Deforestation Report 2024

Federated Hermes
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Executive Summary

Forests, covering one-third of the Earth's land, are essential for carbon sequestration and water cycle regulation. However, deforestation threatens these critical functions, exacerbating climate change and harming communities. It also poses systemic risks to financial markets, including operational, supply chain, regulatory, litigation, and market risks.

Federated Hermes Limited ("FHL") is committed to playing its part in the elimination of deforestation, a goal that is aligned with its fiduciary duty to clients. In 2021, FHL joined over 30 financial institutions in a commitment to strive to eliminate commodity-driven deforestation, representing $8.7 trillion. This report includes assessments of commodity-driven deforestation risk and mitigation activities across our portfolios, now encompassing real estate debt and private equity.

Our analysis reveals that 11.1% of FHL's assets under management ("AUM") in our public markets' portfolios have known exposure to forest-risk commodities, with 4.1% in corporates and 7.0% in financial institutions. Companies involved in palm oil and pulp and paper have the highest proportion of deforestation commitments, while those with links to soy, beef, and leather lag behind. 9.9% of our AUM is classified as having high deforestation risk due to known exposure to forest risk commodities and inadequate policies to manage this risk.

This report demonstrates FHL's comprehensive approach to addressing deforestation risks. In 2024, FHL has continued its deforestation-related engagement and advocacy, including through the collaborative initiative Finance Sector Deforestation Action ("FSDA"). EOS, our in-house stewardship service provider, and FHL engaged with over 27 focus companies through FSDA, encouraging commitments to deforestation-free production and sourcing by 2025. We also published a call to action addressing deforestation in our "Forests Under Fire" paper, which includes our asks of governments and supports engagements with policymakers. Additionally, we participated in the COP16 summit as part of the Finance for Biodiversity delegation, advocating for policies that align financial flows with biodiversity targets.

Introduction

Healthy forests are the bedrock on which society, biodiversity and our economy thrive. Forests cover around one-third of the land area on our planet and they provide critical ecosystem services such as carbon and water cycle regulation, and soil erosion prevention.[1] The degradation and fragmentation of forests threatens carbon absorption, disrupts weather patterns, destroys habitats, and negatively affects rural communities. As the world seeks to slow the pace of climate change and biodiversity loss, halting and reversing deforestation will unquestionably be a critical part of the solution.

Given links to both climate change and biodiversity loss, deforestation presents a systemic risk for financial markets and may limit our ability to create enduring, responsible wealth for our clients and their beneficiaries. Deforestation and associated human rights violations linked to agricultural production may present financially material risks to financing and investment activities through operational, supply chain, regulatory, litigation and market risks.

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These risks could arise, for example, through reputational harm or changing consumer preferences that impact the company or financial institution associated with deforestation, conversion or human rights abuse. It could also come through the imposition of higher costs or fines by governments and regulators. We therefore take the view that contributing to efforts to eliminate deforestation is an outcome that is fundamentally in the long-term financial interests of our clients and therefore part of our fiduciary duty. Our goal is to drive change in the real economy.

In 2021, we signed the financial sector commitment to eliminate commodity driven deforestation alongside over 30 financial institutions representing a total of US$8.7 trillion.[2] As part of this commitment, we committed to report on our assessment of commodity-driven deforestation risk and mitigation activities across our portfolios.

Our real estate debt and private equity portfolios have now been brought into scope of our policy and of this report. As well as publishing this report, we have completed the annual review of our Deforestation Policy Statement.[3]

Federated Hermes Limited ("FHL") is part of a leading investment management group headed by Federated Hermes, Inc. ("FHI"). This scope of this report is the following products and strategies managed by FHL and its subsidiaries: real estate; direct lending; infrastructure; real estate debt; private equity; UCITS funds within the Federated Hermes Investment Funds plc umbrella; and equity and credit strategies where Hermes Investment Management Limited is the investment manager.

[1] WWF, "Deforestation and Forest Degradation".
[2] Race to Net Zero, "FINANCIAL SECTOR COMMITMENT LETTER ON ELIMINATING COMMODITY-DRIVEN DEFORESTATION" (November 2021).
[3] FHL, "Policies & disclosures".

Engagement activities – including on deforestation – are also conducted through EOS at Federated Hermes Limited ("EOS"), a subsidiary of FHL. Through EOS we engage with companies on strategic and material ESG concerns to promote investors' long-term performance and fiduciary interests. EOS offers a shared service model, engaging on behalf of both FHL and third-party clients.

Advocacy

Deforestation remained a key issue for our public policy engagement over 2023 and 2024. In September 2024, we published a call to action to end deforestation. In this paper we assess progress towards halting deforestation over the last 10 years, and explore what needs to happen in the next 10 years to move beyond pledges and ensure that halting and reversing deforestation becomes a reality. This paper also included our asks of governments (see excerpt from the paper below) and will support our engagement with policymakers on this topic.

For example, as part of the Investor Policy Dialogue on Deforestation ("IPDD") Consumer Countries Working Group, we led the drafting of, and co-signed, a letter to the UK Department for Environment, Food and Rural Affairs ("DEFRA"). This letter explained the importance of halting deforestation to investors, highlighting both the systemic risks and the financial, reputational, operational, litigation, and regulatory risks due to investment in companies or instruments that are directly or indirectly linked to global supply chains containing forest-risk commodities. The letter called on the government to introduce the Forest Risk Commodities legislation set out in the Environment Act 2021 as a priority.

Deforestation remained a key issue for our public policy engagement over 2023 and 2024.

Our asks of governments are informed by the research of NGOs such as Global Canopy[4], Business for Nature[5] and Global Witness, our involvement in industry initiatives such as the Investor Policy Dialogue on Deforestation ("IPDD") and the Finance Sector Deforestation Action ("FSDA") initiative, and our direct engagement with governments. We ask all governments to:

- Explicitly commit to end the country's contribution to economically destructive deforestation on all lands and ensure that pledges such as the Glasgow Leaders Declaration on Forests and Land Use are followed through with effective implementation and action at the national level.
- Introduce and enforce policy and regulatory measures to stop the country's contribution to deforestation by addressing both supply and demand.
- Take a zero-deforestation approach. The scope of regulations should cover:
  - Both legal and illegal deforestation. Focusing only on illegal deforestation may incentivise deregulation in producer countries. For consumer countries, a zero-deforestation approach removes the reliance on the existence and enforcement of adequate level in other countries.
  - All forest-risk commodities. This also helps to future-proof the regulations from emerging threats.
  - Associated human rights abuses.
  - All natural ecosystems involved in the production of forest-risk commodities. This avoids displacing harmful activities to other important biomes.
  - All regions. National regulations should have a zero-deforestation approach for the country as a whole to avoid shifting deforestation activities to different regions.
- Assess new regulations against its zero-deforestation approach to determine impacts, including wildfire strategies.
- Include Indigenous peoples via partnerships in the discussions on solutions to help accelerate equitable action.
- For countries producing forest-risk commodities, pass regulations to prevent deforestation at the source, supported by strong enforcement mechanisms.
- For countries consuming forest-risk commodities, pass risk-based due diligence legislation to increase transparency and prevent deforestation in the supply chain.
- Actively support a just transition. For consumer countries, this includes providing capacity building support to producer countries, particularly developing economies, to comply with the expectations. Funding mechanisms should be developed to ensure the costs of halting deforestation are shared between producer and consumer countries. Smallholders in particular should be supported to transition to deforestation-free commodity production, including support to comply with the costs of any certification required. This could include providing incentives for sustainable production of commodities, including reclaiming degraded land.
- Invest in technology to improve the mapping and inventory of old growth, mature and at-risk (or under threat) forests and to facilitate the active monitoring of illegal deforestation.
- Consider interoperability with other regulations, in particular the EU Deforestation Regulation which is already in force. This will reduce the burden on companies and their supply chains and prevent a two-tier system where commodities which have not been produced sustainably are directed to markets with looser standards.

[4] Global Canopy, "What makes an effective law to stop commodity-driven deforestation?" (February 2024).
[5] Business for Nature, "Policy recommendations for effective implementation of the Biodiversity Plan".

COP16

In October 2024, we attended the Biodiversity COP16 in Cali, Colombia as part of the Finance for Biodiversity (FfB) Foundation delegation. We co-chair the FfB Policy Advocacy Working Group, which published a policy recommendations paper for governments in April 2024 (Aligning Financial flows with the Global Biodiversity Framework: Translating Ambition into Implementation). In the lead up to COP16, we joined engagements with policymakers and negotiators to share the recommendations and understand progress on implementing the Global Biodiversity Framework at the national level. We contributed to developing the FfB Foundation delegation's position for COP16 and summarised our expectations in an Insight piece.

At COP16, we focused on following the negotiations, particularly on resource mobilisation, and participated in a range of events about company stewardship, investment and policy engagement that were organised by organisations such as IIGCC, FAIRR, S&P, and the FfB Foundation, amongst others.

COP16 resulted in progress on Digital Sequencing Information, with the formation of the Cali Fund to recognise the value of nature for scientific research. This should translate into increased financial resources for the protection and restoration of tropical rainforests. Additionally, more formal participation of Indigenous people and local communities in the negotiations was secured through the creation of a subsidiary body. The second ever Finance Day at a biodiversity COP took place, with stakeholders from across the global financial system in attendance. We were pleased to see our policy expectations well-reflected at Finance Day, including the need for policies and economic incentives that enable private sector action; sectoral transformation pathways and change in the real economy; aligning public and private financial flows with biodiversity targets alongside raising more money for nature; and a whole-of government approach to this challenge.

Public markets

We have based our commodity-driven deforestation risk assessment on the Due Diligence towards Deforestation-Free Finance Guidance for financial institutions, produced by Global Canopy.[6] This guidance recommends assessing both exposure risk and policy risk. Deforestation exposure risk is defined as 'the probability that a commodity produced or sourced by a client/holding is associated with deforestation, conversion and associated human rights abuses'.[7] The policy risk assessment is intended to indicate whether or not a company has robust management and mitigation policies, which can 'indicate their commitment and ability to prevent potential deforestation, and to mitigate instances of deforestation that have occurred.'[8]

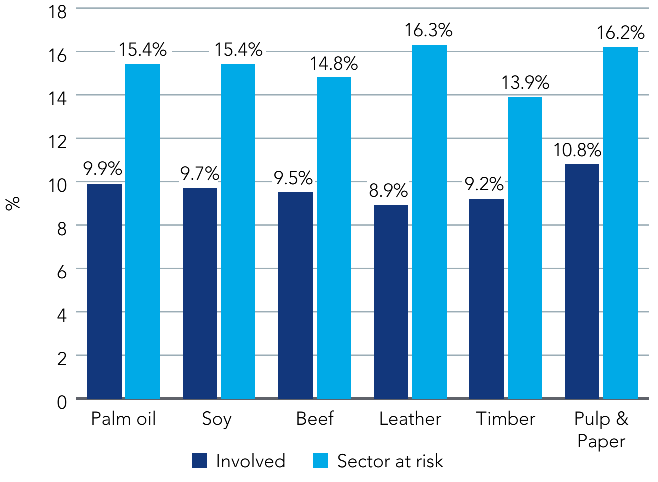
Due to lack of data on certain points, we have simplified the recommended exposure assessment by assessing whether the company has confirmed involvement in one of the following forest risk commodities: palm oil, soy, beef, leather, timber, and pulp and paper. To assess any potential data gaps, we also identify whether companies are in high-risk sectors for commodity-driven deforestation. Figure 1 shows the output of this analysis for FHL's public markets AUM, with the percentage of our public markets AUM in sectors with a high risk of exposure to commodity driven deforestation.[9] The difference between the percentage of AUM with confirmed exposure and the percentage in high-risk sectors indicates that there could be additional investees not covered by our data provider which have exposure to forest risk commodities. However, not all companies in high-risk sectors will have exposure.

The exposure analysis looks at both corporates and financial institutions. This analysis shows that 11.1% of FHL public market AUM has confirmed exposure to forest risk commodities as at 30 September 2024, with 4.1% being corporates and 7.0% being financial institutions.[10]

We have also drawn on the Global Canopy guidance to develop our policy risk assessment. Our assessment focuses on the deforestation commitments and human rights commitments that a company has made. We expect a company to set either a zero-gross conversion or zero-gross deforestation commitment for all forest risk commodities that it is exposed to. We expect a company to make the following human rights commitments:

- Commitment to test for Free, Prior and Informed Consent (FPIC)
- Commitment to respect customary and legal land rights
- Commitment on labour rights

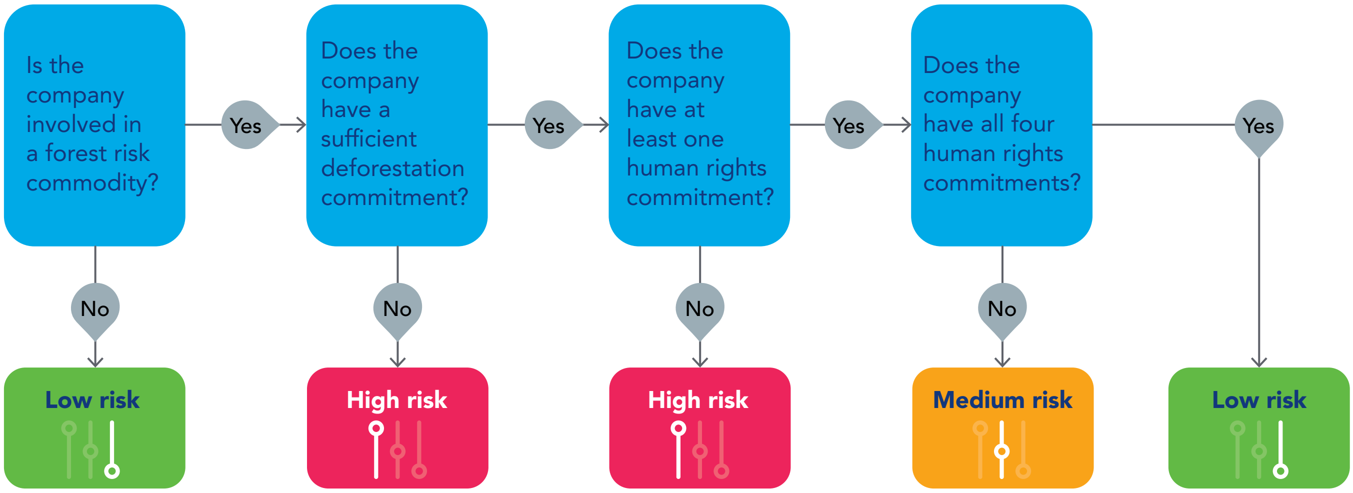
Figure 1. FHL Public markets exposure (% of AUM) to forest risk commodities in FHL shareholder and participating funds (credit and equity)



Source: FHL, Forest IQ, Global Canopy, as at 30 September 2024.

6 Deforestation Free Finance, "Due diligence towards Deforestation-Free Finance".
7 Accountability Framework initiative, "New Framework-aligned guidance for financial institutions" (June 2023).
8 Deforestation Free Finance, "Due diligence towards Deforestation-Free Finance".
9 Our assessment uses the list of high-risk sectors identified by Global Canopy: https://guidance.globalcanopy.org/roadmap/phase-1/.
10 Companies can be exposed to multiple commodities, so the 'Involved' values in Figure 1 do not sum to 11.1%.

Figure 2. FHL's deforestation risk decision tree



Source: FHL, Global Canopy.

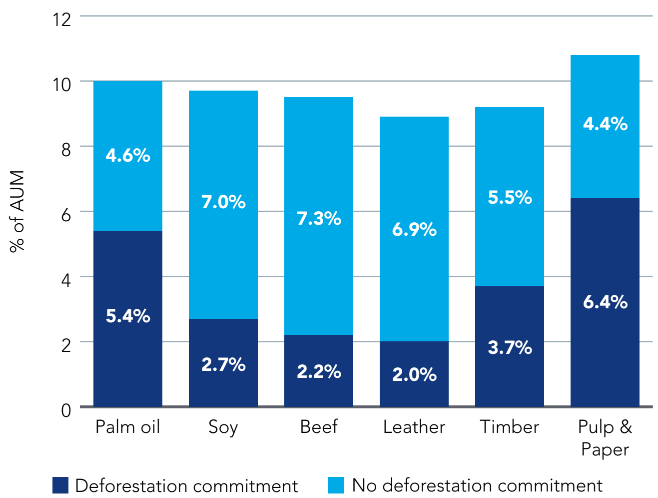
- Commitment to a zero-tolerance approach to violence and threats against Forest, Land and Human Rights Defenders

Figure 2 shows the modified due diligence guidance assessment for deforestation risk that we have followed for our public markets investees.

Figure 3a shows that our investees with exposure to palm oil and pulp and paper have the highest proportion of deforestation commitments whilst companies involved in soy, beef and leather are lagging on setting any form of deforestation commitment. For all the forest risk commodities, we have exposure to companies without deforestation commitments.

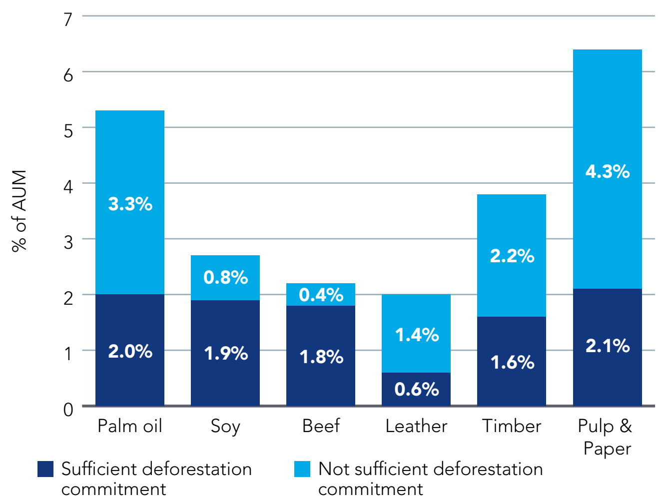
Figure 3b breaks down the deforestation commitments shown in Figure 3a into those companies with deforestation commitments that we deem sufficiently strong, and those with commitments that we deem insufficient. We expect a company to set either a zero-gross conversion or zero-gross deforestation commitment for all forest risk commodities that it is exposed to, as well as at least one of the human rights commitments outlined above, in order for a commitment to be considered strong. There are approximately equal levels across commodities (except leather) of investees with exposure to forest risk commodities which have set sufficient deforestation commitments (as opposed to any deforestation commitments as shown in Figure 3a). Although the companies we have exposure to in palm oil and pulp and paper is more likely to set any form of deforestation commitment, a portion of these are not considered sufficient.

Figure 3a. Overview on deforestation commitments set for public market exposure (% of AUM) to forest risk commodities in FHL shareholder and participating funds (credit and equity)



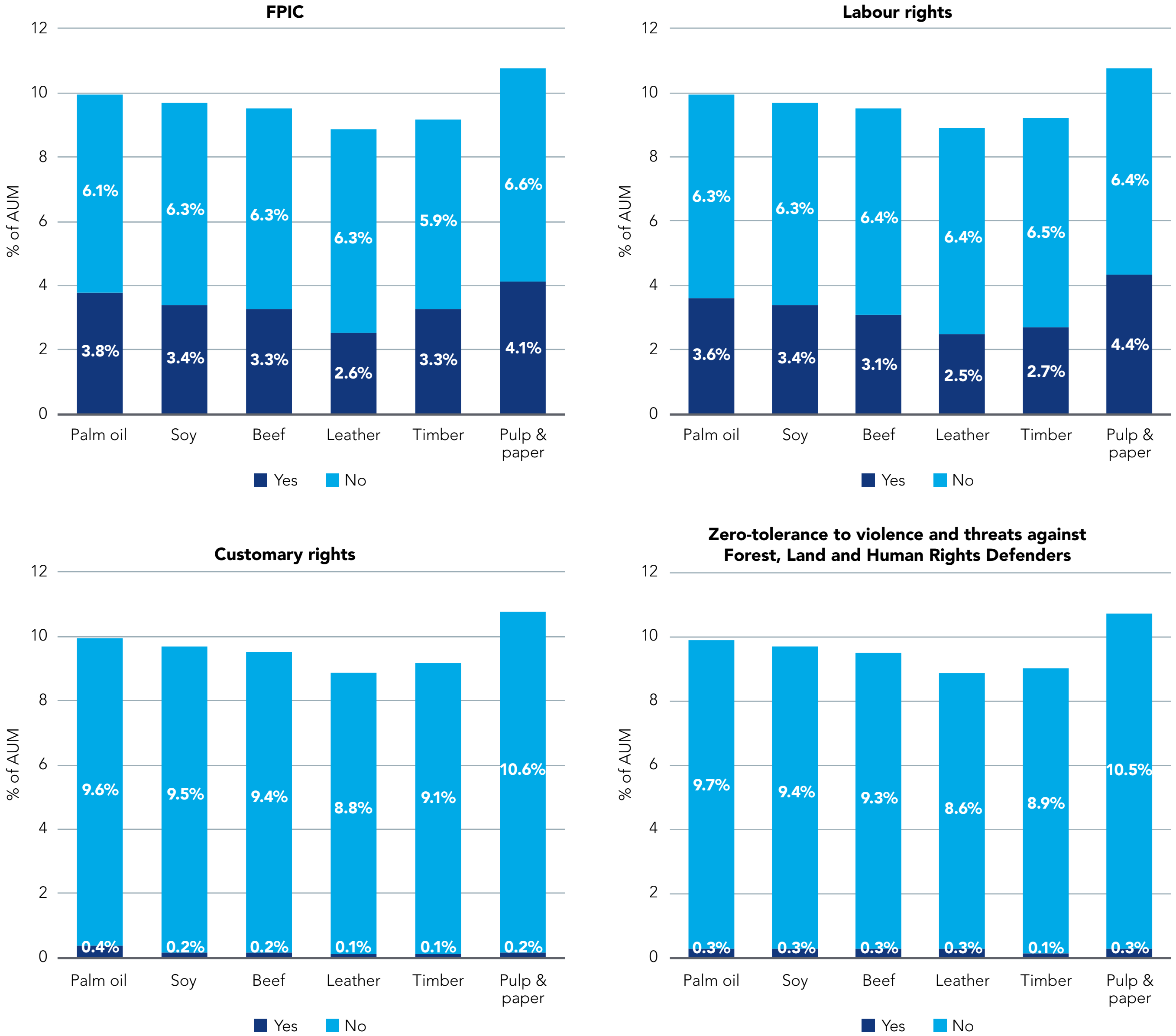
Source: FHL, Forest IQ, as at 30 September 2024.

Figure 3b. Breakdown of sufficient and not sufficient deforestation commitments set for public market exposure (% of AUM) to forest risk commodities in FHL shareholder and participating funds (credit and equity)



Source: FHL, Forest IQ, as at 30 September 2024.

Figure 4. Overview on human rights commitments set for public market exposure (% of AUM) to forest risk commodities in FHL shareholder and participating funds (credit and equity)



Source: FHL, Forest IQ, as at end of 30 September 2024.

For example, some companies rely on certification schemes or other sustainability commitments rather than strong commitments on deforestation specifically, or make commitments that only protect certain areas.

When looking at the human rights commitments set by our investees, there is not much variation in the levels of commitment by commodity. However, we do see that some types of commitments are more common than others. Figure 4 shows that our investees are more likely to set commitments regarding securing FPIC and labour rights. Very few holdings have made commitments regarding respecting customary rights and committing to zero-tolerance against violence and threats to Forests, Land and Human Rights Defenders.

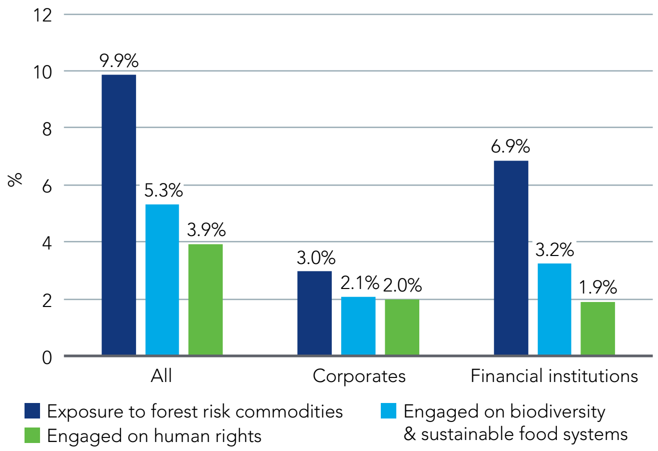
Figure 5 shows the output of both the exposure analysis and the policy analysis. We focus our engagement efforts on companies that are exposed to forest risk commodities with high policy risk. 15.5% of our public markets AUM has an unknown classification. This is either due to a lack of industry classification, meaning we are unable to assess whether the company is in a high-risk sector, or because the company sits in a high-risk sector but is not covered by Forest IQ, therefore we are unable to assess whether the company is involved in a forest risk commodity. This 15.5% is not included in the table below.

Figure 5. Exposure and policy risk (% of AUM) of public markets holdings in FHL shareholder and participating funds (credit and equity)

Classification		Policy risk: Low risk	Medium risk	High risk
Exposure	Not exposed	73.6%	n/a	n/a
	Exposed	0.0%	1.3%	9.9%

Source: FHL, Forest IQ, as at 30 September 2024

Figure 6. Breakdown of high-risk holdings exposed (% of AUM) to forest risk commodities of public markets holdings with engagement information in the previous 12 months in FHL shareholder and participating funds (credit and equity)



Source: FHL, Forest IQ, as at 30 September 2024.

Figure 6 shows the breakdown of the 9.9% of our public markets AUM in the high-risk category, splitting out corporates and financial institutions. It also shows the engagement undertaken with these companies in the previous 12 months (as at 30 September 2024) on both biodiversity and sustainability food systems (which includes, but is not limited to, engagement on deforestation) as well as human rights (indigenous and community rights, and supply chain rights). The output shows that we have good engagement coverage on our corporate exposure, however our coverage of financial institutions is lower on both deforestation and human rights.

Engagement

Investors have a critical role to play in halting and reversing deforestation, especially through engagement with companies and capital allocation. The collaborative initiative Finance Sector Deforestation Action ("FSDA"), which was launched at COP26 in Glasgow, continues to support investors in delivering against the commitment to eliminate commodity driven deforestation through engagement and due diligence. It uses data from Forest 500 and Global Canopy to inform selection of target companies at risk of having links to deforestation. EOS and FHL are supporting these efforts through collaborative engagements with over 27 focus companies (as at 30 October 2024).

We encourage companies to commit to deforestation-free and conversion-free production and sourcing by 2025. The commitment should cover all commodities, regions, and suppliers, including indirect suppliers. We encourage a commitment to achieving full traceability of commodities across all tiers of the supply chain, to demonstrate that the company's value chain is deforestation and conversion free. There should also be an explicit commitment to respect human rights.

Companies should focus on the implementation of this commitment by articulating a clear strategy for how their operations and supply chain will become deforestation and conversion-free. This includes setting clear expectations for suppliers and creating mechanisms to enforce them. Ongoing due diligence and monitoring of suppliers and operations will be critical for effective implementation. Equally, ongoing collaboration will be necessary to tackle this complex issue.

We provided informal feedback to the FSDA initiative and the Institutional Investors Group on Climate Change ("IIGCC") on deforestation investor expectations for commercial banks.[11] Banks can be exposed to deforestation risks through the financial services they provide to companies that produce and/or use products contributing to deforestation within their direct operations or value chains. Banks that fail to address deforestation are exposed to financial risk through various channels, including physical risk, transition risk and failure to align with net zero. Building on the FSDA's investor expectations of companies the deforestation expectations for commercial banks were published in September 2024.[12]

We had positive engagements with several companies following the letters on deforestation that we sent to the target companies as part of the FSDA group. This included Adidas (a German sportswear apparel company), Yum! Brands (a US restaurant chain), Bunge (a US agribusiness and food company) and Archer-Daniels Midland (a food processing and commodities trading company). For example, EOS met with the chief sustainability officer of Yum! Brands on multiple occasions as part of our direct engagement, and with the FSDA collaborative engagement, and asked the company to increase commodity traceability in its supply chain. The company underlined the challenge of tracing the soy in its cattle feed back to its origin. We shared some deforestation tools that the company could use to help improve traceability, which it agreed to consider.

EOS also engaged with Brazilian meat supplier JBS for a second time through the collaborative FSDA engagement to discuss enhancements to its deforestation due diligence process.[13] Although the company has a commitment to achieve 100% traceability of its supply chain by 2025, we raised our concern about a recent controversy related to the purchase of cattle by JBS from a rancher involved in deforestation. We challenged the company on the lessons

[11] EOS, "Public Engagement Report" (September 2023).
[12] IIGCC, "First-ever investor expectations on deforestation for commercial and investment banks published by FSDA and IIGCC" (September 2024).
[13] At time of reporting, JBS was not a holding of our funds.

learned and how it could prevent this from happening again. The head of sustainability said that the due diligence process that feeds into the purchasing system had been enhanced to include a reputational assessment of the supplier, its subsidiaries and related companies, the individuals that control them, and their family members. We asked the company to confirm if its data on supplier due diligence was independently verified.

We continue to engage with companies that are exposed to deforestation risks. Our vote policy also includes a deforestation dimension, which targets companies that are lagging on deforestation disclosure and risk management.

SDG Engagement High Yield Strategy

The team managing the SDG Engagement High Yield Credit strategy seek to deliver on colinear objectives: strong financial performance for investors, and future, positive social and environmental impact that contributes to achieving the United Nations' Sustainable Development Goals (SDGs).[14] We believe an investor's financial stake-holding allows, if not obliges, them to engage in constructive dialogue with companies.

In the four years the strategy has been running we have built strong relationships with companies all around the world, in sectors that are key to achieving the SDGs. Our approach to engagement is company-first, rather than topic-first, meaning that our priority is to build a trusted partnership with the companies in which we invest, and then to engage on multiple SDG-relevant topics simultaneously. We do not set out to engage on particular SDGs. Instead, we select the most relevant SDGs based on the company.

The primary SDG related to deforestation is SDG 15 Life on Land. In particular, SDG 15.2 aims to halt deforestation and restore degraded forests. However, it also has links to SDG 13 Climate Change and SDG 12 Responsible Consumption and Production. We have stepped up our engagement focus on deforestation, with companies in high-risk sectors already showing some promising signs.

Marks & Spencer

Over the last decade, we have engaged with retailer Marks & Spencer on several sustainability-related objectives and in 2023, this involved commitments and strategy on zero deforestation, conversion, and biodiversity loss. The company has established targets to eliminate deforestation from its palm oil and soy supply chains by 2026.

Our objective is for the company to achieve these targets by going beyond reliance on sustainable certification to direct visibility of these high-risk supply chains. We raised this during an engagement in Q2 2023 and learned that soy presents a larger challenge for the company than palm oil, where it already demonstrates strong leadership. As most of its meat is procured in the UK and Ireland, deforestation risks for these products are predominantly driven by internationally sourced soy used in animal feed.

The company provided further detail on its efforts across its leather supply chain (where soy is also prevalent in feed for cattle) in a follow-up letter, and said it was considering a commitment to a deforestation- and conversion-free leather supply chain by 2030.

For more information, please see the SDG Engagement High Yield Credit 2023 Annual Report.

Private markets

Real Estate

Our Deforestation Policy Statement within our Responsible Investment Policy sets out our commitment that, as timber is the most material 'forest-risk' agricultural commodity for our real estate portfolio, we mandate that all timber and wood products used for structural work and fittings in our new developments and major refurbishments must only come from legal and sustainable sources, which must be verified by certification. All timber used in such projects is required to be Forest Stewardship Council ("FSC") certified at a minimum, in line with the expectations set out in the UK Government's timber procurement policy ("TPP"). This is stipulated in architectural specifications, at which point contractors have the responsibility to use FSC-certified timber. Furthermore, all of our current major development schemes seek to achieve at least BREEAM Excellent rating, which requires the use of certified sustainably sourced timber in construction.[15]

We also committed to introduce guidelines for our property managers on how to reduce the risk of exposure to deforestation in 2024. We engaged with each of our property management companies about our deforestation commitment. Following our engagement, it was determined that the risk of exposure to deforestation through property management activities is not material as there is little exposure to forest-risk commodities, and therefore formal guidelines were not considered necessary. Instead, we included compliance with the deforestation policy in the updated Property Management Agreements in 2024.

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

[15] BREEAM is the Building Research Establishment (BRE) Environmental Assessment Method, first launched in the UK in 1990. It sets best practice standards for the environmental performance of buildings through design, specification, construction and operation.

Infrastructure

In 2023 the infrastructure team updated their portfolio company 'sustainability expectations guidance' document, which is shared with investee company management teams. This includes expectations around deforestation including awareness of exposure to or use of forest risk commodities (including in supply chains) and assessment of whether the sources of those commodities are sustainable. A stretch target has also been established encouraging companies to develop a strategy and associated actions to eliminate deforestation connected to forest risk commodities.

Each year the infrastructure team collates annual sustainability data for each portfolio company for the prior year. This includes a key performance indicator requesting portfolio companies to disclose 'non trivial exposure to deforestation' covering both the company's direct operations and its supply chains.

In 2023, two of the companies reported having potentially non-trivial exposure to deforestation. However, this was due to an understanding that they may be exposed due to the nature of their activities and not based on a detailed study of operations and supply chains.

Further engagement on the topic with these two portfolio companies is expected in the next year as well as ongoing monitoring across the broader portfolio.

Private Equity

In 2023, the private equity team integrated deforestation risk analysis into the investment process. New direct co-investments in sectors identified as high risk by Global Canopy[16] are subject to enhanced due diligence. The team assess whether companies in such sectors have exposure to the following high-risk forest commodities: cattle, beef and leather; palm oil; timber, pulp and paper; and soy. If the company has exposure to one or more of these commodities, more detailed due diligence and risk analysis is conducted to inform the environmental score assigned to the company. This environmental score impacts investment decision making, and in some cases may preclude investment due to the financial risks associated with investing in a company that is unlikely to be able to adapt to a net zero world

Since the introduction of the new process no investments have been made in companies in these sectors with known exposure to high-risk commodities.

Direct Lending

Our Direct Lending team have a series of steps in their investment process to mitigate exposure to deforestation. The first is an exclusion process. The team will not engage with or provide loans to companies that have 5% or above direct revenues (at borrower level) from any of the following business activities below:

- **Conservation restrictions:** removal of primary or high conservation value forests; deforestation of tropical rainforest; damage to UNESCO World Heritage Sites; damage to wetlands registered by the Ramsar Convention; damage to critical natural habitats.
- **Palm oil:** cultivation and production of palm oil that is not certified as sustainable.

For those potential investments not impacted by the list of exclusions, analysis of potential investments is undertaken to form a comprehensive view of existing and potential ESG risks. This includes a question on whether the company is exposed to deforestation in its operations, supply chain or financing and if so whether it has a commitment or policy in place to reduce or remove its contribution to deforestation.

Real Estate Debt

Our real estate debt team seek to include (subject to negotiations) an expectation in loan agreements that all timber and wood products used for structural work, fittings and major refurbishments should come from legal and sustainable sources, which should be verified by certification.

During 2024, there were no development or refurbishments loans made.

[16] Global Canopy, 'Eliminating Commodity-Driven Deforestation: Finance Sector Roadmap' (2022).

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Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, to contribute to positive outcomes that benefit the wider world.

Our investment and stewardship capabilities:

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

For more information, visit **www.hermes-investment.com** or connect with us on social media: