Federated Hermes Global High Yield Credit Engagement*

Annual Report 2024
April 2025

Federated Hermes Limited

www.hermes-investment.com
For professional investors only

* Formerly called SDG Engagement High Yield Credit.

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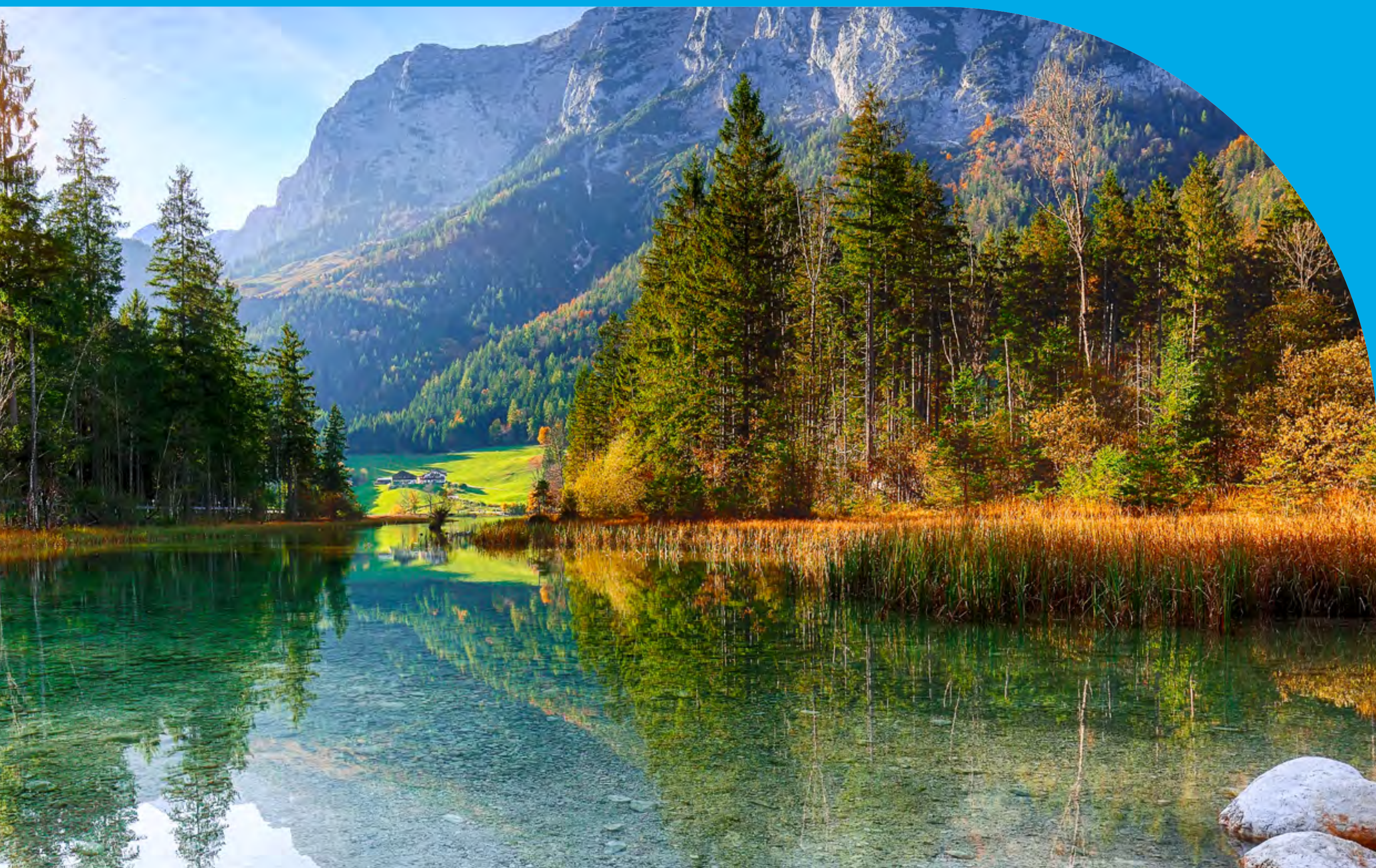


Global High Yield Credit Engagement

The year in numbers

In 2024 we had

414 engagements with

130 companies

We engaged

100% of the companies we continue to hold

We continue to pursue

328 objectives for change

We completed

33 objectives

We made progress on

157 objectives in 2024

Source: Federated Hermes as at 31 December 2024

Our most important SDGs:

13 CLIMATE ACTION — 110 objectives

8 DECENT WORK AND ECONOMIC GROWTH — 41 objectives

7 AFFORDABLE AND CLEAN ENERGY — 91 objectives

10 REDUCED INEQUALITIES — 25 objectives

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — 69 objectives

5 GENDER EQUALITY — 24 objectives

	Metric[1]	Portfolio as of Dec 2024[2]	Year-on-year change[3]
Energy transition	Total GHG emissions emitted (tCO_2e scopes 1 + 2)	464,990,568	-8.6% ✓
	CO_2e avoided (tCO_2e)	389,992,549	1.9% ✓
	% of renewable energy or electricity consumed	49%	1.1%pts ✓
Water	Total water consumed or withdrawn (m^3)	1,369,772,222	-10.6% ✓
Waste	Operational waste recycled %	53%	-1.3%pts ✗
Decent work	Employee turnover (voluntary)	9.7%	-1.1%pts ✓
	Lost Time Injury Frequency Rate (per million hours worked)	2.34	-9.1% ✓
Hiring practices	% female directors	35%	0.5%pts ✓
	% female executives	27%	1.0%pts ✓
	% female managers	28%	0.7%pts ✓

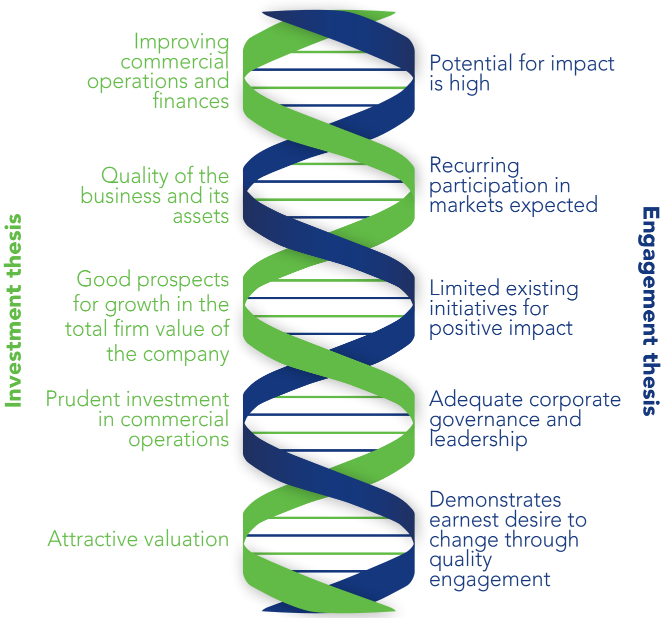
Please note that Federated Hermes Global High Yield Credit Engagement forms part of the Federated Hermes Global High Yield Credit composite Strategy. The SDG Engagement High Yield Credit Fund changed its name to Global High Yield Credit Engagement Fund on 24 April 2025.

[1] Source: Net Purpose, 31 December 2024
[2] For the portfolio as of Dec 2024, based data for individual companies for 2023, the most recent available
[3] Compares the change in metric based on only companies held continuously from Dec 2022 to Dec 2023 (the most recent year for which we have sustainability data)

The Global High Yield Credit Engagement Strategy

The Global High Yield Credit Engagement strategy seeks to deliver on collinear objectives: strong financial performance for investors, and future, positive social and environmental impact that contributes to achieving the United Nations' Sustainable Development Goals (SDGs).[4]

Figure 1. Investing with co-linear objectives



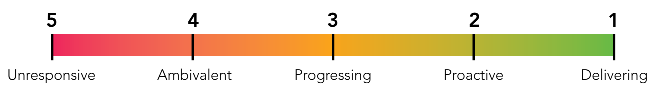
Source: Federated Hermes.

We believe an investor's financial stake allows, if not obliges, them to engage in constructive dialogue with companies. Turning engagement into meaningful change takes time, so we require companies to be survivors through the market cycle. Within the global hard currency, high yield market, we favour companies with:

- A recurring presence in capital markets.
- A stable investor base.
- An ethos of transparency in disclosures and reporting.
- The necessary credit strength to participate in long-term dialogue (as opposed to companies in financial stress that do not have the bandwidth to focus on sustainability.)

In the five years since we launched the strategy, we have built meaningful relationships with companies across a wide range of sectors and geographies that demonstrate a commitment to value creation and SDG impact. We use our proprietary framework (Figure 2) to capture the confluence of a company's SDG impact potential and our engagement outlook. This score, ranging from one to five, helps guide the weight for each company in the portfolio. Companies scored SDG 5 are excluded from our portfolio.

Figure 2. SDG Scoring Scale



Source: Federated Hermes.

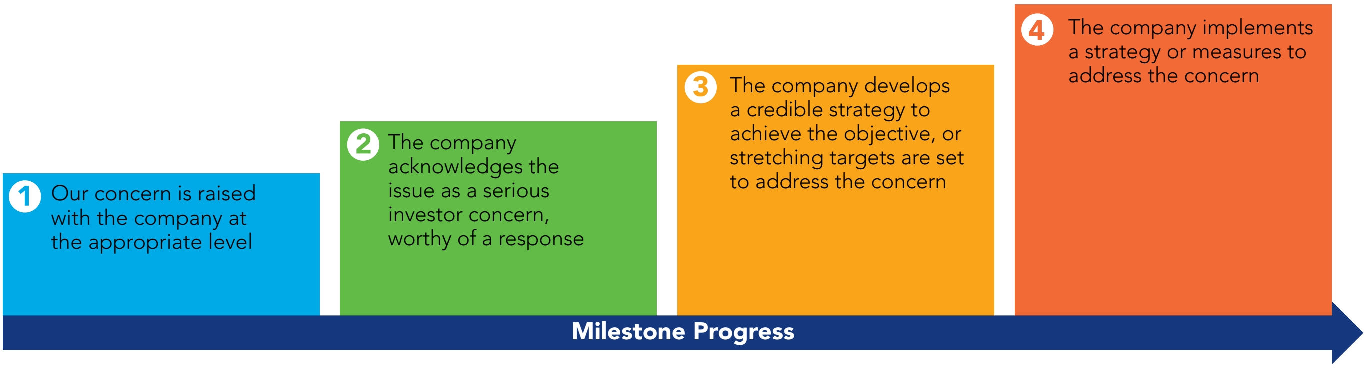
We start by assessing a company's SDG impact potential, evaluating its performance against sector-specific themes and benchmarking it against peers. This helps us understand where the company stands on the 'laggards to leaders' spectrum.

Next, we assess the quality of our engagement relationship with the company. We use a four-stage milestone system (Figure 3) to track the progress of our engagement relative to the objectives set for each company.

In the five years since we launched the strategy, we have built meaningful relationships with companies across a wide range of sectors and geographies that demonstrate a commitment to value creation and SDG impact.

[4] The SDGs are a set of 17 interconnected goals adopted by all United Nation (UN) member states in 2015. They are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere, by 2030.

Figure 3. Engagement milestone system



Source: Federated Hermes.

Engagement often reveals SDG impact potential not visible in issuer disclosures. We may uncover significant, behind-the-scenes efforts to address material impacts, enhancing our view of a company's future impact potential. Conversely, we might discover a superficial or apathetic approach to sustainability, which would lead us to downgrade our assessment. Based on this assessment, we class an engagement relationship as 'failed', 'unresponsive', 'stalling', 'limited', 'constructive', or 'enhanced.'

Figure 4: Engagement assessments

	Failed/Unresponsive	Stalling	Limited	Constructive	Enhanced
Engagement Assessment	Company unwilling to engage OR Engagement has not yielded intended aims after allowing sufficient time; unlikely to change position in near-term	Slow progress on most objectives OR Difficult to contact company	Limited topics to engage on because: Business model is benign OR Company substantially achieving best-practice	Change is incremental Company receptive to engagement We expect progress on objectives over typical timeframe	Significant "laggard to leader" potential on at least one objective Engagement shows faster pace of change than indicated by disclosures Engagement can be beneficial to accelerate change Company may proactively seek our feedback Often have access to senior decision-makers
Example	US energy company sticking to a compliance-only approach to environmental management, with board entrenchment further hindering ESG progress	Dutch bank lagging on our objective to set science-based finance emissions targets	Spanish telco which leads peers on all aspects of sustainability - we regularly check in to understand its current priorities and communicate our evolving expectations for best practice	Brazilian pulp & paper company with recently-completed DEI objective, and two further objectives close to completion after 2-3 years of engagement	Mexican chemicals company having achieved multiple objectives and giving us regular access to the CEO for engagement - already delivering against convincing "laggard to leader" trajectory

Source: Federated Hermes.

The majority of our engagements fall under the 'constructive' category, following the timeline we would typically expect when engaging against specific objectives. In these cases, the final SDG score mainly denotes where the company falls on the 'laggards to leaders' SDG impact scale compared to peers.

'Enhanced' engagements may involve companies regularly asking us for feedback or giving us access to senior decision-makers. We aspire to these companies making accelerated progress towards their sustainable objectives in the near term. Such companies therefore tend to be awarded a score of 1 or 2.

We do not want engagements that are 'stalling' or 'limited' to feature heavily in our portfolio. However, companies with limited engagement potential may still be delivering significant SDG-related impacts, or we may have some hope that a stalling company will reverse this trend. We therefore typically assign SDG scores of 3 or 4 to these names.

Finally, failed engagements, or companies that are unresponsive to our requests to engage, have no place in our portfolio. We may revisit these names in the future if we think the situation has turned around, but if no near-term improvement is envisioned, we assign an SDG 5 and exclude them from the portfolio.

Why proxy and voting-based engagement matters for fixed income investors

Throughout this paper, readers will see references to equity-style engagement actions and activity, such as proxy voting. In sustainability, the interests of shareholders and creditors are aligned. As such, where relevant, we engage and act on the behalf of all financial stakeholders. We see this as a more effective path to creating positive change.

Investment review

Mitch Reznick, CFA®
Group Head of Fixed Income – London

Nachu Chockalingam, CFA®
Head of London Credit

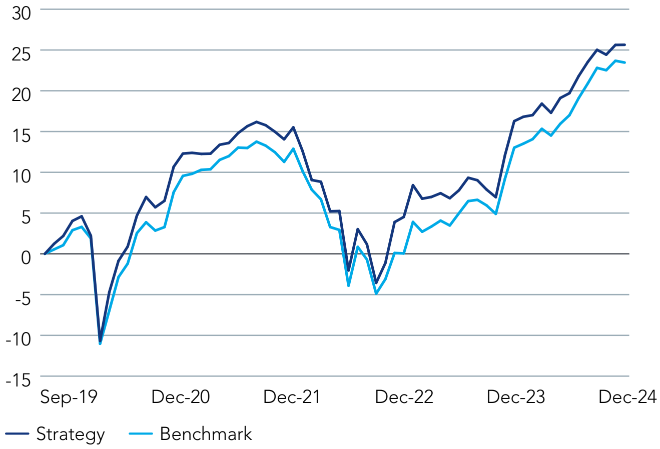
Since inception the Strategy has returned +4.44% in US$ terms, gross of fees, which was +0.35% ahead of its benchmark index, and for the period in FY 2024, the Strategy returned +8.06% in US$ terms, gross of fees.[5]

Risk assets had a strong 2024, despite many facing significant headwinds on the policy, trade and growth front. We are now entering a new era on global trade as the Republican administration instigates tariffs and protectionism mechanisms and it will be interesting to see how countries impacted react to them. Interest rates continue to be volatile and we expect to see increasing monetary policy divergence across the world in 2025.

Most interesting to us last year, was the outperformance of high beta risk in the lower echelons of the rating spectrum, particularly in the US. Many situations remain mis-priced in our view and will likely see downside price movements if event risk tied to these companies does not materialise or if we see spreads widen and/or decompress, a phenomenon that has started to play out in 2025. This Strategy is not exposed to the distressed element of high yield where we believe more pain will be felt and where we expect to see more defaults and restructurings.

The technical picture in high yield remains solid despite tight spreads as investors seeking yield continue to find the asset class attractive. This is in no small part due to a transition as the asset class becomes more defensive from a rating perspective and its increasingly lower duration. Fundamentals also, by and large, remain solid but there are a few cyclical sectors where weakness has emerged and credit metrics are, in our view, looking elevated for the current point in the cycle e.g. automotives, chemicals, building materials.

Figure 5. The SDG Engagement High Yield Credit Strategy versus its benchmark since inception (%)



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
SDG Engagement High Yield Credit	8.06	11.24	-9.51	2.87	7.94

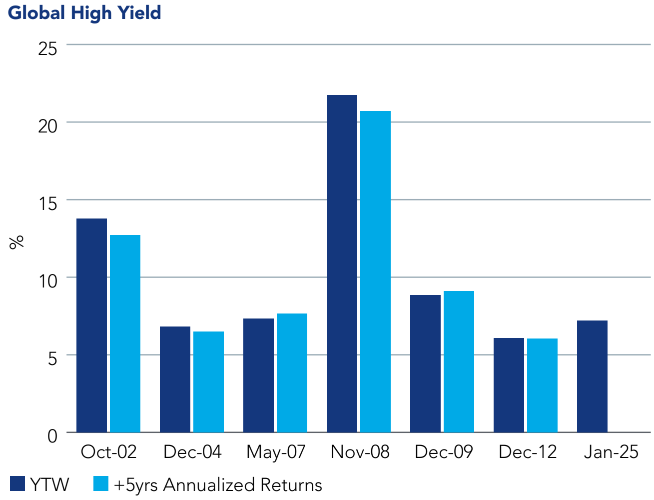
Source: Federated Hermes as at 31 December 2024. Performance shown in USD gross of fees since inception. Management fees are not included and will have the effect of reducing performance. Performance over one year is annualised. Inception date: 01 October 2019. Benchmark: ICE BofA Global High Yield Constrained Index. Data is supplemental to the GIPS® compliant report that follows. **Past performance is not a reliable indicator of future returns.**

The Strategy's benchmark spreads were largely rangebound in 2024, but for the last four months of the year were largely in decline. We are starting 2025 at some of the tightest spread levels the asset class has ever seen, but we must remember that, when adjusting for shorter duration, spreads may not be as tight as first thought.

All-in yield for the asset class continues to be elevated and remains high on a historical basis. Our analysis indicates that the entry yield is a good predictor of future returns for high yield.

[5] Source: Federated Hermes as at 31 December 2024. Performance shown in USD gross of fees since inception. Management fees are not included and will have the effect of reducing performance. Performance over one year is annualised. Inception date: 01 October 2019. Benchmark: ICE BofA Global High Yield Constrained Index. Data is supplemental to the GIPS® compliant report that follows.

Figure 6: High yield returns and annualised returns over subsequent five years (%)



Source: ICE Bond Indices, Federated Hermes. Data as at 20 January 2025.
Past performance is not a reliable indicator of future returns.

Figure 7: Global high yield spreads in 2024 (bps)

Source: Bloomberg 31 December 2024, HW0C OAS. **Past performance is not a reliable indicator of future returns.**

Figure 8: All-in-yields for high yield, 2022-2024

Source: Bloomberg 31 December 2024, HW0C Yield to worst.
Past performance is not a reliable indicator of future returns.

Regarding the impact potential of the Strategy, both our credit and sustainability analysts had a fruitful year, with many engagement successes. As well as providing crucial portfolio positioning insight, the team supporting the Strategy drove 414 engagement actions in 2024.

We strongly believe that a wide range of companies in our Strategy have the potential to benefit society and the natural environment. Their key challenge is the progressive development of clean, future resilient and more equitable next-generation industries and value chains. In short, it is the job of many of these companies to provide the building blocks for economies and the essentials for everyday life and employment. Their value chains must be transformed if we are to meet the aims of a cross-section of environmentally and socially-focused SDGs.

We had numerous engagement successes in 2024, and many of the Strategy's holdings made meaningful operational and management changes to address key SDG issues such as climate change and social inclusion. However, this was not the case for all our holdings. In those where we failed to see the engagement progress we would have liked, we have downgraded their scores and either diluted our holdings in them or exited them completely. Two examples are shown below:

Verallia

Verallia received a downgrade to SDG 5 and the position was exited in mid-2024. The company had been in the Strategy since mid-2021 after we had identified areas for development, including its water management, circular economy and strategies for responding to climate change. In between written correspondence with Verallia, we had a meeting during which the company appeared receptive to engagement and demonstrated that its business strategy prioritised sustainability. Following this meeting, however, the company became unresponsive despite multiple attempts to continue this dialogue. Unable to continue our engagement plan with the company, we exited the position.

Ally Financial

Ally Financial was sold from the portfolio in late-2024 given a lack of progress on engagement and no significant change expected in the short-term. While the company had made some improvements in recent years such as disclosing its supply-chain Scope-3 emissions and conducting initial climate scenario analysis exercises, it signalled to us that it is unlikely to progress further on climate disclosures due to lack of regulatory support and organisational capacity. During our engagements with the company, we also found evidence that there were obstacles to the development of sustainability initiatives.

> **We had numerous engagement successes in 2024, and many of the Strategy's holdings made meaningful operational and management changes to address key SDG issues such as climate change and social inclusion.**

Engagement review

Jake Goodman, CFA®
Senior Sustainability Investment Analyst

Sarah Swartz
Senior Sustainability Investment Analyst

Bertie Nicholson[6,7]
Sustainability Investment Analyst

Sophie Demaré[8]
Sustainability Investment Analyst

Helena Wolenski
Sustainability Investment Analyst

Elisa Hirn
Sustainability Investment Analyst

Brittany Bell
Sustainability Investment Analyst

In the five years since we launched the Strategy, we have achieved our aim of engaging 100% of the companies in the portfolio every year, and 2024 was no exception. As the Strategy has grown, so has our team, and we now have seven dedicated sustainability analysts sitting in London and Pittsburgh. This reflects the increased number of companies in the portfolio and the greater level of engagement needed to fulfil the strategy's ambitions. We also continue to be supported by the nearly 30 engagers in the EOS team.[9]

Converting potential to realised impacts

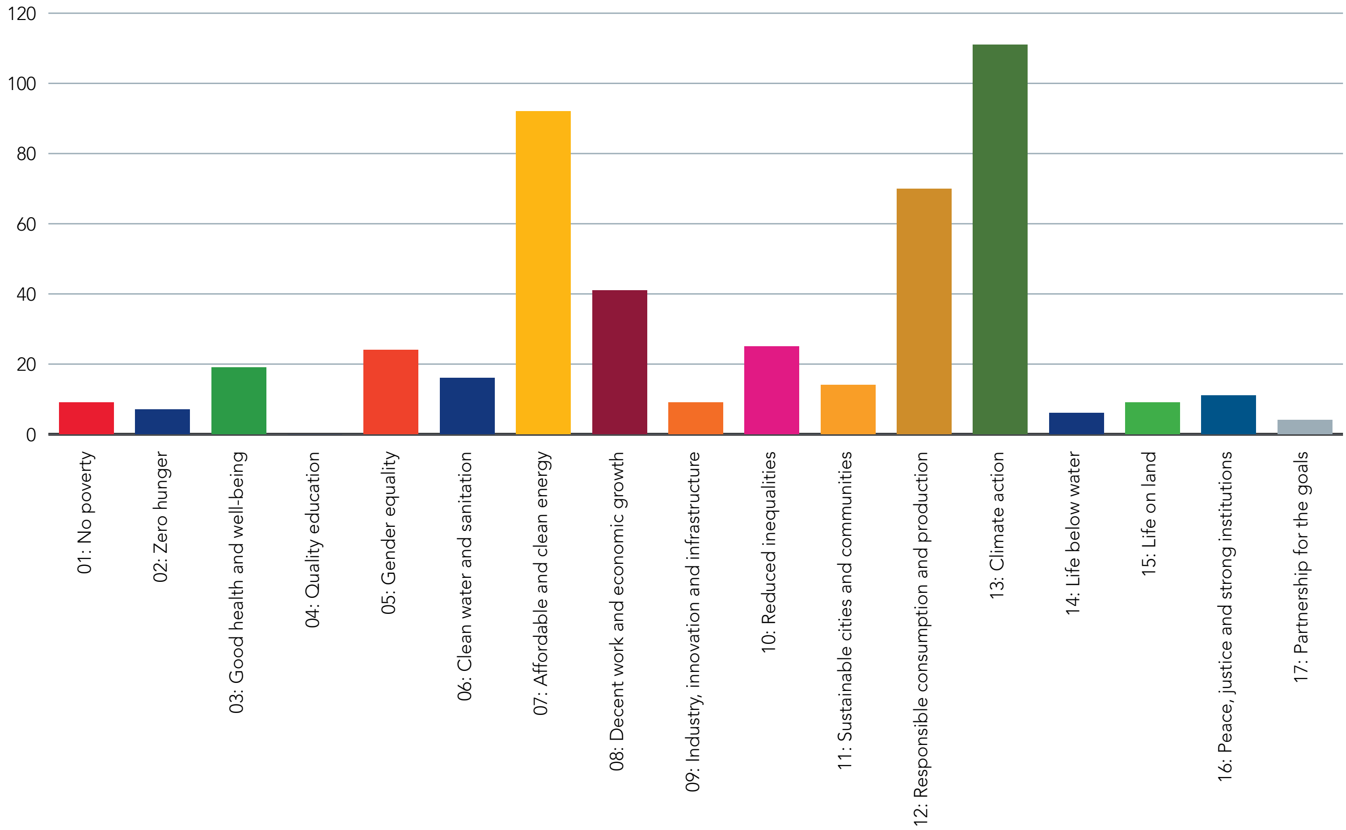
When assessing the potential of a company, we look at the impact that would be achieved through changing a particular aspect of its operations, i.e. the delta of change.

The change we seek becomes an 'objective', and any given company might have multiple engagement objectives running concurrently. Figure 7 shows a breakdown of all the objectives we have running across all companies held in the strategy.

> **As the Strategy has grown, so has our team, and we now have seven dedicated sustainability analysts sitting in London and Pittsburgh.**

[6] CFA UK Level 4 Certificate in Climate and Investing
[7] CFA UK Level 4 Certificate in ESG Investing
[8] CFA UK Level 4 Certificate in ESG Investing
[9] EOS at Federated Hermes Limited (EOS) is a world-leading stewardship service provider.

Figure 9: Number of objectives per SDG

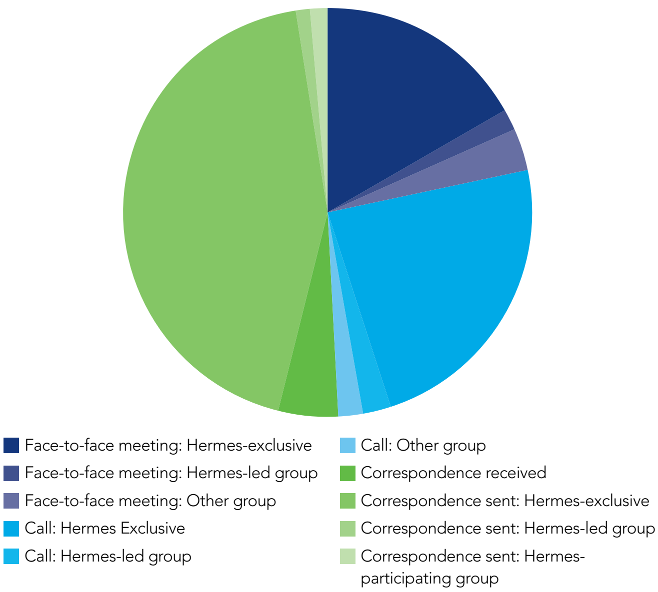


Source: Federated Hermes, one year to 31 December 2024.

SDG 13, climate action, was the most prevalent area of engagement in 2024. This is because we consider the transition and physical risks stemming from climate change to be highly relevant for the majority of companies in our portfolio. Since SDG 13.2.2 specifically targets a reduction in global greenhouse gas (GHG) emissions, SDG 13 is the tag we add to an objective when we believe that initiatives addressing climate change would produce a meaningful impact on absolute emissions.[10] SDGs 7 and 9 are also particularly relevant to climate-related objectives.

The distribution of SDGs has stayed relatively stable since the inception of the Strategy, however, the number of objectives has increased steadily year-on-year as we build productive relationships with each company and expand our view of its impact potential.

Figure 10: There is about a 50/50 split between written and verbal engagement



Activity

One of the ways we measure engagement activity is the total number of interactions we have with companies. This is partly a result of the intensity required by our current objectives, partly how readily we can access a company, and partly how many companies are held. We use all methods of engagement available to us, including face-to-face meetings, writing letters to the board, video calls and working with other investors. Overall, there is about a 50/50 split between written and verbal engagement.

[10] Where the laws and regulations in the relevant jurisdiction permit us to do so.

SDG 7 – Clean energy

SDG 9 – Industry, innovation and infrastructure

SDG 13 – Climate action

In the following sections we report on the changes that have occurred across the portfolio according to the engagement objectives set for each company. To demonstrate our engagement progress in previous reports we have relied on measures of activity (such as number of engagement meetings) and on measures of qualitative changes occurring at the company (engagement objectives). In this report, for the second year, we have included quantitative data on the real world outcomes occurring at the companies in which we invest. This approach has its own difficulties. For example, lack of data, and how to fairly account for progress while separating out the noise from trading decisions and M&A. This year we have attempted to break out the changes attributable to companies entering and leaving the portfolio from the actual change in the sustainability performance of the company. This method allows us to include many more companies than last year, when only companies held for 3 years and reported data for all 3 years were included. All data is from Net Purpose, as of 2023, which is the most recent year for which data is available.

209 live objectives
14 completed objectives
39 new objectives
89% objectives engaged
45% objectives with progress

The key goals within SDG 7, 9 and 13:

- 7.1: Ensure universal access to affordable, reliable and modern energy services.
- 7.2: Increase substantially the share of renewable energy in the global energy mix.
- 7.3: Double the global rate of improvement in energy efficiency.
- 7.b: Expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries.
- 9.4: Make industry and infrastructure more sustainable, measured by CO_2 emission per unit of value added.
- 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
- 13.2: Integrate climate change measures into national policies, strategies and planning. For companies, the key indicator is 13.2.2, total greenhouse gas emissions per year.

Climate change remains the most engaged topic with companies in our portfolio this year. This is because we recognise the saliency of the various transition and physical climate risks that increasingly threaten companies' future resilience.

The increased frequency and severity of natural disasters vividly illustrate this point. In the first nine months of 2024 alone, the world experienced an estimated US$280bn in economic losses due to natural disasters,[11] not to mention the tragic loss of thousands of lives. The aftermath of Hurricanes Milton and Helene in Florida exemplifies the significant destruction, heavy losses, and substantial business disruptions these events can cause, impacting companies' bottom lines. Additionally, 2024 was the warmest year on record, elevating the need to urgently reduce greenhouse gas emissions.[12]

COP 29[13] brought some welcome developments, including new rules to enhance the credibility of carbon markets.[14] However, deliberations on a global transition away from fossil fuels were postponed. Additionally, changes in political administrations following 2024 elections introduce uncertainty regarding the future of climate-related regulations, placing companies on a more uncertain footing.

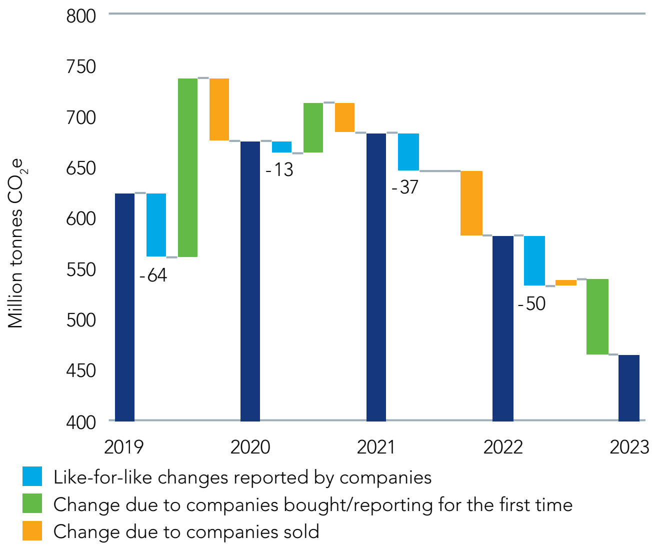
Our commitment to engaging for a 1.5°C future remains more pertinent than ever. In 2024, we continued to engage with companies[15] to encourage them to publish comprehensive climate transition plans, detailing their

[11] 'Gallagher Re Natural Catastrophe and Climate Report: Q3 2024,' published by Gallagher Re in 2024.
[12] 'WMO confirms 2024 as the warmest year on record at about 1.55C above pre-industrial level', published by the World Meteorological Organisation in 2025.
[13] UN Climate Change Conference Baku - November 2024
[14] 'What was achieved at COP29?' published by Federated Hermes in 2024.
[15] In jurisdictions where such engagement is in line with local laws and regulations.

approach in both their operations and broader value chains. We continue to ask companies to deliver on these commitments. Increasingly, we are also urging companies to ensure their public policy engagement activities align with their stated climate ambitions.

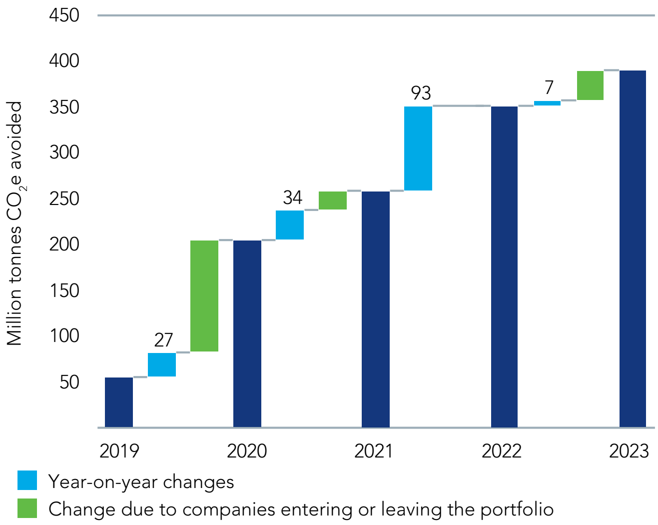
SDGs 7, 9, 12 and 13 have highly compatible co-benefits within their respective targets.

Figure 11: Total scope 1 and 2 emissions in the portfolio fell by 50m tonnes (8.6%) year-on-year



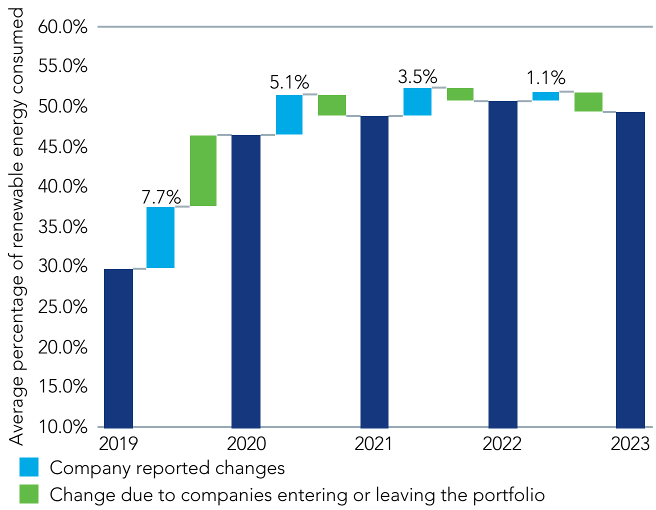
Source: Federated Hermes. Based on reported data from 129 companies.

Figure 12: CO_2e avoided by portfolio companies. This metric is an estimated value of Greenhouse Gas (GHG) emissions avoided by the company's products and services, measured in carbon dioxide equivalent units (CO_2e). It is calculated by Net Purpose using reported data, scientific evidence and/or a defined theory of change for specific products and services.



Source: Federated Hermes. Based on modeled data for 57 companies.

Figure 13: The average percentage of renewable energy consumed increased 1.1%pts year-on-year



Source: Federated Hermes. Based on reported data from 105 companies.

Company	Engagement objective	Progress update	Status
Bank of Ireland 7.3 13.2	Sustainable finance strategy and policies for Ireland	**Green mortgage approach expanded to cover energy efficiency retrofits** Bank of Ireland has focused on product innovation to incentivise its mortgage customers to decarbonise their homes. This can also help to reduce risk in the bank's large residential mortgage book. It launched its first green mortgage product in 2019, which offered discounted rates for borrowers buying homes with a Building Energy Rating (BER) of B3 or better. However, as this only represents about 20% of Ireland's housing stock,[16] we encouraged the bank to build on its approach by tapping into the retrofit market to increase the impact and inclusivity of its approach. It launched its EcoSaver mortgage in 2024, which incentivises its clients to complete energy efficiency retrofits on their homes to access lower rates. The bank explained that this was its most significant shift in its green product approach to date. This step forward, alongside the bank's constantly increasing sustainable finance ambitions and its product innovation for other clients (including its agrifood sustainability-linked loan) convinced us that the bank had completed our objective to establish a sustainable finance strategy that captures environmental and social opportunities for Irish citizens and businesses.	Objective completed, Q2 2024
Goodyear 12.6 13.2	Implementation of energy transition	**Clarifying roadmap for energy transition** The tyre-maker had made limited progress towards its ambition to reduce Scope 1, 2, and 3 emissions. We raised this with the company and it was able to provide reassurance it had a clear line of sight for what it will take to achieve its 2030 ambition. Its climate transition roadmap involves focusing on renewable energy procurement and electrification of boilers that are used in the tire-setting process. Reducing embedded emissions in its tires could also make its products more appealing to customers. The company noted that it is working to get emissions data from more than 400 raw material suppliers and said that it is aware some of the smaller suppliers may struggle to calculate emissions. We also asked the company to expand its disclosures on capital allocation towards sustainable energy investment, which it said it would consider.	Completed milestone 2, Q3 2024
Marks & Spencer 13.2	Monitor Scope 3 emissions reduction achievements	**Enhanced approach to decarbonising carbon-intensive supply chains** We want the UK retailer to reduce its Scope 3 emissions intensity or absolute emissions, especially in cotton, textiles, and meat procurement. We see an opportunity for the company to use its influence to share its knowledge with value chains and retail peers on how supply chain emissions can be reduced, particularly in the hotspots of cotton and animal agriculture. The company outlined measures to address carbon 'hotspots' with key suppliers, focusing on encouraging sustainable production techniques for cotton and meat. In its 2023 ESG report and during a Q2 2024 engagement, Marks & Spencer detailed progress made on emissions data collection, which will facilitate its SBTi target re-validation. This includes incentivising suppliers to set emissions targets and procure renewable electricity. The company is also exploring means of reducing emissions in its animal protein supply chains (trialling methane inhibitors for dairy cows, for example) through its Plan A Accelerator Fund. We believe these developments are evidence of an enhanced Scope 3 strategy going forward, and have therefore advanced this objective.	Completed milestone 2, Q2 2024

[16] 'Decarbonising homes in Ireland,' published by Banking & Payments Federation Ireland in 2023.

SDG 12 – Ensure sustainable consumption and production patterns

70 live objectives

7 completed objectives

15 new objectives

91% objectives engaged

61% objectives with progress

The key goals within SDG 12:

- 12.2: Achieve the sustainable management and efficient use of natural resources.
- 12.4: Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle.
- 12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse.
- 12.6: Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.

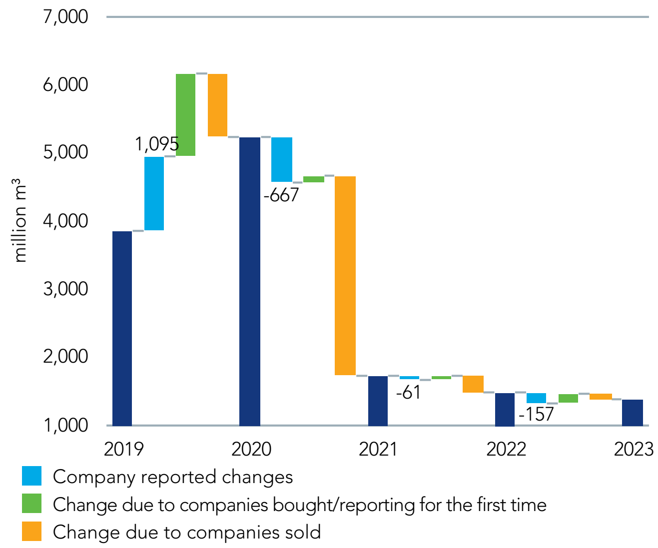
Targets and indicators in SDG 12 are among the most material for our strategy – and for impact from companies. The building blocks of SDG 12 – such as efficient use of resources, sustainable waste management and sound use of chemicals – are relevant to companies making physical goods or generating energy. SDG 12.6 even targets corporate sustainability reporting, a driver of engagement efforts to 'surface' quantified ESG and impact metrics.

Significant developments in 2024 included the approval of the EU Packaging and Packaging Waste Regulation (PPWR), which puts Europe on a more ambitious pathway towards a circular packaging industry. European companies will also have to produce their first reports aligned to the Corporate Sustainability Reporting Directive (CSRD) in 2025, representing a significant step up in transparency and corporate reporting requirements. Meanwhile, proposals from the US Securities and Exchange Commission (SEC) related to sustainability reporting were adopted and then swiftly put on hold due to legal challenges early in the year.

Our engagement on SDG 12 encompasses a variety of initiatives, reflecting how broadly resource efficiency can be applied across numerous sustainability themes. For instance, we engage with many packaging companies to advance the circular economy, which is increasingly integral to their commercial strategies. We also encouraged multiple industrial companies to be more transparent regarding their use of hazardous chemicals, which we consider a hidden but potentially serious risk. Additionally, we engaged with companies throughout the forestry value chain to combat deforestation.[17]

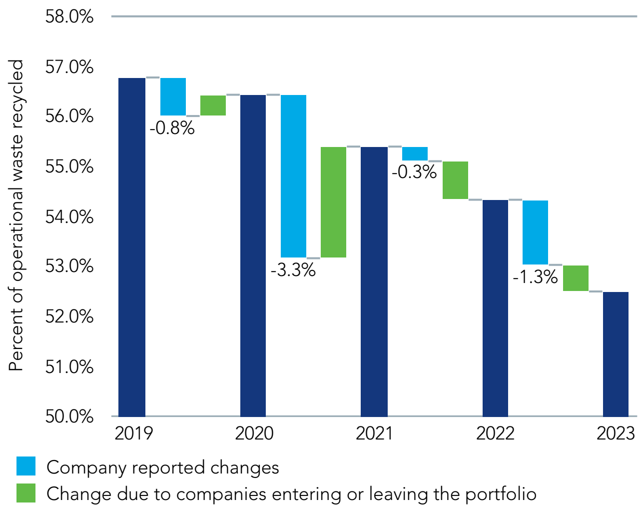
[17] See 'Seeds of change: Engaging on deforestation,' published by Federated Hermes in 2024.

Figure 14: Total water withdrawn or consumed (million m³) decreased 11% year-on-year



Source: Federated Hermes. Based on reported data from 111 companies. The large reduction between 2020 and 2021 was due to the strategy exiting its position in Petrobras.

Figure 15: Operational waste recycling rate fell 1.3%pt year-on-year



Source: Federated Hermes. Based on reported data from 77 companies.

Company	Engagement objective	Progress update	Status
Aker BP 12.4 12.6 13.2	GHG emissions removal strategy	**Clarifying the role of carbon removal projects in achieving net zero** In 2021, we saw an opportunity for oil producer Aker BP to elaborate on its decarbonisation strategy to reach 'near absolute zero' by 2050 by explaining the role that carbon removal projects will play. This would enhance its already ambitious strategy and financial planning for decarbonisation projects. Between 2021 and 2024, we engaged with the company to discuss this matter. We explained the importance of articulating the role of carbon offsets and credits. We also confirmed that the company is prioritising absolute emissions reductions before using any form of carbon offsets to achieve targets. In early 2023, Aker BP was awarded a licence to store CO2 in the Norwegian Continental Shelf (NCS) and began assessing its potential. The 2023 annual report included forecasted gross emissions reductions and estimated net reductions supported by carbon removal projects, referencing reforestation and carbon capture and storage (CCS). This provided more visibility on how it will achieve its 2030 and 2050 goals, though the balance between reforestation and CCS remains unclear. With the expected role of carbon removal projects defined annually between 2030 and 2050, the company has completed this objective. We will continue discussions to understand the economic viability of its CCS projects.	Objective completed, Q2 2024
SIG Group 11.6 12.5	Collection and recycling transparency and strategy	**Circular economy strategy refreshed, with new targets on collection and recycling** The sustainability of aseptic packaging is questionable due to the difficulty in recycling it. Packaging producer, SIG, is working with partners to increase packaging waste collection and recycling, and investing in potential solutions. Our objective is for the company to disclose data on group- and region-wide collection and recycling activities, monitoring progress against recycling and repurposing targets. The company explained that group-level reporting progress on regional recycling roadmaps isn't feasible due to different stages and approaches. However, it said it would consider providing more data on tonnes collected and recycled. Following our recommendation for greater transparency, the 2023 annual report introduced new goals in SIG Group's 'Resource+' strategy, which aims for a 90% collection and 70% recycling rate for drink cartons in Europe by 2030. We will discuss future goals for other regions in upcoming engagements.	Completed Milestone 3, Q1 2024
Suzano 12.2 12.6 15.1 15.2	Biodiversity, land use and community impact strategy execution	**Biodiversity impact monitoring approach in progress, future challenges outlined** In 2021, paper manufacturer Suzano announced a long-term biodiversity strategy targeting regenerative forestry, forest-based agriculture, and carbon sequestration in the Brazilian biome, alongside sustainable land use and economic livelihoods in local communities. Our objective is for the company to produce meaningful evidence of outcomes from its biodiversity restoration, land use and community efforts to show how its strategy is making a genuine impact and working towards its long-term target. In 2022, the company announced a target to restore ecological connective corridors in three focus biome areas, covering 500,000 hectares, to be achieved largely through collaboration with third parties. Its 'biodiversity production model' involves a balanced combination of eucalyptus plantations and native vegetation. While our 2023 engagement with the company was more focused on human rights, we discussed this target again in Q4 2024, asking for more detail on how the company uses biodiversity metrics to monitor progress. We learned that Suzano is planning to measure the abundance of a representative species of flora and fauna within each biome over time. Monitoring water availability is a more challenging task, but it is partnering with a start-up to install additional monitoring systems and is considering multiple options to improve its reporting on this. We encouraged the company to share more detail on the environmental impact of its forest management initiatives in future reporting.	Completed, Milestone 3, Q4 2024

SDG 5 – Gender Equality and SDG 10 – Reduced Inequality

49 live objectives

7 completed objectives

15 new objectives

80% objectives engaged

53% objectives with progress

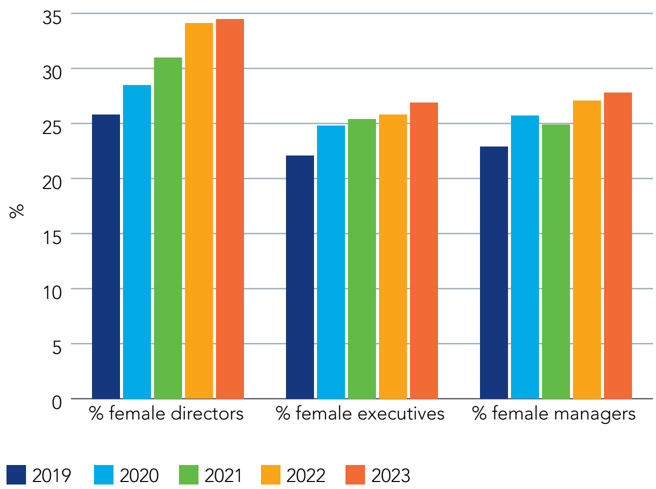
Key goals within SDG 5 and 10:

- 5.1: End all forms of discrimination against all women and girls everywhere.
- 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
- 10.1: Progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average.
- 10.2: Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Questions around hiring practices link directly to multiple SDGs. SDG 10 features direct targets and indicators on closing inequality gaps and ending discrimination. SDG 5 focuses specifically on gender equality. In our engagement, we focus on how companies can positively impact inequality gaps within workforces and management teams, how they influence this in supply chains, and how more cognitively diverse boards can provide robust oversight with broader skillsets and points of view. Companies, through workforces comprising hundreds or thousands of employees, directly act on social inequalities in the way they recruit, manage, develop and retain human capital, even if barriers can often remain at the national level.

Our conversations with companies on questions of social equality aim to ensure that companies not only treat their employees fairly, but also capitalise on the many opportunities associated with having a heterogenous workforce. A recent study by McKinsey found that companies that are in the top-quartile in the heterogeneity of their workforce were 39% more likely to achieve financial outperformance.[18]

Figure 16: The average female representation at the senior levels of companies



Source: Federated Hermes.

[18] 'Why Diversity Matters Even More,' published by McKinsey in 2023

Company	Engagement objective	Progress update	Status
Taylor Morrison 5.5	Enhanced transparency in recruitment reporting	**Significant improvement in reporting around recruitment** Our engagement with the residential construction firm, Taylor Morrison, began in 2021, when we encouraged the company to enhance its leadership in fair hiring practices within the homebuilding sector. We set an objective for the company to design a long-term strategy with improved transparency in reporting as we believe expanding recruitment to non-traditional sources could help overcome US construction sector labour shortages. Between 2021 and 2024, we discussed fair hiring practices with the company, suggesting it could expand its recruitment strategy and enhance transparency by disclosing gender, age, and ethnicity data across various levels of its workforce. The company's reporting has improved, with detailed recruitment data disclosed in consecutive reports. Its 2023 ESG report further broke down this data by workforce levels. Progress in workforce heterogeneity is supported by partnerships with organisations helping to recruit from a broader pool of individuals. Taylor Morrison has surpassed our goals by not only improving its disclosures, but also by developing a recruitment network to support individuals working in the construction industry through foundations such as the Building Talent Foundation and the Voyager initiative.	Objective completed, Q3 2024
Klabin 5.5	Evolve efforts to build on fair hiring practices	**Following through on commitments to broaden recruitment efforts** Since starting this objective in 2021, paper manufacturer Klabin has made significant progress on building out its fair hiring practices. Initially, it had gender targets for management, improving the representation of women in management from 13.5% in 2020 to 25% in 2023. Its 2022 report detailed ethnic minority representation data and targets. From 2020 to 2023, Black (accepted Brazilian terminology for Afro-Brazilian heritage) employee representation increased from 31% to 40%, with representation in management rising from 15% to 18%. Progress on fair hiring practices is now linked to executive remuneration and will extend to all employees' pay outcomes in 2024. The company also targets improved involvement of minority groups. A Q4 2024 engagement revealed that, while inclusivity ratings do not differ by gender and race, LGBTI+ employees reported lower ratings, prompting additional resources to address this. Overall, we welcome the company's progress on transparency, ambition, and diversity and inclusion initiatives, and consider this objective completed.	Objective completed, Q4 2024
Ford 8.5 10.2	Climate justice and talent management	**Communicating a talent strategy aligned with the just transition** We want Ford to articulate a strategy to stay competitive in talent acquisition, retention, training, and progression at both manufacturing and corporate levels. We also seek information around fair hiring practices as a way of broadening out its human capital management strategy. In our Q2 2024 engagement, we noted Ford's additional disclosures on its talent management strategy related to the energy transition. We reiterated the importance of this strategy to support the company's ambition to execute on its electric vehicle development. We also enquired about the impact on employees as factories are adapted for production of new models. In response, Ford stated it supports climate justice, aiming to minimise negative impacts and create positive ones. The company is focused on upskilling and reskilling employees, working with dealers to adapt to customer needs, and exploring sustainable financing for disadvantaged populations. Its Blue Oval Learning initiative is designed to prepare individuals for careers in the electric vehicle (EV) industry, and is a key pillar for training new employees. Ford is committed to providing upskilling and reskilling opportunities for all employees and is disclosing its 'just transition'[19] approach in its 2024 integrated sustainability and financial report. We continue to encourage Ford to disclose its talent strategy aligned with the just transition, including metrics.	Completed Milestone 3, Q2 2024

[19] The International Labour Organization (ILO) defines a 'just transition' as: "Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind."

SDG 8 – Decent work

41 live objectives

0 completed objectives

15 new objectives

78% objectives engaged

44% objectives with progress

Key goals within SDG 8:

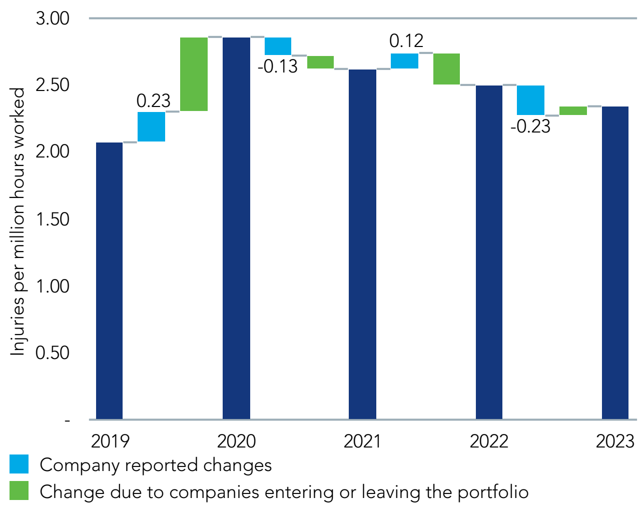
- 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small and medium-sized enterprises, including through access to financial services.
- 8.7: Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers
- 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.
- 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

Our engagement on decent job creation and safe and fairly compensated working conditions spans full value-chains for most companies, and this directly connects to SDG 8, to promote inclusive and sustainable economic growth, full and productive employment and decent work for all.

The importance of addressing employees' working conditions was starkly highlighted by the numerous strikes in 2024, which had significant and far-reaching financial impacts. A notable example was the United Auto Workers (UAW) strike in the US in September 2024, which affected broader supply chains and companies within our portfolio. Additionally, the severe consequences of workplace accidents underscored the potential human and financial costs of health and safety shortfalls, including prolonged litigation and reputational damage.

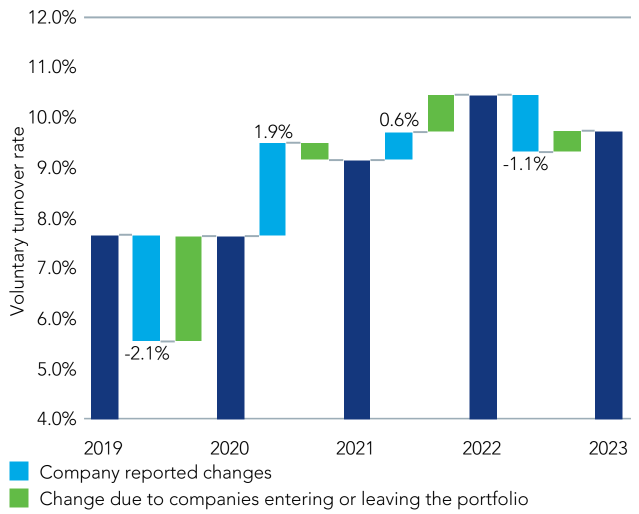
Our engagement on SDG 8 focuses on mitigating risks related to employee and supply chain worker relations, including in the context of the energy transition. We also engage on opportunities for decent work, especially for vulnerable populations. This is particularly relevant for banks, which can implement targeted initiatives to support the growth of small- and medium-sized enterprises and help individuals achieve long-term financial stability.[20]

Figure 17: Lost Time Injury Frequency Rate (LTIFR) fell 9.1% year-on-year



Source: Federated Hermes. Based on reported data from 73 companies.

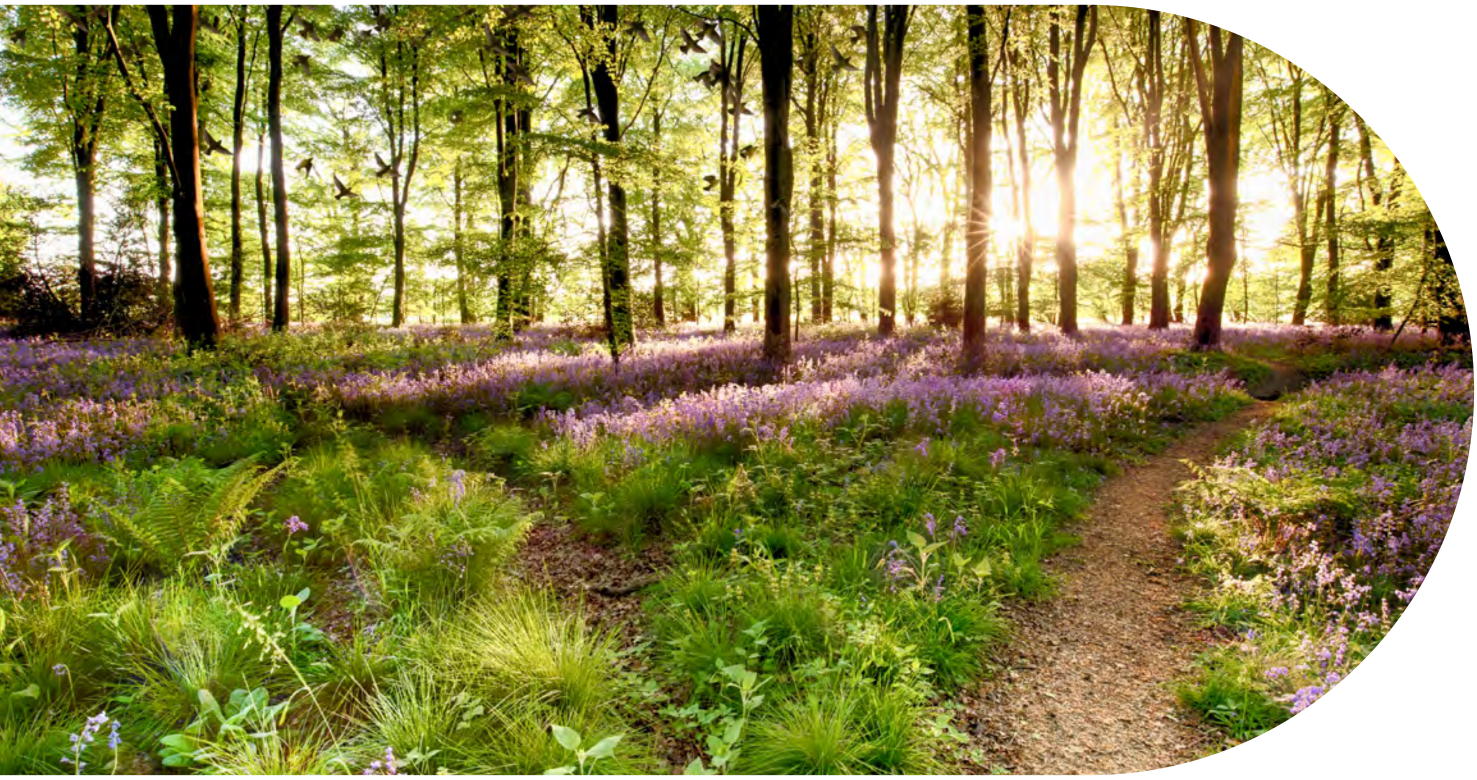
Figure 18: Voluntary turnover decreased 1.1%pt year-on-year



Source: Federated Hermes. Based on reported data for 66 companies.

[20] See 'Financial inclusion and banking: A billion-person opportunity?' published by Federated Hermes in 2023.

Company	Engagement objective	Progress update	Status
AES 8.5 8.8	Just Climate Transition Policy & Outcomes	**Fair treatment of workers impacted by the energy transition** Exiting coal power generation assets, which is a part of AES' energy transition strategy, can displace many employees, negatively impacting local communities. To ensure fair treatment of workers, we introduced an objective for AES to articulate a just transition policy and its outcomes in public reporting. We first raised the topic in 2021, suggesting a dedicated just transition strategy be included in future reports. Over six engagements, we provided feedback and examples of best-practice reporting from sector peers. Despite learning of the company's support initiatives for employees at coal plants being decommissioned, reporting remained limited to two paragraphs in its annual reports. The 2023 Improving Lives report introduced greater transparency with a dedicated section on initiatives like reskilling, early retirement packages, and collaboration with local labour organisations. Data on the number of employees benefiting from these initiatives was included, expanding on previous anecdotal evidence. In our most recent engagement, we recommended AES continue this reporting approach until 2027, when it expects to complete its exit from coal.	Objective completed, Q3 2024
LKQ 8.5 8.8	Mental health in the workplace	**Addressing employee mental health through holistic strategy development** Our objective is for this auto parts specialist to develop a mental health workplace policy. Senior management should take a leadership role in this effort by encouraging a culture of openness and dialogue. We wrote to the CEO in Q1 2024 to raise the importance of promoting and safeguarding workplace mental health. The letter set out a series of expectations spanning leadership from the top, the establishment of a dedicated policy, and investment in line manager training. The company responded by acknowledging the importance of mental health and the responsibility towards its employees. In Q2 2024, we were pleased to learn that the company has developed a holistic mental health strategy, going beyond Employee Assistance Programme (EAP) provision to cover line manager training and guidance, mental health first-aiders and a focus on economic wellbeing and career development. To complete the objective, we want to see the company's mental health strategy covering fair pay, flexible working, career progression and development and anti-bullying and non-harassment. Additionally, we want the agenda to be prominently supported and promoted by senior management.	Completed Milestone 3, Q2 2024
Rexel 3.9 8.8	Health and safety policy and performance	**Encouraging a unified health and safety approach for employees and contractors** Our objective for electrical wholesaler Rexel is for it to introduce a comprehensive health and safety policy aligned with third-party standards, with consistency across the group and including contractors as well as full-time employees. We raised the topic of health and safety with the company in Q4 2024, highlighting the importance of contractor safety in reporting which was not reflected in the 2023 universal registration document. The director of human resources confirmed that contractors are trained on health and safety and subject to the same policies and standards as Rexel's employees. Health and safety data is also measured separately. We requested for this to be reflected in future reporting so that progress on contractor safety can also be tracked.	Completed Milestone 2, Q4 2024



Engaging on human rights: 2024 in review

Our engagement on this topic is rooted in the belief that companies have a duty to protect and uphold human rights. This responsibility extends across their operations, supply chains, products and services, and broader industry. Neglecting this fundamental duty can directly impact a company's financial performance; it may lead to litigation, fines, reputational damage, product boycotts, production delays, and the potential loss of the company's social license to operate in a given region.

The stakes have risen significantly in recent years, particularly for European companies subject to the Corporate Sustainability Due Diligence Directive (CSDDD), which will come into effect in 2027. This regulation mandates that companies operating within the European Union implement comprehensive policies and procedures to identify, mitigate, prevent, and remediate negative human rights impacts throughout their value chains. It also theoretically empowers affected stakeholders to hold companies accountable for harm through civil proceedings.

Throughout 2024, we actively engaged with companies to ensure they were taking the necessary steps to protect the fundamental human rights of those they impact. We have focused on four key areas: creating effective human rights governance frameworks, implementing robust human rights due diligence, establishing responsive and accessible grievance mechanisms, and providing remedy where negative human rights impacts have occurred.

Human rights principles are embedded in the SDGs, rather than there being a specific goal for the topic. There are references in SDG 4, 10, 16, but it could be argued that all the goals relate to human rights in some way.

Governance

The first step in establishing an effective human rights approach is to ensure a robust governance framework is in place. Human rights risks should be integrated into core risk management systems, overseen at the board level, and addressed with stringent controls. Without clearly assigned responsibilities for managing human rights issues, these risks may go unaddressed and could escalate into more severe and widespread problems.

Company	Sector	Progress update	Issue/Objective
Suzano	Pulp and paper	This paper pulp manufacturer faced allegations of negative human rights impacts through its 50/50 joint venture, Veracel, which came as part of its acquisition of Fibria in 2018. Despite the accusations dating back to the early 2000s, we believe the company must ensure its governance of human rights at this joint venture meets best practices and respects the local community's right to free, prior, and informed consent (FPIC). We met with a representative on Veracel's sustainability advisory committee, to delve deeper into its human rights governance. We were reassured that the company maintains oversight by having its sustainability director on the board, where human rights issues are regularly discussed. Suzano also highlighted recent surveys to identify human rights issues needing attention and a third-party audit verifying compliance with the Forest Stewardship Council's (FSC) human rights expectations. We learned about internal processes to ensure FPIC rights are respected, and we recommended explicitly mentioning this in the code of conduct to strengthen this commitment.	Issue: Governance of human rights issues at Veracel joint venture

Due diligence

A best-practice human rights due diligence process identifies the most significant human rights risks within a company's value chain and systematically seeks to detect potential instances of these risks materialising. The ultimate goal is to implement proactive measures to prevent negative impacts from occurring.

The responsibility to establish a robust human rights due diligence mechanism applies to both corporate and financial institutions. While corporates must oversee their own operations and the wider value chain impacts on stakeholders, financial institutions have broader oversight responsibilities due to the need to also monitor the impacts of their clients.

Company	Sector	Progress update	Issue/Objective
General Motors	Automotive	Automotive manufacturers source a wide range of materials from supply chains where human rights are at risk, including the aluminium used in structural components, the cobalt and lithium in EV batteries and the rubber used in tyres. Since 2022, we have been engaging with General Motors on its human rights due diligence process. This is an opportune time to engage, as the company is shifting to a different mix of materials to expand its electric vehicle portfolio. Over the years, we have discussed how General Motors assesses its ties to high-risk regions, such as the Xinjiang region in China, and have encouraged it to enhance its disclosures on key regional and commodity human rights risks. This includes how potential issues or deficiencies are identified, tracked, and resolved. The company has begun engaging with investors on human rights through regular symposiums, and we will continue to voice our expectations as the regulatory and geopolitical landscape evolves.	Objective: Increase transparency on supply chain social and human rights performance (milestone 4 underway)

Company	Sector	Progress update	Issue/Objective
UniCredit	Banking	As a bank with diversified portfolios spanning various sectors and regions, UniCredit has a responsibility to systematically identify and address potential human rights risks associated with its clients' activities. In 2022, we began urging the bank to update its human rights policy and due diligence process. By early 2024, UniCredit announced it was working on a comprehensive update to its human rights strategy, focusing on due diligence and client engagement, acknowledging that its existing framework was outdated. We recommended several enhancements to its disclosures, including detailing its most salient human rights risks and providing examples of high-risk cases escalated for approval. Later that year, UniCredit published an updated human rights commitment, establishing a new governance framework for managing human rights issues across the bank. To build on this progress, we are encouraging the bank to develop more detailed procedures for identifying and responding to client-related risks, explicitly recognising its most significant human rights risks.	Objective: Best practice human rights policy (milestone 3 underway)

Grievance mechanisms

To effectively address evolving human rights risks across value chains, companies should implement grievance mechanisms that are accessible to both internal and external stakeholders for reporting potential human rights violations. These systems must be user-friendly and tailored to specifically manage human rights issues, ensuring anonymity and prohibiting retaliation against those who raise concerns. This aligns directly with SDG 16.3, which aims to expand the availability of officially recognised conflict resolution mechanisms to enhance access to justice for all.

Company	Sector	Progress update	Issue/Objective
Graphic Packaging	Pulp and paper	The company has a grievance mechanism in place but provides minimal quantitative reporting on the cases handled through this system and the actions taken in response. During our Q4 2024 engagement, we requested more detailed information, but the company appeared hesitant to make public disclosures due to confidentiality concerns. We will continue to advocate for greater transparency, as we believe the company could share high-level data or anonymised case studies to demonstrate how its approach works in practice.	Objective: Human rights strategy & grievance mechanism disclosures (milestone 2 underway)
Kraft Heinz	Food retail	Since opening this objective in 2022, we have provided feedback on the company's human rights approach multiple times. During our Q1 2024 engagement, we discussed its grievance mechanism in detail. The company explained that it is transferring responsibility for this mechanism from its legal team to its social compliance team to ensure more effective governance and stakeholder engagement. We expressed interest in seeing further disclosure on cases handled through this mechanism, and the company indicated that such disclosures are planned for future reports.	Objective: Supply chain human rights & social due diligence practices (milestone 3 underway)

Remedy

Few companies have established effective mechanisms to provide remedies to stakeholders who have suffered negative human rights impacts. Serious human rights issues often undergo lengthy legal processes, where the responsibility for remedy is frequently contested. However, some companies are beginning to explicitly recognise their responsibility to provide remedies. We will continue to engage with these companies to make this practice more widespread.

Company	Sector	Progress update
ABN AMRO	Banking	Remedy is a particularly neglected area in the banking sector, as banks often remain uncertain about their roles in mediating conflicts between clients and stakeholders reporting negative impacts. However, in 2024, ABN AMRO made a significant progress by announcing a pilot human-rights remedy mechanism. This initiative aims to facilitate dialogue between clients and affected stakeholders, managed by an expert third party. We look forward to learning more about this pilot and exploring whether it can serve as a replicable model for other banks.

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

Appendix: GIPs performance data

Schedule of Rates of Return and Statistics

Composite: **Federated Hermes Global High Yield Credit Engagement Credit Hedged to USD**

Index: **ICE BofA Global High Yield Constrained (USD Hdgd)**

Periods ending: **31 December 2024**

	Returns (%) Composite Gross Return	Benchmark	Composite Net Return
Q4 24	0.49	0.53	0.33
1 Year	8.06	9.24	7.35
3 Years (Annlzd)	2.84	3.03	2.17
5 Years (Annlzd)	3.85	3.71	3.17
Oct-19 – Dec-24 (Annlzd)^^	4.44	4.10	3.76

Year	Composite Gross Return	Composite Net Return	Benchmark Return	*Composite 3-Yr St Dev	*Benchmark 3-Yr St Dev	No of Portfolios	**Dispersion	Composite Assets (Million)	Firm Assets (billion)
	Annual Returns (%)								
2019	4.04	3.87	2.90	N/A	N/A	<5	N/A	276.3	40.2
2020	7.94	7.23	6.48	N/A	N/A	<5	N/A	680.6	585.7
2021	2.87	2.20	3.04	N/A	N/A	<5	N/A	1,855.3	634.2
2022	(9.51)	(10.10)	(11.38)	12.00	11.19	<5	N/A	918.0	627.4
2023	11.24	10.52	12.97	8.63	7.81	<5	N/A	1,369.8	720.0
2024	8.06	7.35	9.24	8.73	7.91	<5	N/A	1,246.5	792.2

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

*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.

The composite includes all discretionary portfolios following the SDG Engagement Global High Yield Credit Hedged to USD strategy run by the Federated Hermes Global Credit team (London Office) and has an inception date of 1 October 2019. The objective of the strategy is to exceed the return of the benchmark over a rolling five-year period whilst delivering positive societal impact aligned to the United Nations Sustainable Development Goals ("UN SDGs"). The strategy may invest in a broad range of assets, either directly or through the use of derivatives, (including, but not limited to, equities, equity-related securities, Eligible CIS and/or financial indices, futures, options, swaps, debt, fx and money markets). The strategy through its investments in FDIs may be leveraged. The composite's benchmark is the ICE BofA Global High Yield Constrained Hedged to USD Index, which is designed to measure the debt market performance of global high yield debt. The benchmark contains primarily USD and EUR issues. The Index is rebalanced on the last calendar day of the month and the return is calculated on a total return basis. This composite was created in November 2019. Performance shown for 2019 is for a partial period starting 1 October 2019. 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 0.65% 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.

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