned to retain its market leadership in accelerated computing and AI. Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest contract chipmaker, benefitted from robust AI-related demand from customers, including Nvidia and Apple, throughout 2024. The company saw particularly strong sales growth in 2024. Trane Technologies, a building technology and energy solutions company, posted strong results in 2024, reiterating its leading position in the attractive US commercial heating, ventilation, and air conditioning (HVAC) market.

Grupo Financiero Banorte, a Mexican banking and financial services company, was the largest detractor from relative performance in 2024. The company struggled as Mexican stocks, and banks in particular, sold off over the year. This was largely attributed to risks associated with the June election result and the potential impact from a new US administration. DexCom, a company that develops and distributes continuous glucose monitoring (CGM) systems for diabetes management, fell after reporting disappointing results in July and cutting full-year guidance. Bank Rakyat Indonesia, one of the largest banks in Indonesia, suffered in H1 after reporting higher provisions from loans issued Q1-Q3 2023. The share price was also not helped by a surprise rate hike from the Indonesian Central Bank, despite inflation remaining moderate.

Despite underperforming the MSCI ACWI in 2024, **Federated Hermes Sustainable Global Equity has exhibited outperformance versus sustainable peer funds[3] since inception** against a challenging backdrop for sustainable investing more broadly.

Outlook

Looking ahead to the remainder of 2025, market participants remain focused on inflation and the path of interest rates in the US. Treasury yields moved higher towards the end of last year on the back of stronger economic data and concern about the inflationary impact of higher tariffs under a new US administration.

It is also important to note how narrow the performance of equity indices was in 2024, especially in the US, where the Magnificent Seven accounted for more than half of the S&P 500's 25% total return over the year.[4] Such high levels of concentration generally have not persisted in the past, and the gap in earnings growth between the Magnificent Seven and the rest of the market is starting to narrow. This, alongside President Trump's pro-growth, pro-business agenda, should drive broader market participation across stocks, sectors and regions in 2025.

We remain confident that the Strategy's unique approach to sustainable investing (across leading, impactful and improving companies) provides the flexibility to navigate changing market environments, irrespective of the direction of interest rates.

This document does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments. The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.

[2] **Management fees are not included and will have the effect of reducing performance.**

[3] Peer group comprises 10 largest (in terms of AUM and inflows) competitor large-cap growth strategies in the IA Global sector with a Sustainable mandate.

[4] Bloomberg, as at 31 December 2024.

SECTION 2

Engagement overview

Alongside Federated Hermes' stewardship arm EOS, we seek to encourage 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 is a good way to encourage and achieve best practice and is an important factor in our assessment of governance. We view it as a key part of demonstrating active ownership and ensuring companies are meeting the needs of shareholders.

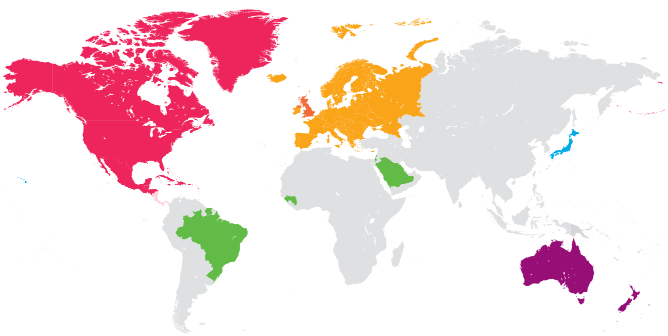
Figure 1: Measuring progress – Milestones

Engagement progress

Total number of engagement objectives: **66**

Number of companies engaged: **40**

Objectives by region:



North America	20
United Kingdom	3
Europe	7
Emerging and developing markets	6
Developed Asia	4

Voting

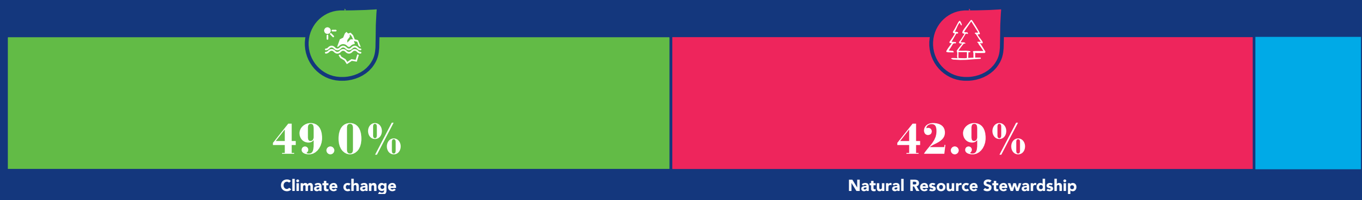
Voting is a key part of demonstrating active ownership and encourages companies to meet the needs of shareholders:

Source: Federated Hermes, as at 31 December 2024.

Engagement objectives by theme

Source: Federated Hermes, as at 31 December 2024.

Issues and Objectives Engaged – Environmental



Source: Federated Hermes, as at 31 December 2024.

Issues and Objectives Engaged – Social

Source: Federated Hermes, as at 31 December 2024.

Issues and Objectives Engaged – Governance

Source: Federated Hermes, as at 31 December 2024.

Issues and Objectives Engaged – Strategy, Risk & Communication

Source: Federated Hermes, as at 31 December 2024.

Milestone status

Source: Federated Hermes, as at 31 December 2024.

SECTION 3

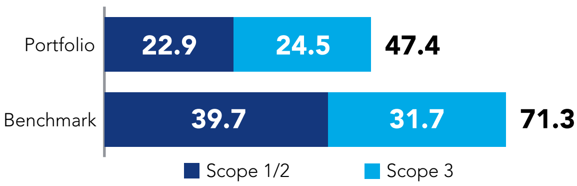
ESG outcomes

Environmental footprint:

The Strategy aims to have a smaller environmental footprint than the benchmark, the MSCI All-Country World Index. As at 31 December 2024, the portfolio's carbon, waste and water footprints measured as follows:

Carbon footprint

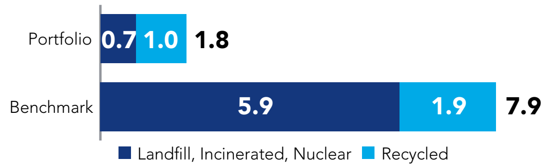
tonnes/mn invested in portfolio currency



Source: TruCost, Federated Hermes as at 31 December 2024.

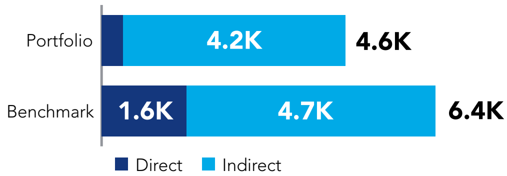
Waste footprint

tonnes/mn invested in portfolio currency



Water footprint

m2/mn invested in portfolio currency



SECTION 4
THEMATIC FOCUS

Financial inclusion: A source of prosperity for all

For the United Nations, eradicating poverty is the number one goal of sustainable development. Since the turn of the millennium, considerable progress has been made in improving economic wellbeing. However, proper financial inclusion remains out of reach for billions worldwide. Bridging the gap represents a major opportunity for companies.

The issue

As the great showman PT Barnum once said, "money is a terrible master but an excellent servant". Access to formal financial services is a vital means of reducing poverty, driving development and bringing greater prosperity, because it puts individuals and businesses in control of their financial wellbeing.

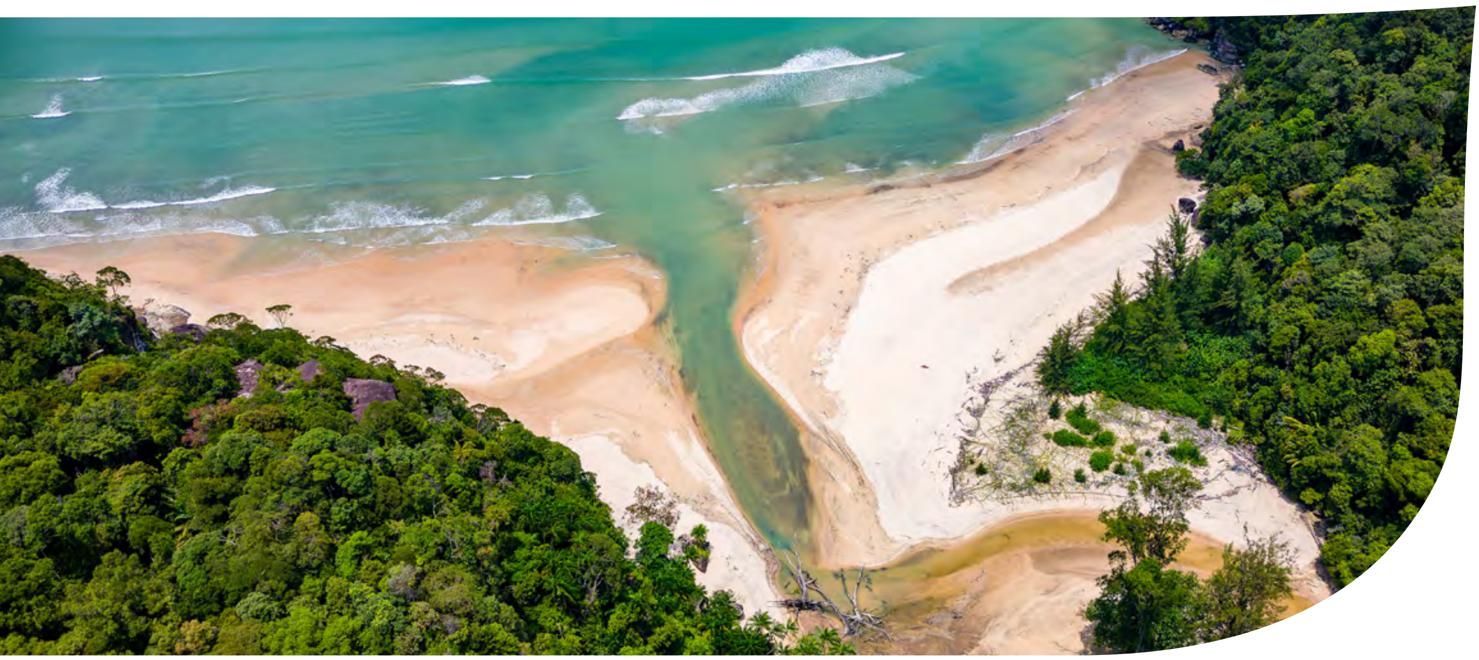
For economies to grow equitably and sustainably, both individuals and businesses need access to useful and affordable financial products and services that meet their needs, as well as the awareness and understanding to use them effectively. Financial inclusion is a key socioeconomic driver and can act as a catalyst for achieving seven of the 17 United Nations Sustainable Development Goals (UN SDGs).

Fast reading:

- Financial exclusion continues to be a barrier to social change and wealth creation for individuals and communities across the globe. While progress has been made on access to basic banking, significant inequalities persist and access to other financial products remains limited for many.

- This represents a huge growth opportunity for companies able to expand into previously untapped markets and offer improved access to services. A bank account is the first step towards use of a wide range of financial services, from loans, savings and investments to insurance and pensions.

Figure 1: Financial inclusion is a catalyst for seven UN SDGs



Financial inclusion is linked to a range of sustainability themes

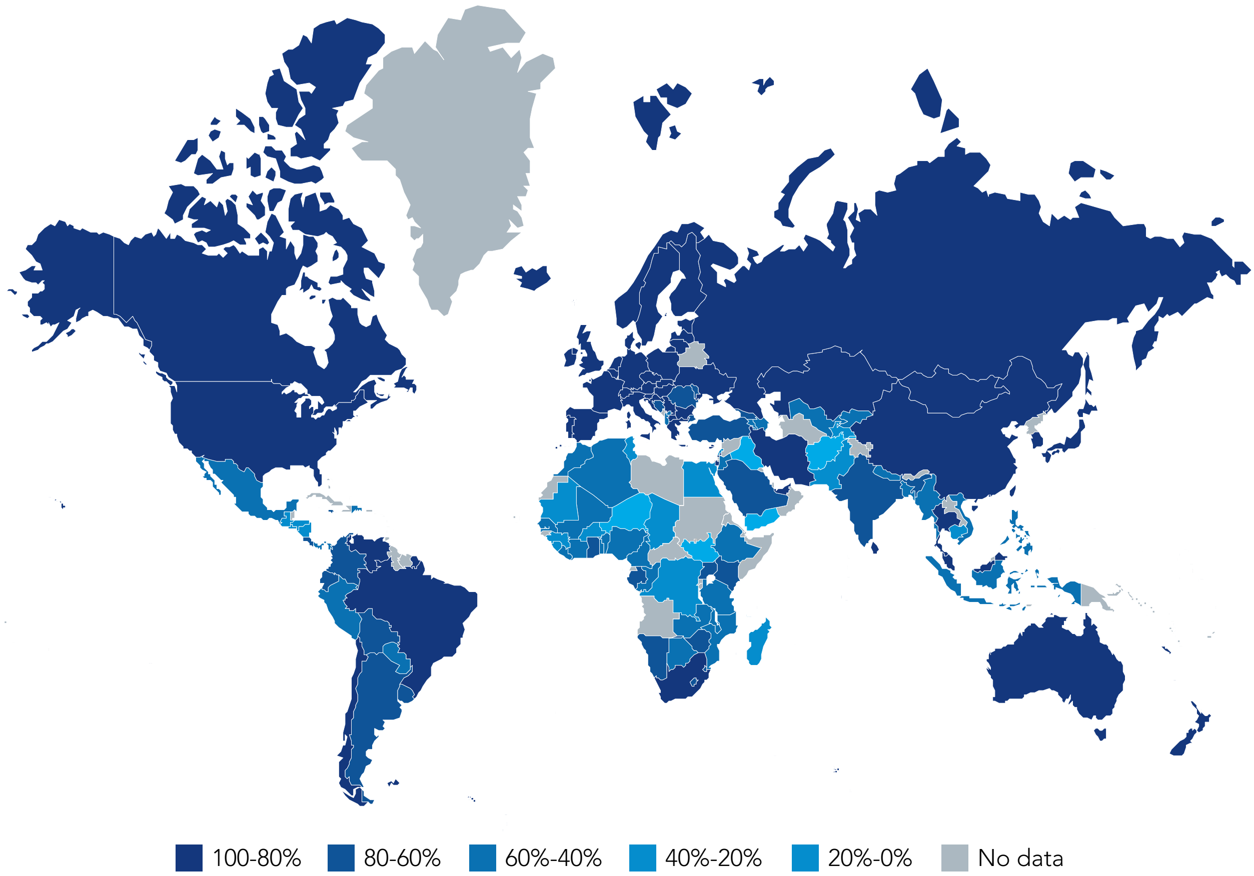
Regional inequality

Statistically, rural populations are far more likely to suffer financial exclusion. In fact, according to World Bank Global Findex data, only 60% of the rural population in developing countries have an account with a financial institution.[5] Meanwhile small businesses, which are vital to economic growth and wellbeing in developing countries, face a growing financing gap estimated at 1.5 times the current supply of funding.[6]

According to World Bank Global Findex data, only 60% of the rural population in developing countries have an account with a financial institution.[7]

Figure 2: Account ownership rates vary across the world

Adults with bank account (%), 2021



Source: Global Findex Database 2021.

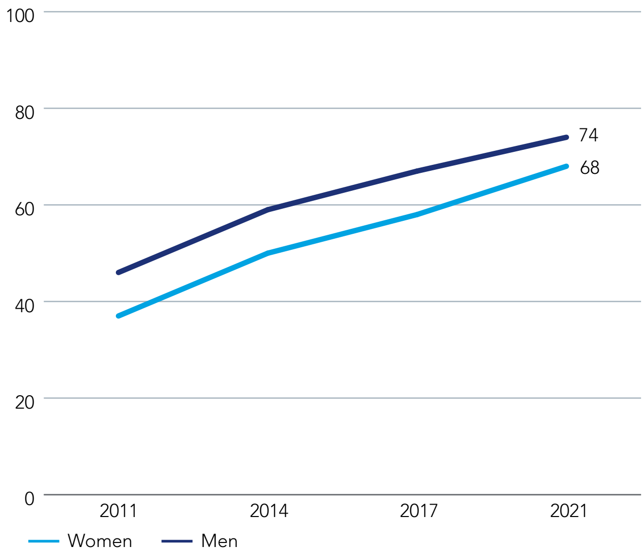
[5] https://www.worldbank.org/en/publication/globalfindex#sec2
[6] https://www.worldbank.org/en/topic/financialinclusion/overview
[7] https://www.worldbank.org/en/publication/globalfindex#sec2

Gender inequality

Another dimension to the issue is the gender gap in account ownership between men and women. While this fell from 9% to 6% globally between 2017 and 2021, it continues to persist and remains significantly wider in many regions. Improving financial inclusion for women not only reduces poverty and drives economic development, but it can also improve children's health and wellbeing and boost their educational prospects.

Figure 3: Account ownership in developing economies

Adults with bank account (%), 2011 - 2021



Source: Global Findex Database 2021.

From 2016 to 2023, nearly 70% of global losses from natural disasters weren't covered by insurance – that equates to average uninsured losses of US$260bn a year.[9]

Climate change risk

There is growing evidence that climate change has led to an increase in the frequency and magnitude of extreme weather events. For families and businesses in the developed world, insurance at least provides some level of protection from the economic impact of climate-related destruction. However, elsewhere, insurance can be a rarity. In fact, McKinsey found that from 2016 to 2023, nearly 70% of global losses from natural disasters weren't covered by insurance – that equates to average uninsured losses of US$260bn a year.[8]

The investment opportunity

As well as driving social change and wealth creation for individuals and communities, addressing financial inclusion can provide significant growth opportunities for financial businesses best placed to provide access to services. For example, companies at the forefront of financial inclusion are able to diversify their businesses and tap into new markets with higher growth rates, such as those in emerging economies. Basic inclusion in the form of access to a bank account should be seen as a baseline; the next step is to encourage active use of a broader range of financial services, from savings, pensions and investment to loans and insurance.

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Increased digital adoption and technological innovation, coupled with cultural change, provide the means to drive further improvements in inclusion and participation across the full range of financial services. Fintech, microfinance, payment and insurance businesses – particularly those who have a presence in developing countries – are well-positioned to benefit from the opportunity, as well as traditional banks.

[8] https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/global%20insurance%20report%202025/global-insurance-report-2025-the-pursuit-of-growth.pdf (p13)

[9] https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/global%20insurance%20report%202025/global-insurance-report-2025-the-pursuit-of-growth.pdf (p13)

Insurance

EY estimates that four billion people on low incomes are uninsured worldwide.[10] As financial inclusion increases the prosperity of people in developing countries, the potential demand from a growing middle class wanting to protect their economic wellbeing represents a huge opportunity for insurers.

Key holding: AIA Group

Hong Kong-based multinational insurance group AIA leads the sector for scale and reach in Southeast Asia. As countries in the region develop, it is well-positioned to grow largely via new middle-class consumers who had not previously held a policy. The company's products are competitive with peers, while strong underwriting and attractively priced premiums attract a broader potential customer base.

Payments

While more and more people are banked globally, trust remains a major barrier to full engagement with the financial system and the use of products such as credit cards and loans that can improve people's lives. In a recent study conducted by Mastercard and Brazilian digital financial services platform Nubank, consistent use of digital payments was found to be a better predictor of financial health than income level.[11] By providing products such as prepaid cards, financial services players can build trust with new customers, establishing a relationship that can deepen and encompass other offerings as their needs evolve.

Key holding: Mastercard

Payments giant Mastercard is a global leader in financial inclusion. Having already met a goal to enable access to the digital economy for 500 million unbanked people by 2020, its next target is to bring one billion people and 50 million micro and small businesses (including 25 million women entrepreneurs) into the digital economy. By helping customers establish a foundational identity, Mastercard is also enabling digital interactions and fostering social and economic inclusion, travel and experiences.

Mobile banking services

In developing countries, a large proportion of the addressable market lives in rural areas where access to physical banking in the form of branches and ATMs may be limited. Fortunately, an estimated 96% of the world's population are covered by mobile broadband networks, and 57% already enjoy access to mobile internet[12] – figures that will continue to improve year on year. As a result, technological innovations including online banking, mobile banking apps and digital wallets can significantly expand the addressable market for providers.

Key holding: ICICI Bank

Indian financial services business ICICI provides customised banking and digital solutions to the world's most populous country, which has a young demographic and enormous economic potential. The firm is at the forefront of providing access to financial services for a huge and rapidly growing addressable market including farmers, women and microenterprises, through current accounts, loans, mortgages, credit cards and insurance. The company also offers skills training for underprivileged individuals and even creates infrastructure at remote locations.

An estimated 96% of the world's population are covered by mobile broadband networks, and 57% already enjoy access to mobile internet.[13]

Conclusion

As a source of innovation, technology and capital, the private sector has a vital role to play in advancing financial inclusion. Strategies that facilitate sustainable, inclusive economic growth can help companies lower the cost of capital, while capturing the opportunity offered by diversifying into new and previously untapped consumer markets. From peer-to-peer payments to life insurance for the emerging middle class, the opportunities for well-positioned businesses stretch across the full spectrum of financial services.

[10] https://www.ey.com/en_us/insights/insurance/how-insurers-can-accelerate-value-creation-from-gaps-to-gains
[11] https://www.mastercard.com/news/perspectives/2024/when-financial-access-isn-t-enough/
[12] https://www.gsma.com/r/somic/
[13] https://www.gsma.com/r/somic/

ENGAGEMENT CASE STUDY

Credicorp

Credicorp is Peru's biggest financial group, with a presence in other countries including Colombia, Bolivia, Chile, Panama and the US. As the owner of MiBanco, the largest microfinance business in South America, it is a major facilitator of financial inclusion in the region.

While Credicorp itself was established in 1995, the company has roots going back 135 years. Its shares are listed on the New York Stock Exchange and its market cap multiplied eight times between 1995 and 2021. The business is structured across four key divisions: universal banking; insurance and pensions; microfinance; and investment and wealth management.

Why we're invested

Creditcorp has a strong market position, offers high return on equity (ROE) and seems poised for future growth.

The firm is perfectly placed to close Peru's financial inclusion gap, which is the largest in South America; this provides a significant financial opportunity built around sustainability. Credicorp describes itself as an 'agent of change' in the countries where it operates; to support this, it defines three strategic pillars focused on financial inclusion and directly linked to the UN SDGs:

- Creating a more sustainable and inclusive economy
- Improving the financial health of citizens
- Empowering people to prosper

As well as its microfinance business MiBanco, Credicorp has developed Yape, a mobile payment method that has contributed to the growth of thousands of SMEs.

> **Credicorp is perfectly placed to close Peru's financial inclusion gap, which is the largest in South America; that provides a huge financial opportunity built around sustainability.**

Engagement

In a series of meeting since 2021, our engagement team pressed the case to Credicorp's sustainability team, senior management and board to develop a holistic financial inclusion strategy. A key focus was the low level of financial inclusion of women in Peru (while the company had a product aimed at women, it had limited opportunities for growth in scope and scale). We encouraged Credicorp to develop innovative products and make more use of technology to establish new distribution channels.

Outcomes

The company responded positively to our suggestions with a series of strategic investment initiatives involving tailored product propositions across its microfinance, insurance and banking divisions.

The development and promotion of the mobile banking app Yape has been instrumental in promoting financial inclusion among the female population. Currently, 49% of previously unbanked Yape users are women. Meanwhile, 50.6% of microfinancing subsidiary MiBanco's clients are women, and in 2022, 56% of the microloans provided via MiBanco were taken out by women.

Credicorp also relaunched its Credito Mujer product, updating procedures, marketing material and staff training to address and avoid gender bias. As a result, loans to women jumped from 20,000 in 2021 to 33,000 in 2022.

Next steps

We have continued to engage with Credicorp on financial inclusion and other sustainability themes, including the expansion of its microfinance offer. For example, in a call with senior management in early 2025 we discussed Mibanco's new hybrid model, which combines traditional community-based agents with expanded use of Yape and centralised loan application processing.

PERFORMANCE

Rolling year performance (%)

	31/12/2023 to 31/12/2024	31/12/2022 to 31/12/2023	31/12/2021 to 31/12/2022	31/12/2020 to 31/12/2021	31/12/2019 to 31/12/2020
Federated Hermes Sustainable Global Equity Strategy	12.31	25.15	-19.49	-	-

Source: Federated Hermes as at 31 December 2024. Composite inception date: 30 June 2021. Returns are in USD gross of fees. The information shown is supplemental to the GIPS® compliant composite report provided in the Appendix. Management fees are not included and will have the effect of reducing performance **Past performance is not a reliable indicator of future returns**.

APPENDIX

Schedule of Rates of Return and Statistics

Composite: **Federated Hermes Sustainable Global Equity**

Index: **MSCI All Country World (net)**

Periods ending: **31-Dec-24**

	Returns (%)		
	Composite Gross Return	Index	Composite Net Return
Q4 24	-5.72	-0.99	-5.90
1 Year	12.31	17.49	11.47
3 Years (Annlzd)	4.76	5.44	3.98
Jul-21 – Dec-24 (Annlzd)^^	5.51	6.27	4.72

^^Represents composite inception period. See below for additional notes to the schedule of rates of return and statistics

The composite includes all discretionary portfolios following the Sustainable Global Equity strategy run by the Federated Hermes Sustainable Global Equity team (London Office) and has an inception date of 1 July 2021. The objective of the strategy is to achieve capital growth over a rolling five-year period and have a reduced environmental footprint compared to the benchmark. The composite benchmark is the MSCI AC World (net) Index, which is designed to measure the equity market performance of all countries and covers all large and mid-market capitalisation securities. The benchmark is market-cap weighted and rebalanced on a quarterly basis. The return is calculated on a total return basis net of withholding tax. This composite was created in August 2021. Performance shown for 2021 is for a partial period starting 1 July 2021. Federated Hermes claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS® standards. Federated Hermes has been independently verified for the period of January 1, 1992, through September 30, 2024. The verification report is available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The management fee schedule for this strategy is 0.75% per annum. Gross of fees returns have been calculated gross of management/custodial fees and net of reclaimable withholding taxes, but after all trading commissions.

Schedule of Rates of Return and Statistics

Composite: **Federated Hermes Sustainable Global Equity**

Index: **MSCI All Country World (net)**

Periods ending: **31-Dec-24**

Year	Composite Gross Return	Composite Net Return	Benchmark Return	*Composite 3-Yr Std Dev	*Benchmark 3-Yr Std Dev	Number of Portfolios	**Dispersion	Composite Assets (mil)	Firm Assets (bil)
2021	4.94	4.55	5.55	N/A	N/A	<5	N/A	29.0	634.2
2022	(19.49)	(20.09)	(18.36)	N/A	N/A	<5	N/A	28.7	627.4
2023	27.16	26.21	22.20	N/A	N/A	<5	N/A	55.5	720.0
2024	12.31	11.47	17.49	19.31	16.20	<5	N/A	69.8	792.2

*Represents the 3-year annualized standard deviation for both the gross composite and the index returns. Statistic is used to measure the volatility of composite returns.

**Standard deviation is calculated using gross returns. Standard deviation is not applicable (N/A) for any period if fewer than five accounts are in the composite for that period.

Federated Hermes is a global, independent, multi-strategy investment management firm. For GIPS® purposes, Federated Hermes is defined to include the assets of registered investment companies that are advised or sub-advised by the various Federated Hermes advisory companies. Effective September 30, 2020, for GIPS® purposes the name of the firm was officially changed to Federated Hermes. Firm assets on this report exclude assets affiliated with Hermes GPE and the advisory-only, model-based assets that may be included in other reports providing total firm assets. Interest income and dividends are recognized on an accrual basis. Returns include the reinvestment of all income. All market values and performance information are valued in USD unless currency is denoted in composite description. Annual composite dispersion is measured and presented using the asset weighted standard deviation of the gross returns of all of the portfolios included in the composite over the entire year. See the composite description language for a discussion on appropriate fees currently applied to calculate composite performance. Net composite results are based off model fees using the stated fee schedule. In addition, further fee information can be obtained from the firm's respective Forms ADV Part 2 Brochure Item 5. Additional information regarding the policies for valuing investments, calculating performance, and preparing GIPS® reports, as well as a complete list and description of the firm's composites and pooled funds is available upon request. Past performance is not indicative of future results. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. See disclosures on the Schedule of Rates of Return and Statistics Reports for additional information.

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