Stewardship Report 2024

April 2025

Federated Hermes Limited

www.hermes-investment.com
For professional investors only

On behalf of and in the interests of the investors it serves, the investment industry can be a powerful force in building resilient companies in resilient economies that create wealth responsibly – and at Federated Hermes Limited (FHL), we believe active stewardship is the best way to achieve this objective.[1]

[1] For purposes of this report, references to "Federated Hermes Limited", "FHL", "our", "we", "our firm" and, unless the context indicates otherwise, "firm" include Federated Hermes Limited and its consolidated subsidiaries, other than Hermes Equity Ownership Services Limited. Federated Hermes (UK) LLP is out of scope of this report. Hermes Equity Ownership Services Limited ("EOS at Federated Hermes" or "EOS") will report separately. The statements, references to officers, practices and policies, and discussions in this report pertain to Federated Hermes Limited, and not to other business engaged in by Federated Hermes, Inc. and its other consolidated subsidiaries. Certain statements in this report constitute forward-looking statements, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results, activities or levels of activity, performance or achievements of FHL to be materially different from any forecast results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

In 2024, the world experienced its warmest calendar year on record, with average global temperature exceeding 1.5°C above its pre-industrial level for the first time.[2] This milestone year also saw a series of extreme weather events, including record-breaking heatwaves, droughts, wildfires, and hurricanes in the US, and storms and flash flooding in Europe, Brazil, and Asia, causing billions of dollars in damage. These events underscored the urgent need to limit climate change to 1.5°C.

At the same time, Artificial Intelligence (AI) became a prominent business tool, offering significant productivity gains. However, it also increased energy consumption, posed threats to individual jobs, and introduced new business risks such as unintended bias.

With the ongoing conflicts between Russia and Ukraine, and in the Middle East, geopolitical instability continued in 2024. Despite some relief from inflationary pressures, the economic landscape remained challenging, with the continued stagnation in real wage growth doing little to alleviate the rising "cost of living" faced by many. These intertwined environmental and macroeconomic challenges have emphasised the critical importance of our advocacy and stewardship efforts throughout 2024.

Amidst these challenges, 2024 was a remarkable year for elections as voters in more than 60 countries went to the polls. The year concluded with a number of notable losses for incumbents around the world, which is likely to bring new approaches to tackling mega-trends such as climate change, the risks to nature and biodiversity, digitisation and AI, and new policy responses to ease the cost of living and reduce geopolitical conflict.

Consequently, in 2024 we maintained our efforts to engage companies and their boards to address these and other sustainability-related trends, ensuring alignment with their fiduciary responsibilities and those of our clients. We also worked closely with policy-makers and standard-setters to ensure associated risks and opportunities are well-regulated in line with international best practices.

The political transitions in key jurisdictions during 2024 marked a change in the regulatory landscape. Following a flurry of sustainability-related regulations in recent years, the new dynamics in the European Parliament helped to shift focus towards competitiveness and simplification of existing regulation in the EU. We expect this to dominate public policy discussions in 2025. In the UK, the new government has been taking stock of progress so far on sustainable finance and we can expect to see a number of consultations in the coming year to move proposals towards implementation. Governments and regulators in the UK and Europe in particular are increasingly recognising the need to actively support the transition to a more sustainable economy, which is likely to be reflected in upcoming regulatory proposals.

As a business dedicated since our 1983 inception to delivering responsible, enduring wealth creation that enriches investors, and, where possible, society and the environment over the long term, we will continue to invest, engage and act to support the change needed by the planet, its people and the generations to come consistent with client objectives and applicable requirements.

Saker Nusseibeh, CBE
CEO,
Federated Hermes Limited

Leon Kamhi
Head of Responsibility,
Federated Hermes Limited

[2] Copernicus, 'Copernicus: 2024 is the first year to exceed 1.5°C above pre-industrial level' (January 2025)
[3] Pew Research Centre, 'Global Elections in 2024: What We Learned in a Year of Political Disruption' (December 2024)

Executive summary

Stewardship: 'The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'. [UK Stewardship Code 2020]

We are pleased to present our Stewardship Report for the 2024 calendar year, showcasing our continued stewardship work across asset classes during 2024 and the outcomes of these activities. We have followed the structure of the UK Stewardship Code, reporting principle by principle to communicate our policies, processes, activities and outcomes to clients and wider stakeholders.

Under the interim requirements of the Code, the key changes made by the Financial Reporting Council (FRC) for existing signatories are:

1. Existing signatories are no longer required to update disclosures against "Context" reporting expectations, except where there are material changes to previous disclosures.
2. Existing signatories are no longer required to disclose against "Activity" and "Outcome" reporting expectations for Principles 1, 2, 5 and 6, except where there are material updates.
3. Existing signatories may cross-reference to specific disclosures made in their most recent Stewardship Report where there have been no material changes.

We have made use of these interim requirements in order to make our report more easily digestible for readers. Therefore, in relevant sections where there are no material changes and the FRC does not require us to update disclosures, we have provided a short summary and cross referenced our previous Stewardship Report for further information. Our previous Stewardship Report was assessed by the FRC in our successful application for continued signatory status in 2024.

As such, we begin once again by briefly summarising our purpose, our beliefs and our values that drive our strategy and business model. Our stewardship activities flow from this overarching structure, demonstrating how we contribute to building a global financial system that aims to deliver improved long-term returns for investors, as well as, where possible, better, more responsible outcomes for society.

All of the work we do as responsible stewards of capital is underpinned by our purpose, values and investment beliefs which we summarise under Principle 1. From our 1983 inception through to the present day, our purpose has been to deliver responsible, enduring wealth creation for investors over the long-term. We believe there are four mutually reinforcing strands of being a responsible investment manager and steward: ESG-integrated investments; active ownership and management; advocating in beneficiaries' interests; and behaving as a responsible business. Together, these aim to generate responsible, enduring wealth creation for the end beneficiary investors, encompassing investment returns and their social and environmental impact. This drives our governance structures – designed to put our clients and beneficiaries at the heart of everything we do – and our investment and engagement activities, through which we seek to provide strong risk-adjusted investment performance for clients and in doing so, where possible, achieve positive outcomes for society and the environment, consistent with client objectives and applicable requirements. It is our contention that long term investment returns and beneficial outcomes for society are often mutually reinforcing.

Whilst stewardship rightly addresses E, S and G issues, it should not be conflated with ESG. Carried out effectively stewardship is concerned holistically with all aspects of a company's strategy and performance including where material, E, S and G drivers of performance. Similarly, 'ESG integration' ensures that material E, S and G factors are integrated into investment decision-making alongside traditional performance factors.

We continuously strive to reflect on our efficiency and the outcomes we are delivering in order to identify further ways in which we can enhance our approach. Throughout the report we reflect on enhancements made to our approach during 2024, as well as areas identified for further improvement in 2025.

In collating this report, we have taken steps to ensure it is fair, balanced and understandable. We have provided information across asset classes, with the representation reflecting the makeup of our assets under management ("AUM"). In doing so, we have communicated our successes, reflected on our learnings and highlighted the changes we will make in the next 12 months. We also provided examples and case studies throughout the report to demonstrate how our investment approach works in practice. Each section of the report has been reviewed by the relevant business areas, as well as by our Sustainability Regulations and Stewardship Oversight Committee (SRSOC). The report has been approved by our Board.

This report also fulfils the entity-level reporting requirements for Federated Hermes Limited – which includes its subsidiaries Hermes Investment Management Limited, Hermes GPE LLP, Hermes Fund Managers Ireland Limited and Hermes Alternative Investment Management Limited (together "FHL Entities" and each an "FHL Entity") – under Annex C of the EU Shareholder Rights Directive and as required by the FCA Conduct of Business Sourcebook 2.2B.

Those investment portfolios managed by Hermes Fund Managers Ireland Limited (other than those of Federated Hermes Investment Funds plc) where discretionary investment management has been delegated to Federated Investment Counseling and/or Federated Global Investment Management Corp. are not in scope of this report.

EOS at Federated Hermes will report separately under the Stewardship Code as a service provider.

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Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns and, consistent with client objectives and applicable requirements, to strive to contribute to positive outcomes in the wider world.

Who we are

From when our first CEO openly challenged a major UK company to improve its governance to when our current CEO Saker Nusseibeh was awarded a CBE for services to responsible business, Federated Hermes Limited ("FHL") has always been at the forefront of responsible investing. We are guided by the conviction that responsible investing is the best way to create long-term wealth for investors.

For more information on who we are please see pages 6-7 of our 2023 Stewardship Report.

Since our beginnings, we have sought to help clients achieve strong risk-adjusted returns through our specialised equity, fixed-income and private market strategies and, more recently, our multi-asset and proven liquidity-management solutions. Through these strategies and solutions, we continue to aim to help individuals to save and retire better over the long-term.

Our values

We believe that responsible investment and active ownership is the best way to sustain long-term outperformance, and contribute to beneficial outcomes for investors and companies, as well as, where possible, society and the environment. For more information on our values, including details on the FHL Pledge, please see pages 7-8 of our 2023 Stewardship Report.

Figure 1. FHL's investment capabilities

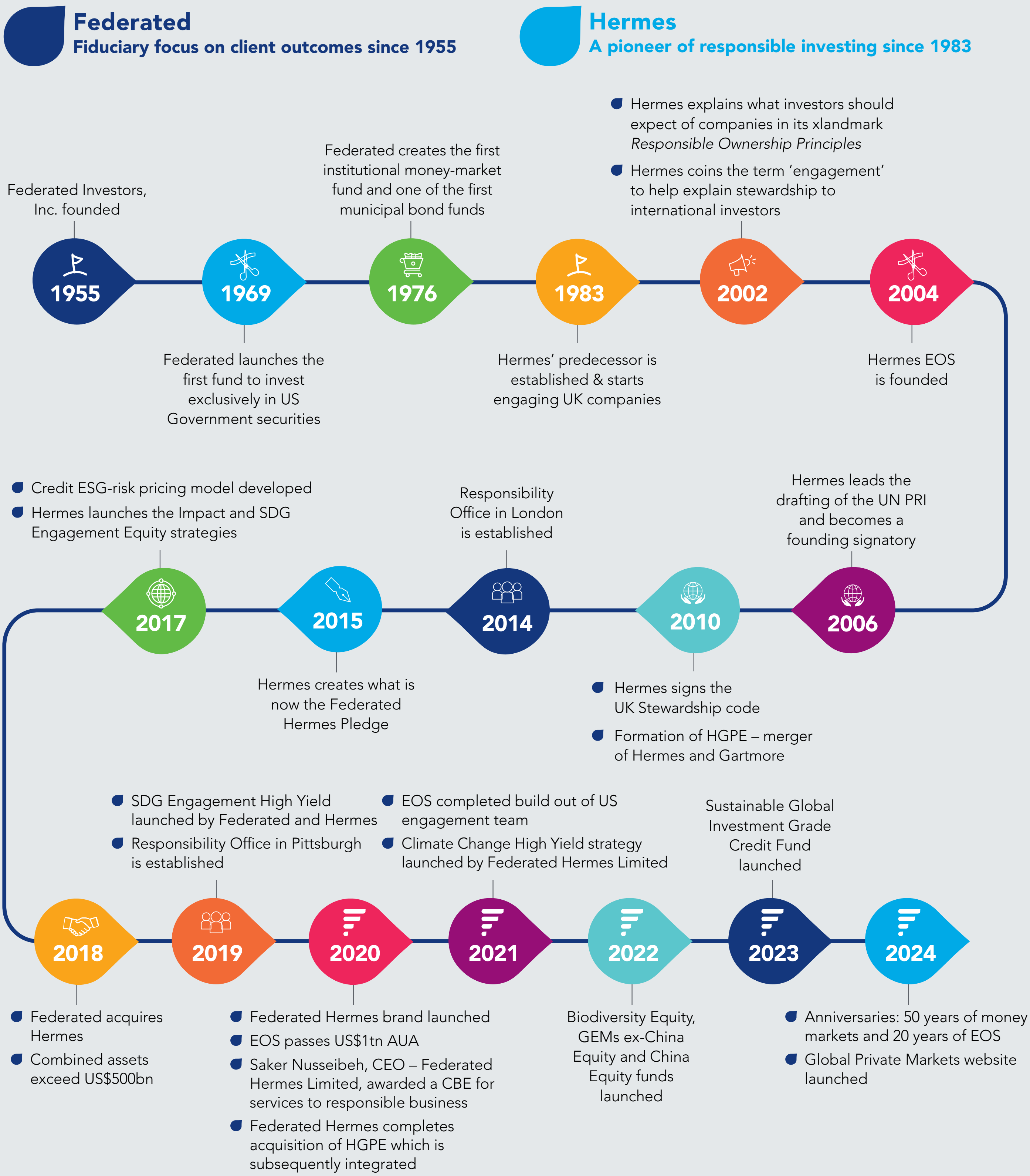
	1 LISTED EQUITIES	2 SPECIALIST FIXED INCOME	3 PRIVATE MARKETS	4 THEMATIC
Strategies	Global Equities (including Global Equity ESG, Global Equity Low Carbon) Global Emerging Markets Asia ex Japan SMID Impact Opportunities SDG Engagement Equity Biodiversity	Global High Yield Absolute Return Credit Direct Lending Real Estate Debt Unconstrained Credit EM Debt SDG Engagement High Yield Climate Change High Yield	Real Estate Infrastructure Private Equity Private Credit	Socially Responsible Investment ESG Driven Investing (e.g., Global Equity ESG, Global Equity Low Carbon) Impact Investing (e.g., Impact Opportunities, Biodiversity) Impact through Engagement (e.g., SDG Engagement High Yield, SDG Engagement Equity)
AUM*	US$19.6bn £15.7bn / €19.0bn	US$5.0bn £4.0bn / €4.9bn	US$14.5bn £11.5bn / €14.0bn	US$8.6bn £6.9bn / €8.3bn Thematic AUM is also included under equities, credit and private markets
Approach to ESG Factors	Investment process integrates ESG leveraging quantitative ESG analysis and EOS engagement		Responsible and sustainable investment approach across all private markets capabilities	Tailored, specialist strategies designed to meet specific SRI, ESG and Impact-related objectives

5 Stewardship			
	Investment insights generated by EOS through its range of active ownership services:		
	Stewardship and stakeholder engagement services	Public policy advocacy	Hybrid investment and stewardship mandates
	US$2.1tn £1.7tn / €2.0tn		

Key: Investment strategy: Strategies that contribute to Thematic investing

AUM does not include assets under sub advice of Federated Investment Counseling and/or Federated Global Investment Management Corp.
Source: FHL, as at 31 December 2024.

Figure 2. Our history as a leading responsible investor has been decades in the making



Source: FHL, as at 30 April 2025.

Our investment beliefs

We believe the purpose of investment is to create enduring wealth for investors responsibly.

We view responsibility through three lenses. Acting as a:

- **Responsible Investor** – how we integrate engagement insights and material ESG considerations including the delivery of sustainable outcomes into our investment decisions.
- **Responsible Owner** – our stewardship activities: engagement, voting, public policy and screening..
- **Responsible Firm** – ensuring we lead by example, be that our commitment to net zero, our approach to diversity and inclusion amongst colleagues and other stakeholders and our charity initiatives and programmes supporting the local community.

We firmly believe that our ability to mitigate ESG risks and capture the investment opportunities arising from these considerations is essential to achieving consistent investment outperformance for our clients.

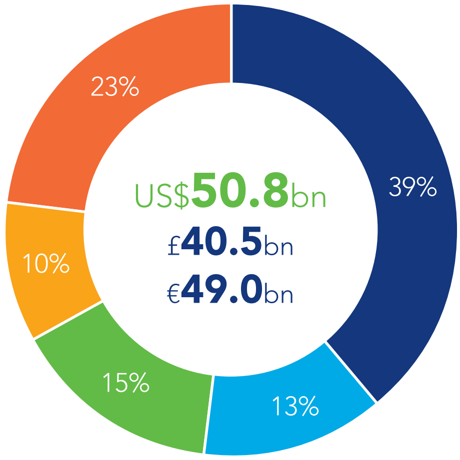
For more information on our investment beliefs, please see pages 9-10 of our 2023 Stewardship Report.

Our business model and strategy

FHL is committed to delivering superior risk-adjusted investment returns for our clients. In addition to our financial targets, we understand that the way we achieve our investment objectives will have wider societal impacts. As such, we seek to provide both a better financial future for our ultimate stakeholders and, where possible, a more sustainable society. The pursuit of responsible, enduring wealth creation drives the execution of all of our strategies consistent with client objectives and applicable requirements.

As at 31 December 2024, our specialist, high-conviction investment teams manage £40.5bn / €49.0bn / $50.8bn of assets across equities, fixed income, private debt, real estate, infrastructure and private equity.

Figure 3. A diversified platform



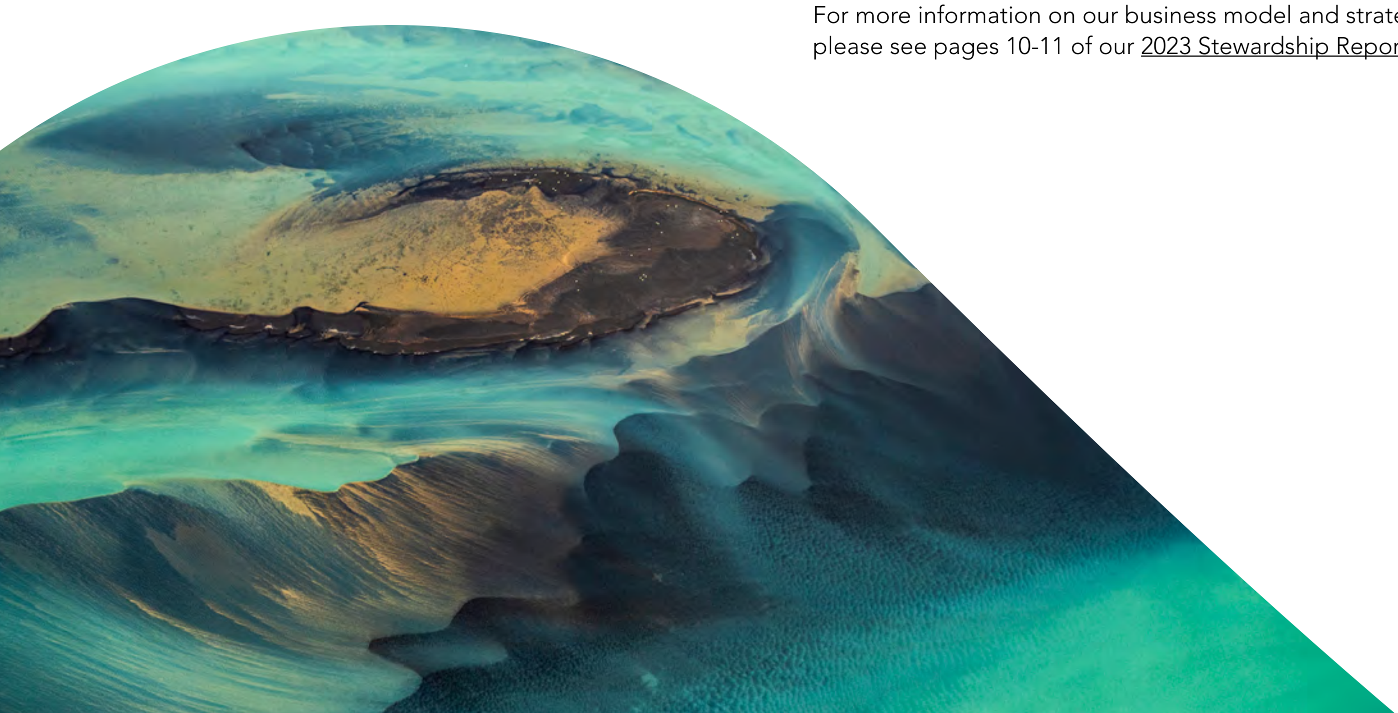
Total AUM (Millions)	USD	GBP	EUR
Equity	**19.625**	15,670	18,952
Real Estate	**6,930**	5,534	6,693
HGPE	**7,522**	6,006	7,264
Fixed Income	**5,035**	4,020	4,862
Liquidity	**11,640**	9,294	11,241

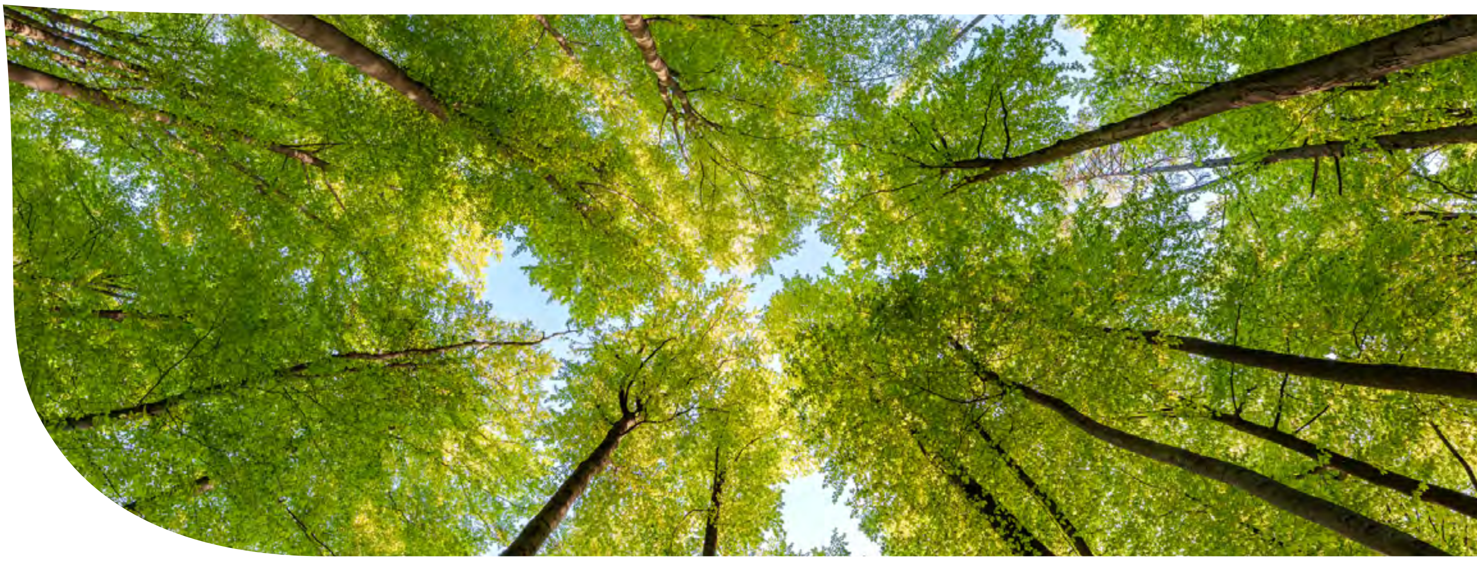
'Liquidity' in the chart above includes our money market funds.
Source: FHL, as at 31 December 2024.

Through EOS we engage 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.

As at 31 December 2024, the team works on behalf of long-term global investors who entrust us with the stewardship of approximately £1.7tn / €2.0tn / $2.1tn invested in over 10,000 companies worldwide, working collectively in support of shared goals.

For more information on our business model and strategy, please see pages 10-11 of our 2023 Stewardship Report.





Strategy

Our strategy is driven by a focus on delivering enduring wealth creation, responsibly for our clients and their investors. That means we aim to provide strong risk-adjusted investment performance for clients and, where possible, achieve positive outcomes for society and the environment.

For more information on our strategy, please see pages 11-12 of our 2023 Stewardship Report.

> **At a time of great change, both technological and geopolitical, it is important for our stewardship team to engage with companies to help them navigate the best pathway to create enduring wealth, responsibly.**

Since publishing our previous Stewardship Report, we have further developed our strategy focus for 2025. At a time of great change, both technological and geopolitical, it is important for our stewardship team to engage with companies to help them navigate the best pathway to create enduring wealth, responsibly. This is particularly important in the face of concerns about the integration of sustainability-related issues into corporate and investment strategies. Having long pioneered a responsible investment and ownership approach, we have demonstrated the value of engaging with companies on their strategy, including material sustainability-related topics, to release value for shareholders and stakeholders alike and create wealth responsibly over the long term.

How we have ensured a culture of effective stewardship

Our investment beliefs, strategy and culture ensure that stewardship is naturally at the heart of FHL. We believe that creating long term wealth responsibly through active investment and ownership delivers the best outcomes for our clients. Throughout this report, we highlight some of the actions we have taken to ensure our investment beliefs, strategy and culture enable effective stewardship, including: maintaining strong governance; assessing investment integration; integrating stewardship insights into our investment processes; embedding stewardship throughout the investment product lifecycle; being transparent around our activities; utilising external support; maintaining a long term focus; and taking a collaborative approach.

For more information on how we have ensured a culture of effective stewardship, please see pages 12-13 of our 2023 Stewardship Report.

What this means for our approach to investment and stewardship

The recognition that investors' interests lie in enduring wealth creation, responsibly over the long term cascades a series of decisions and actions that turns an investor into a responsible owner or steward of capital. We believe responsible, active ownership helps create businesses that are much more resilient to exogenous shocks. These firms are more likely to survive over the long term, and in and by doing so create better outcomes for our investors and society. Indeed, we believe this is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment.

> **We believe responsible, active ownership helps create businesses that are much more resilient to exogenous shocks.**

For more information on what this means for our approach to investment and stewardship, please see page 14 of our 2023 Stewardship Report.

Please see below an updated case study to demonstrate active ownership in our real estate portfolio.

REAL ESTATE CASE STUDY

Creating opportunity for all at the Centre:MK

The Centre:MK is a pioneering example of how retail can be a forum for social, cultural and creative exchange. Over the past year, the centre – a public-private partnership between Milton Keynes City Council and FHL on behalf of BT Pension Scheme and AustralianSuper – delivered an array of world-class arts projects, community-based initiatives and fundraising activations supporting the city and beyond. The centre also showcased 'The Place Between', an immersive installation as part of Milton Keynes International Festival. Immersive soundscapes were created capturing biodata from the plants, which visitors could listen to via headphones as they walked through the installation.

> **The Place Between gives me an incredible opportunity to connect with the people and nature of Milton Keynes, working with different communities and organisations to find out more about their relationships with their environment and what nature means to them."**
>
> **– Jason Singh, participant in The Place Between.**

Additionally, 'Breakout' is an Action4Youth initiative, funded by the Centre:MK, for young people facing exclusion from school, or those who have already been identified as engaging in crime or anti-social behaviour.

The centre also hosted Milton Keynes' Smart City Robotics Competition in 2023, demonstrating the latest in technology and AI and showcasing a variety of robots designed to take on challenges that support everyday life. 2024 saw the launch of the Smart City Experience Centre; a store containing a number of robots and applications of AI, that aims to break down the barriers and accelerate the early adoption of digital technology. The initiative is also seeking to position Milton Keynes as the UK's centre for new technology testing and refinement in the real-world environment.[4]

The Green Roof Project

Across Milton Keynes there is a vast expanse of flat roofing, with Centre:MK boasting 1 million sq. ft of flat roofing alone. The aim for the Green Roof Project is to cover the entire area with either solar panels, green roof, or olivine mineral roof coating; all of which capture carbon.

Key project achievements in 2024 include:

- Coating the Centre:MK roof areas with olivine, which has absorbed 50,000 kg CO2 to date
- Addition of 2,000 sq. ft of green roof
- Establishment of rainwater harvesting
- Sponsored children's book: "Journey To The Green Roof"
- Installation of two bee hives, and ongoing bee awareness and bee keeper training delivered to all Centre:MK staff

As a result of the achievements above, the Centre:MK team won a Gold Green Apple Award in 2024 for their Green Roof Project.

[4] centre:mk, 'Smart City Experience Centre has Launched at centre:mk'

How effectively have we served clients and beneficiaries?

Throughout this report we seek to demonstrate the outcomes of our responsible investment and responsible ownership, which we believe are in our clients' and their beneficiaries' best interests. This includes financial performance, stewardship outcomes and advocacy successes. We believe our investment approach helps us deliver enduring wealth creation, responsibly by building a better world for our clients and future generations.

External evaluation: There are several external bodies that have validated our achievements and bolstered the credibility of our claim that we are serving the best interests of our clients.

We are founding members of the UN-supported Principles of Responsible Investment (PRI).

As FHL had already met the minimum requirement for reporting in 2023 and previous years, we did not complete the PRI reporting in 2024. In 2023, FHL received 5 stars in the Policy Governance and Strategy, Fixed Income Corporate, Fixed Income Securitised, Fixed Income Private Debt, Real Estate and Infrastructure modules. We scored 4 stars on the Listed Equity - Active Quantitative, Listed Equity - Active Fundamental, Fixed Income SSA, Private Equity and Confidence Building Measures modules. Since our latest results, we have completed steps which has advanced our reporting, including onboarding a third-party provider which has enhanced our climate scenario analysis capabilities.

Client input: For more information on how we have sought and incorporated our clients' views, please see pages 53-54 of our 2023 Stewardship Report.

Continuous review of client outcomes: We have a number of governance structures in place (described under Principle 2) to ensure fairness to clients and beneficiaries.

Since publishing our previous Stewardship Report, and as will be described in Principle 2, our Product Oversight Committee (POC) now supports product governance by providing a forum through which products (including funds and segregated mandates) are reviewed and assessed through a client-centric lens. The POC replaces our Customer Outcomes Group (COG). For more information on the POC, please see the description in our stewardship oversight functions section under Principle 2.

Plans for the future: We always strive to improve the outcomes we deliver for clients. We recognise this process is never complete, and that continuous improvement and innovation is required if we are to remain market leaders.

Looking ahead, we will continue to improve how we holistically assess companies on their risks and opportunities, as we recognise that environmental and social risks are not mutually exclusive. Our priority remains focused on advancing beyond climate and assessing nature-related impacts and dependencies in conjunction with social risks. For instance, as we deepen our analysis on our deforestation exposure, we will also look at the interplaying human rights risks such as indigenous rights.

We also plan to continue to develop our client reporting and to continue to advance our diversity and inclusion efforts across the firm.

We won a range of awards based on our activities during 2024 in recognition of our leadership in responsible investment, including:

- Best Newcomer Sustainable Equity Fund for our Sustainable Global Equity team at the Investment Week Sustainable Investment Awards.
- Sustainable Active Equity Manager of the Year for the Global Equities team at the Professional Pensions Investment Awards.
- International Corporate Governance Network's Excellence in Stewardship Award for our stewardship team, EOS, for their pioneering economy wide engagement with companies on reducing methane emissions.
- ESG New Build Project of theYear (Large Category) for our Real Estate and MEPC[5] teams at the Property Week ESG Edge Awards for their work at Wellington place in Leeds.

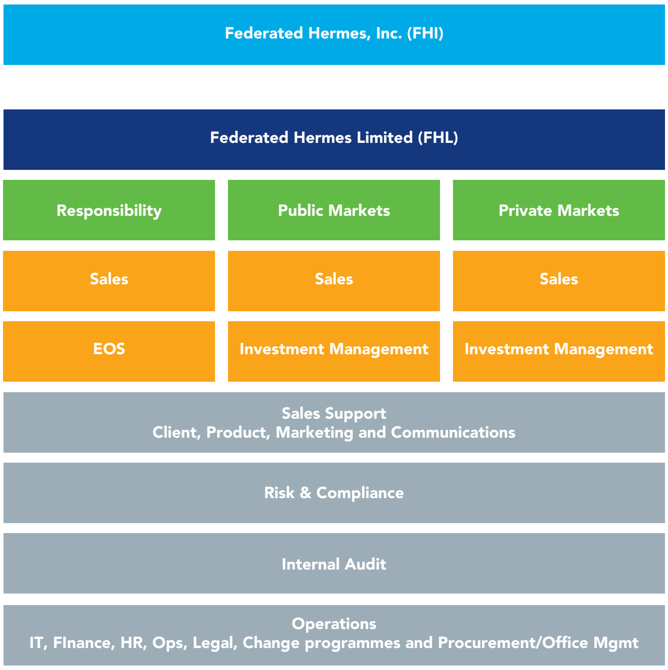
[5] Our Birmingham-based development and asset management arm.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Our governance structures

Figure 4. FHL's three-platform structure



Source: FHL, as at 31 December 2024.

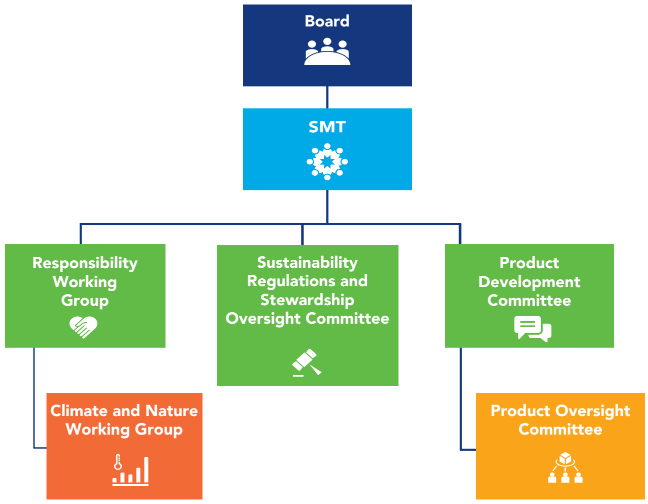
All of our staff are responsible for implementing our stewardship approach, although there are several functions within the business that play a particularly significant role. For more information about the roles and responsibilities of the Responsibility Office, the portfolio managers and investment analysts, EOS at Federated Hermes Limited, and internal audit teams, please see pages 16-17 of our 2023 Stewardship Report.

Since publishing our previous Stewardship Report, the roles of our Risk and Compliance teams have evolved as follows:

Risk.
The investment risk oversight previously performed by the Investment Office has moved to the Risk team. The Risk team provides independent oversight and challenge to our approach to corporate sustainability and responsible business management – and provides regular reports to the Risk, Compliance and Financial Crime Committee. The team also works closely with both the Compliance team and Responsibility Office to oversee work to ensure that our business continues to authentically and accurately, report on our ESG objectives and activities. Throughout 2024, the Risk team continued to integrate ESG risks within the existing risk management framework, including within the risk taxonomy, risk policies and in setting the risk appetite.

Compliance.
Alongside the Risk team, the Compliance team is part of our second line of defence, including in relation to regulatory risk. Within the Compliance team, the compliance advisory function performs regulatory and best-practice horizon scanning using regulatory tracking tools as well as gathering insights through involvement in industry initiatives. Following identification of new or updated regulation, the compliance advisory function communicates this information to the relevant parts of the business and co-ordinates appropriate implementation. The compliance monitoring function assesses ongoing compliance with regulations following implementation.

Figure 5. The internal structure of key stewardship oversight functions of FHL[9]



Source: FHL, as at 31 December 2024.

We have extensive oversight of our responsible investment and stewardship processes, activities and outcomes across our firm – something that is indicative of their importance to our business and how they form a core part of our approach. Accountability for delivering effective stewardship across asset classes is integrated at every level of our governance.

For more information on the governance structures, in particular the FHL Board, the Senior Management Team (SMT), Responsibility Working Group (RWG), Climate & Nature Working Group (CNWG), Responsible Property Management oversight, and Sustainability Investment Centre, please see pages 18-20 of our 2023 Stewardship Report.

Since publishing our previous Stewardship Report, we have established a number of new governance bodies and redefined some existing bodies. These changes are as follows:

Governance Oversight Committee (GOC).
The GOC is the formal oversight committee appointed by FHL to oversee key business matters, and report, as appropriate, on material matters. The members of the GOC include FHL's General Counsel (chair), Head of Executive Business Management, Chief Regulatory Officer, Chief Compliance Officer, Head of Risk, Head of Office – Ireland, Managing Director – Private Markets, and Head of Product. The GOC receives an annual update on the activities of the SRSOC (see below), whose role includes ensuring material climate-related matters are escalated. The SRSOC is also able to report any urgent matters of escalation to the GOC at its monthly meeting or via email.

Sustainability Regulations and Stewardship Oversight Committee (SRSOC).
Replacing the Governance Committee, the SRSOC is an oversight committee responsible for overseeing the formulation and delivery of our engagement, voting and climate policy. The committee was established by, and is accountable and reports to, the GOC (see above). The members of the SRSOC include the Head of Responsibility (chair), Senior Public and Private Markets Investment Representatives, and representatives from each of our Risk, Compliance and Legal teams.

Product Development Committee (PDC).
Replacing the Business Development Forum, the PDC meets monthly and is responsible for considering proposals for new products and modifications to or closure of existing products. In assessing proposals, its members consider how desirable and suitable a product is from a commercial, customer and portfolio-management perspective. This includes consideration of how responsible investment techniques and active ownership are included within any new product. The committee is also responsible for assessing proposals in relation to the fees and pricing of products.

Product Oversight Committee (POC).
Replacing the Customer Outcomes Group, the POC meets quarterly and supports product governance through reviewing and assessing existing products to ensure they continue to deliver good customer outcomes on an ongoing basis and have continued commercial viability. Each product is viewed holistically, with data collated across the business. Information collated for the quarterly reviews includes performance figures, client demand and peer-group comparison analysis. Good product governance is aligned with our focus on responsible investment management, and we aim to put the customer at the heart of product design and management. The POC makes use of a customer-centric view when reviewing investment products and considering our obligations to investors (both directly and indirectly via distributors). Customer feedback may be obtained by a third-party market research agency or directly through the sales and client teams, and this feedback will be considered as part of the review. The group operates a dashboard approach to reviewing products at each meeting with detailed information provided to allow topics on individual funds to be explored in greater detail, this includes looking at how the fund integrates ESG-related considerations and its engagement progress. Any products or strategies that have not met marketed performance targets, do not continue to meet a customer need, or have failed to attract assets will be flagged with the POC for consideration. One-off or ad-hoc reviews may also be conducted in response to market events to ensure the product range remains appropriate within the context of our broader investment and corporate strategy.

Real Estate ESG Oversight.
The real estate team have steering groups for Climate Resilience and Social Impact with relevant representatives from the business to ensure the decision-making process is inclusive and transparent.

Infrastructure Oversight.
The identification, consideration and mitigation of sustainability matters at an operational level within Infrastructure are the responsibility of the Co-heads of Infrastructure and the Infrastructure investment Committee (IIC). Any material sustainability matters are escalated to the HGPE Governing Body which is ultimately accountable for overseeing the governance and operational performance of Infrastructure and Private Equity in the Private Markets platform.

Private Equity Oversight.
In the private equity team, the Private Equity Investment Committee (IC) is responsible for all investment risks. The IC is supported by a dedicated Sustainability Function within the private equity Portfolio Management Team as well as the Portfolio Review Group (PRG), a feedback forum covering client outcome delivery, focused on advising the IC and the SMT. These Committees and the HGPE Governing Body are ultimately accountable for all sustainability matters related to private equity.

Accountability for delivering effective responsible investment and ownership outcomes for all clients resides with the investment management/fund advisory companies within the FHL group. While the investment management/fund advisory companies of FHL and our parent company, FHI, are also clients of EOS, we have clear policies in place to identify, manage and mitigate potential conflicts of interest as described under Principle 3.

Details of the specific governance we have around managing climate-related risks and opportunities are available in our Climate- and Nature-related Financial Disclosures report.

As well as formal governance structures, we have a structured approach to ensuring that we carry out effective engagement and integrate stewardship into our investment processes. This is evidenced in our reporting against Principles 7 to 12, particularly through our ESG and engagement integration approach, engagement selection process and milestone engagement tracking system.

Resourcing stewardship

All analysts and portfolio managers are responsible for ESG and engagement integration, and a meaningful amount of engagement takes place across all our funds, with the exception of sovereign debt funds as we do not currently engage systematically with sovereigns but may engage on an ad-hoc basis. The Responsibility Office plays an oversight and support role in ensuring the investment teams have access to the right resources to efficiently integrate ESG and engagement (in conjunction with EOS for public markets).

While the above is the standard process across all of our strategies, we do have specific strategies which engage with all investee companies and where successful engagement is explicitly part of the ex-ante investment proposition. Given these strategies' additional focus on engagement, we have dedicated engagers who focus solely on these strategies and work closely with EOS to ensure a consistent approach. More information on these strategies is available under Principles 7 and 9.

We use a number of third-party data providers which support our efforts to integrate ESG and also inform our stewardship activities. More details on our use of service providers are available under Principle 8.

More information on resourcing stewardship can be found on page 20 of our 2023 Stewardship Report.

Training

Our investment teams and engagers attend regular education presentations and roundtables provided by EOS engagers, portfolio managers and external experts on ESG risks and opportunities in the context of sectors, themes or country. They are also provided with training on our proprietary ESG integration tools such as the carbon and the environmental tool.

Training sessions provided during 2024 included:

- A number of deep-dive sessions to support the investment teams in their integration of ESG factors, including on biodiversity and human rights. The Sustainability Investment Centre is an internal forum open to colleagues from across the firm that meets on a monthly basis to discuss various topics related to sustainability. Recent examples include deep dive sessions on the impact of the climate transition on the utilities, autos and aviation sectors; a presentation from the fixed income team on their ESG processes; and a debrief of the COP16 Biodiversity summit. These are discussed with participants across the investment teams, business development and EOS.
- Tutorials continued to be run by the Responsible Investing Office (RIO), an FHI team, for EOS engagers to help build understanding of how investors analyse a company's financial statements.
- Dedicated thematic webinars are run for the investment teams by our EOS engagers. Topics in 2024 included digital rights, human capital management, and fast fashion and the circular economy. EOS engagers also performed a large number of internal thematic training sessions for other members of EOS and the Responsibility Office over 2024.
- A number of training sessions held by third-party data providers on their products and methodology. The providers included MSCI, Planetrics, netpurpose, and GIST.
- The Real Estate ESG team held training sessions on a range of different topics, which were open to all private market employees. The sessions were delivered by the in-house team or expert consultants.

The most effective training in responsible investment and ownership in our view is 'on the job'. Portfolio managers and engagers regularly get together to discuss particular investments and often meet companies together. This benefits the engagement service as it can make the engagement more relevant and material. At the same time, the portfolio manager benefits by getting a deeper understanding of relevant engagement (including, but not only, ESG) issues to consider in a company's risk assessment and value opportunities. For more information on training in responsible investment please see pages 20-21 of our 2023 Stewardship Report.

Stewardship resources – public markets

We have a large dedicated stewardship resource, in the form of our public markets engagement team, EOS. EOS has intentionally built a diverse, international team of experienced voting and engagement professionals who have the expertise, language skills and cultural knowledge to deliver real beneficial change within companies.

As at 31 December 2024, our engagers come from a range of backgrounds including – but are not limited to – banking, law, sciences, academia, climate change, corporate governance, corporate strategy, NGOs and human rights.

EOS also has strong gender balance (56% female / 44% male for permanent staff as at 31 December 2024) and engagers are fluent in 17 languages.

More information on our public markets stewardship resources can be found on page 21 of our 2023 Stewardship Report.

Stewardship resources – private markets

The real estate business follows an integrated approach in stewardship using tools and procedures that allow investment and fund managers to supervise and effectively manage Federated Hermes' real estate portfolio. For more information on our real estate team stewardship resources, please see page 22 of our 2023 Stewardship Report. Since publishing our previous Stewardship Report, there has been an update to the team by way of new oversight by the Chief Operating Officer of Private Markets over the real estate ESG team.

Our infrastructure team takes a fully integrated approach to sustainability and stewardship, with each member of our team having a duty to ensure a responsible approach is applied to all activities. The team are supported by central sustainability resource in our Investor Relations function which provides the strategic framework and expertise to support engagement and investment analysis. Infrastructure also leverage the extensive internal expertise of FHL.

Our private equity team includes one sustainability specialist who supports the investment team, which is responsible for assessing ESG risks and opportunities, and ensuring proper process is followed. For more information on our private equity team stewardship resource please see page 22 of our 2023 Stewardship Report.

For more information on our private debt team stewardship resource please see page 22 of our 2023 Stewardship Report.

Diversity and inclusion

As outlined above, all our employees are in some way responsible for implementing our stewardship approach. Our merit-based firm-wide diversity and inclusion ("D&I") approach is therefore of relevance to the diversity of those involved in our stewardship activities. We have a long-standing commitment to increasing diversity and inclusion in our business and acknowledge that we need to make further progress. We aim to foster and promote a culture of inclusion which celebrates all forms of diversity. We aim to appeal to, and retain, a diverse workforce. We encourage innovation and creativity, with a view to helping our employees maximise their potential.

In 2024, the SMT continued to focus on the D&I Strategy's six core objectives (see below), led by the D&I Office with the support of the seven Community for All employee resource groups. We maintained our mission to foster and promote a culture of inclusion which celebrates all forms of diversity. We aim to appeal to, and retain, a diverse workforce. Our D&I Strategy's six core objectives are:

- **Employee Engagement Project**
- **Mental Wellness Project**
- **Baseline Demographic Project**

- **External Charters Project**
- **Disability Project**
- **Menopause Project Team**

In support of promoting an inclusive environment we launched several initiatives, in addition to other previously established programmes and initiatives. In 2024, these included:

- Running several workshops and masterclasses on topics such as Managing Burnout; Thriving with Neurodiversity; Managing your Gut; Financial Wellbeing; Female Empowerment; and a Making Your Pension Work For You workshop facilitated by our pension provider Aviva.
- Organising an 'Our Story' event where three colleagues shared their personal family experience of Alzheimer's. This was in recognition of National Carers Week and in conjunction with our charity of the year Alzheimer's Research UK.
- Celebrating several international and cultural events throughout the year, including a panel event for International Women's Week.
- Holding Mental Health First Aider (MHFA) training and MHFA refresher training.
- Launching the Fertility and Miscarriage toolkit.

We have continued to collaborate with specialist organisations – including Beyond Education, 10,000 Black Interns, GAIN, and Change 100 – to provide internship opportunities for individuals from underrepresented communities. In the summer of 2024, we launched our intern programme for university undergraduates to gain work experience and exposure of the industry, with a long-term view of building up an early career talent pipeline. Ten colleagues participated as mentors in Envision, an external mentoring program of structured activity for students aged 16-18 who are often under-represented in the world of work to develop the essential skills and confidence they need to succeed.

Throughout our organisation, leaders see the value of D&I as a driver for growth and innovation. As a result, leaders promote an inclusive and performance-led culture that supports the FHL vision statement and mirrors the FHL Pledge and the Behaviour Framework. Leaders act as the champions of change within the organisation and actively sponsor the firm's D&I-related commitments.

We are committed to having the best talent. This means attracting, developing, and retaining individuals from all backgrounds. Initiatives conducted in 2024 include: the launch of our Women in Leadership series; continued rollout of inclusive recruitment training for managers; running monthly Introduction to Culture workshops for all new employees; providing secondment opportunities; promoting internal and external mentoring schemes; and continuing to run the management development programme.

We continue to commit to voluntary UK charters and pledges including the Women in Finance Charter (WIFC); BITC Race Charter; Change the Race Ratio; Menopause Workplace Pledge and Accreditation; and being a Disability Confident Level 2 employer. In 2024, FHL achieved the Menopause Friendly Accreditation.

We remain fully committed to supporting the Women in Finance Charter and its objective of attaining gender balance across all levels of financial services.

We have seen increases in the proportion of women at firm-wide and senior management level (by 2% respectively in 2024). In 2024, we also maintained our 40% Board level representation achieved in 2023.

Looking forward, we are working to the following updated goals by 30 June 2030:

- Increase our senior management female representation to within a 40-50% range
- Increase or maintain our board female representation within a 40-50% range
- Increase or maintain our overall firm-wide female representation within a 40-50% range

We feel that these new goals better align with the market and societal conditions in which we operate and the flows of talent into and across our industry. We continue to work with our external partnerships to address these shared challenges and opportunities.

Performance management

Through our performance management process and behaviour framework, which explicitly sets out the visible manifestations of our Federated Hermes Pledge, we look to ensure that our cultural aspirations to be a responsible investor and owner are reinforced. For more information on our performance management process and behaviour framework, please see page 24 of our 2023 Stewardship Report.

Reflecting on our governance structures

The efficiency of our governance structure is reflected in the outcomes we deliver for clients, which are evidenced throughout this report.

Assurance and oversight: Oversight of effective stewardship is integrated into all levels of our governance, and the structures and processes detailed earlier help us reflect on improvements to support effective stewardship. For more information on our external assurances and complementary internal oversight structures please see pages 24-25 of our 2023 Stewardship Report.

Figure 6. Employed women across FHL

Population	2024	2023	2022	2021	2020	2019	2018
Firm-wide	45%	43%	42%	41%	44%	42%	40%

Population	2024	2023	2022	2021	2020	2019	2018
Board	40%	40%	33%	31%	31%	31%	31%
Senior Management (ED+DIR)	34%	32%	33%	29%	33%	31%	28%

Source: FHL, as at 31 December 2024.

There are two updates in relation to our disclosures on our external assurance and complementary internal oversight:

- Our external assurance providers now assess us on a 2-year basis. As such, we still refer to their latest limited assurance engagement on the information disclosed as part of the sustainability reporting of FHL in the period from June 2022 to July 2023 (inclusive). The results of our third assurance engagement, which included assessment of the systems and controls for our stewardship and ESG integration implementation, can be found on pages 50-51 of our 2023 Stewardship Report. As described earlier in this Principle, the SRSOC has superseded the Governance Committee and taken over its responsibilities. As such, the SRSOC provided the oversight of the formulation and delivery of engagement and voting approaches throughout the year, and reviewed progress against commitments every six months during 2024.

System improvements: Following the redevelopment of the Engagement Management System in 2022, we made a number of data-focussed enhancements during 2024 to continually improve the quality of our engagement data. One example is a system change to make the linking of engagement activity to the Sustainable Development Goals (SDGs) more systematic.

We also continued to work on advancing how we process ESG data to improve the data governance, including quality control. This has involved setting up a new team to manage data quality, as well as dedicated resources within our technology team to process the data.

Continuous improvements: EOS' Engagement Plan is reviewed every year to ensure it is up to date and reflects its clients' priorities. Geopolitical instability persisted throughout 2024, with ongoing conflicts between Russia and Ukraine as well as in the Middle East. Although inflation concerns have eased, the stagnation in real wage growth continues to exacerbate the sense of a high 'cost of living'. This series of environmental and macroeconomic challenges reinforced the focus of our advocacy and stewardship activities in 2024. 2024 also saw half the world's population going to the polls, leading to administrative changes in the US, UK and India. This is likely to herald new approaches to tackling mega-trends such as climate change, the risks to nature and biodiversity, digitisation and AI, and new policy responses to ease the cost of living and reduce geopolitical conflict. As a result, we continued to engage companies and their boards to navigate these and other sustainability-related trends firmly in line with their fiduciary responsibilities and those of our clients, as well as with policy-makers and standard-setters to ensure associated risks and opportunities are well-regulated in line with international best practices.

Through client feedback, it was again confirmed we were continuing to strike "about the right balance of breadth and intensity" of engagement.

Under Principle 6 we describe further how we gather and use client inputs into our work, as well as the improvements we have made to our client reporting on ESG factors and engagement. Under Principle 8 we describe our use of service providers.

Diversity and inclusion (D&I): As described above, under the governance of the SMT, in 2024 we continued to focus on the D&I Strategy's six core objectives. The development of the D&I agenda continued to be a priority for the business, in addition to providing support and resources that focused on employee wellbeing.

The D&I Strategy is monitored and reviewed by the SMT on a bi-annual basis, with the FHL Board reviewing committed external targets annually.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our public Conflicts of Interest Policy sets out our commitment to act professionally at all times. We commit to keeping the best interests of our clients and their beneficiaries in mind and to take appropriate steps to identify circumstances that may give rise to conflicts of interest with a risk of damage to our clients' interests. It includes examples of conflicts of interest – such as the receipt of confidential information, conflicts of interest between clients, personal conflicts and conflicts between our business and clients – and the appropriate procedures we have established to manage any conflicts of interest identified and to prevent damage to client interests.

Due to the importance of stewardship to our business, we have also developed a specific Stewardship Conflicts of Interest Policy. We acknowledge our position as a fiduciary for our clients and their beneficiaries and seek always to act in their best interests. Accordingly, we take all reasonable steps to identify actual or potential conflicts of interest. We also maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients.

For more information on potential conflicts of managing and monitoring potential conflicts, how we review of conflicts of interest, conflicts of interest for our real estate team, and how we conduct annual reviews please see pages 26-29 of our 2023 Stewardship Report.

As mentioned under Principle 2, our Sustainability Regulation and Stewardship Oversight Committee (SRSOC) has replaced the Governance Committee and has taken over its responsibilities in managing potential conflicts of interest relating to stewardship.

Our conflicts-of-interest approach in practice

Our policy on conflicts may be best understood by considering its impact in practice.

Our EOS conflicts of interest register contains a description of stewardship conflicts, what mitigation procedure and controls were put in place, whether it was then reported to the escalation group if necessary and any follow-up actions and conclusions. It is reviewed by senior management on a regular basis. The following are examples of potential stewardship conflicts which we identified and managed in 2024:

- EOS made a voting recommendation in respect of a company in which FHL was invested, and FHL voted, to support by exception to our renumeration policy. We agreed to support the compensation chair by exception to our policy as our concerns around succession were mitigated by an internal succession that was underway. Our initial concerns around the CEO shareholding requirement being below 600% of salary were mitigated as the outgoing CEO had greater than 20x of salary and the incoming CEO already holding 10x. Lastly, the concerns regarding the structure of the long term incentive plan had been raised during engagement. When comparing the quantum of pay over a 3-year period, it is reasonable compared to peers and, for these reasons, we recommended supporting the pay plan.
- A client of EOS had proposed a shareholder resolution at the company annual shareholder meeting on which EOS was providing voting recommendations. We concluded that support was in-line with the EOS Engagement Plan and decisions previously to support similar resolutions.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

We believe identifying and responding to market-wide and systemic risks will ultimately improve outcomes for clients and beneficiaries, including by delivering benefits for the economy, environment and society and. As the world becomes more globalised and interconnected, the ability to transmit risks across geographies can cause further global crises to materialise. To truly address systemic risk, action is required by stakeholders across the system to provide systemic solutions. Asset managers, alongside other stakeholders, must play their part in preventing systemic risk and thereby ensuring a well-functioning financial system.

Global Risks Framework

The key systemic risks we take into consideration across our investment risk, engagement and advocacy work are informed by academic research from the World Economic Forum Global Risks Report and the Centre for Risk Studies at Cambridge University.[7]

Figure 7. Global risks framework

Category	Risks
Economic	Risks associated with the ability of macroeconomic policy to prevent a global financial crisis, potential economic downturns, chronic inflation, illegal economic activity, supply chain disruption, labour shortages, stability risks and related dislocations
Environmental	Risks associated with the ability of governments and businesses to address climate change (including extreme weather events), biodiversity loss, pollution, natural resource shortages and natural disasters
Societal	Risks associated with infectious diseases, inequality and cost of living crises, large scale involuntary migration, failure to respect human rights, antimicrobial resistance, chronic health conditions, mental health deterioration, unemployment or lack of economic opportunities
Geopolitical	Implications of interstate conflict, geoeconomic tensions (such as the use of tariffs) including increased protectionism, rising populism, societal and/or political polarisation, evolution in the concentration and sources of geopolitical power
Technological	Risks associated with technological advances, artificial intelligence, misinformation, inadequate infrastructure and networks, cyber security and other frontier technologies
Governance	Risks associated with unethical business practices, bribery and corruption

Source: FHL, using World Economic Forum Global Risks Report 2025 and University of Cambridge and Citi GPS Systemic Risk Paper (April 2021).

We seek to take an integrated systems-based approach and prioritise and respond to the risks that are most likely, impactful and interconnected in nature. We examine the interlinkages between risks, for example, how climate change can drive biodiversity loss, with the potential to impact global food chains, health and wellbeing, social inclusion/unrest and thereby generate financial and economic crises.

Identifying and responding to risks

The Risk team is responsible for the daily oversight of market risk across FHL, as well as the oversight of the underlying portfolio managers' adherence to their pre-defined/client-agreed investment processes. All our investment activity is supported by our Risk team and Responsibility Office, which operate and function independently from the investment teams, and with separate, independent reporting lines to the Governance Oversight Committee and, ultimately, the Boards of our regulated investment managers.

Our Risk team takes the time to understand individual fund managers' philosophy and style so that they can challenge our portfolio managers' decisions, positioning and risk exposures to aid and enhance their process.

Risk and portfolio managers have several regular fora where they identify and discuss risks and their possible investment implications. These include discussion of market-level investment strategy and shared risk insights from across the investment floor. The aim of these is to ensure that insights are broadly aired and that we have a risk-aware culture across the floor.

Where significant scenarios are identified, they are run through hypothetical or historical stress tests across our portfolios that vary according to the asset class and strategy. This includes geopolitical events and shocks to markets, interest rates and currencies. Given the long-term nature of our investment approach, the purpose of these tests is not to push portfolio managers to make immediate portfolio changes but to enhance their analysis and strategy.

For our infrastructure team, all risk related matters are considered by the investment teams and are escalated to the IIC (Infrastructure Investment Committee) and if necessary to the HGPE Governing Body.

For our private equity team, the Private Equity Investment Committee (IC) is responsible for all investment risks, additionally the private equity team has a separate Portfolio Review Group (PRG) which will consider issues the investment teams and the private equity sustainability specialist decide to raise.

[7] This includes: University of Cambridge and Citi GS, 'SYSTEMIC RISK: Systemic Solutions for an Increasingly Interconnected World' (April 2021); World Economic Forum, 'Global Risks Report 2024' (January 2024).

For our infrastructure and private equity teams, we measure, manage, and report on key risks at a fund and exposure level. Risk exposure by key risk characteristics is captured using quantitative and qualitative risk analysis tools to develop a proprietary framework to identify and monitor risk. Effective risk oversight (second line) necessitates strong collaboration with the investment teams. Thus, a risk oversight member is invited to attend the PRG or similar committee, as well as the Valuation Committee (ValCo), as an observer.

From a second line of defence perspective, our risk identification processes are set out in our risk management framework which recognises thematic emerging and principal risks. Sustainability and ESG risks are integrated into our risk taxonomy, as well as our risk appetite statements with appropriate metrics to monitor reputation, sustainability and ESG risks more broadly.

The risk management framework also includes non-financial risk appetite statements to consider drivers of reputation and sustainability risks through a stakeholder lens. This stakeholder-focused approach recognizes the importance of considering ESG issues, including climate change (for example our carbon footprint), from the perspective of their impact both on our firm and also on our clients and wider stakeholders.

With respect to sustainability, we have continued to monitor, track and where applicable meet developments on sustainability regulations such as the EU Sustainable Finance Disclosure Regulation (SFDR), the ESMA Fund Naming Guidelines and the UK Sustainable Disclosure Regulations (SDR).

As noted above, regular and ongoing monitoring of product-related ESG metrics and analysis is conducted and embedded within the business and second line of defence. Extensive engagement and collaboration between the risk function and the business is required to ensure a consistent interpretation of sustainability risk and common understanding of ESG integration across our product range. Furthermore, the development of expanded investment risk reporting has allowed for multiple views and articulations of key investment risks at both a product and firm level to support senior management's decision making on ESG matters.

Advocacy and involvement in industry initiatives

We recognise that as investors we have an opportunity and a responsibility to help address market-wide and systemic risks. We engage constructively with regulators and policymakers globally to address instances in which features of the financial system may prevent the system from operating in the best interests of its ultimate asset owners. This includes addressing barriers to responsible investment and stewardship.

We have a public policy and advocacy sub-team in the Responsibility Office, who work with experts across our firm to ensure our advocacy work is well informed, relevant and impactful.

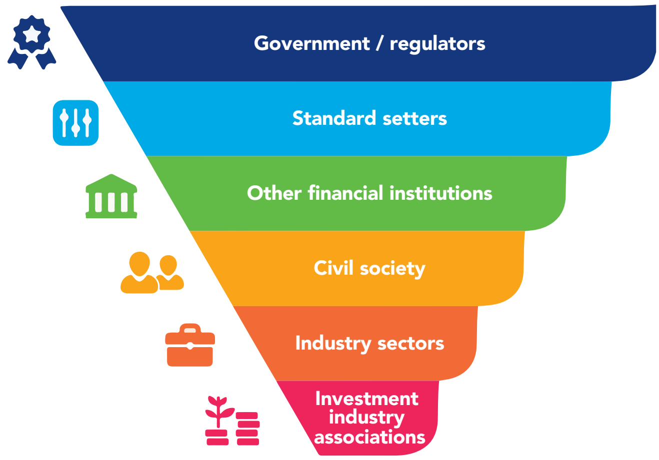
Our stewardship service provider, EOS, also undertakes a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard-setters to help shape capital markets. Members of our investment teams contribute their expertise through collaboration with the Responsibility Office and EOS, as well as direct involvement in external industry initiatives. The result is an advocacy approach that aims to lead rather than follow the policy debate. Given the global nature of our investments, this work spans asset classes and geographies.

Our public policy advocacy can cover a range of themes to help shape capital markets in the interests of our clients and end beneficiaries. We engage on regulation relating to the investment industry and the assets in which we invest. This work may be on a country-specific basis or regulations and codes with a global remit. We identify areas for more in-depth advocacy and engagement where we feel significant change is needed and where we can add value. In 2024 this included climate change, nature and the need for a just transition. More information is included later in this section.

Figure 8. Tools of public policy advocacy

Source: FHL, as at 31 December 2024.

Figure 9. We engage with a range of audiences in our public policy advocacy



Source: FHL, as at 31 December 2024.

We often engage directly with regulators and policymakers and aim to be a progressive and constructive voice in the debate. We provide practical insights about how proposed policies might play out in practice and help to identify suggested alternatives that might better achieve their responsible investment policy aims. We also respond to consultations from policymakers to provide constructive feedback, using a networked approach to gain relevant input from teams across the business.

We contribute to policy discussions both directly and in collaborative fora and initiatives. We are a member of several industry bodies and initiatives around the world and are co-founders of many of them. Through these initiatives we engage with others both within and beyond the investment industry to promote responsible investment, including ways that the industry and our investees can respond to market-wide and systemic issues such as climate change. Colleagues from across the business – including the Responsibility Office, EOS, Risk and the investment teams – take on advisory roles in many of these organisations to share our practical expertise. For instance, our private equity team is a member of the Initiative Climat International (iCI) working group, which collaborates to provide structured knowledge sharing sessions that address climate change topics.

> **We provide practical insights about how proposed policies might play out in practice and help to identify suggested alternatives that might better achieve their responsible investment policy aims.**

Over the course of 2024, FHL and EOS responded to 56 consultations or proactive equivalents from regulators, policymakers and industry initiatives.

In the following table, we have categorised our memberships of investment and stewardship-related initiatives or those at which we hold advisory roles.[8]

Tier 1 represents the initiatives in which we play a leadership role, for example chairing a working group; holding a formal advisory role such as on an advisory committee or Board; taking a leading role in preparing or actively contributing content to position papers and joint statements; shaping the strategic direction or leading collaborative engagements.

Tier 2 represents those initiatives in which we actively participate through membership of working groups, contribution to collaborative engagements, reviewing content or position papers, or lending support to joint statements.

And, finally, Tier 3 represents the remainder of the initiatives in which we are involved where we have light-touch participation such as attending meetings to be informed of developments. There are other organisations that we may collaborate with on an ad-hoc basis.

In 2024, we joined 6 new initiatives and remain an active member in approximately 100 different efforts. Examples of our involvement from each of these three tiers are included in our following 'In focus' sections. We also describe in further detail how we have been involved in collaborative engagement with individual issuers under Principle 10. FHL is also active in the key trade associations in the jurisdictions in which we operate.

[8] This table is not exhaustive and does not cover all memberships of FHL.

Figure 10. Investment and stewardship organisational memberships

Tier 1

Asia Investor Group on Climate Change
Associação de Investidores no Mercado de Capitais
Association of Foreign Investors in Real Estate
Best Practice Principles Group for shareholder voting research (BPPG)
British Private Equity & Venture Capital Association
Ceres
Climate Action 100+
Construction Leadership Council
Council of Institutional Investors
CREFC
European Leveraged Finance Association
FAIRR
FCA-PRA Climate Financial Risk Forum
Finance for Biodiversity Foundation
Finance Sector Deforestation Action initiative
Global Network Initiative
Housing Association Charitable Trust (HACT)
Human Capital Management Coalition
Impact Investing Institute
Institutional Investors Group on Climate Change (IIGCC)
International Corporate Governance Network
Invest Europe
Investor Initiative on Hazardous Chemicals (IIHC) Steering Group
Investors and Indigenous Peoples Working Group
Making London a Living Wage City Steering Group
Natural Capital Investment Alliance
Nature Action 100
Net Zero Engagement Initiative
OECD Biodiversity Advisory Group
Quoted Companies Alliance
Reading Real Estate Foundation
Spring (PRI)
The 300 Club
UK Sustainable Investment and Finance Association (UKSIF)
UN Global Compact
UN Principles of Responsible Investment (PRI)

Tier 2

Advance (PRI)
Access to Medicine Foundation
Access to Nutrition Index
Asian Corporate Governance Association
Better Buildings Partnership
Biopharma Sustainability Roundtable
British Property Federation
Canadian Purpose Economy Project
Central Bank of Ireland Climate Risk and Sustainable Finance Forum
Eumedion
Financial Reporting Council Stakeholder Insight Group
Global Investor Commission on Mining 2030
Healthy Markets Initiative (ShareAction)
Impact-Weighted Accounts Initiative
Initiative Climat International (iCI)
International Sustainability Standards Board (ISSB) Investor Advisory Group
Investor Consensus on Responsible AI
Investor Initiative on Responsible Nickel Supply Chains
Invest Ahead
Investment Association
Investor Action on Antimicrobial Resistance
Investor Forum
Investor Policy Dialogue on Deforestation (IPDD)
Long-term Investors in People's Health Initiative (ShareAction)
Net Zero Asset Managers Initiative
One Planet
Science Based Targets initiative
Transition Plan Taskforce
UK-China Financial Institutions Sustainability Disclosures Taskforce
UK Endorsement Board
UK Green Building Council
UK Sustainable Investment and Finance Association (UKSIF)
Workforce Disclosure Initiative
World Benchmarking Alliance Investor Ally

Tier 3

30% Club
British Council for Offices
Business Coalition for a Plastics Treaty
Canadian Coalition of Good Governance
CDP
CECP: The CEO Force for Good
Dansif
Financing a Just Transition Alliance
French Sustainable Investment Forum (FIR)
Glasgow Financial Alliance for Net Zero (GFANZ)
Global Alliance for Buildings and Construction
Global Impact Investing Network
Global Infrastructure Investor Association
Global Institutional Governance Network
Global Real Estate Sustainability Benchmark (GRESB)
INREV
Investor Alliance for Human Rights
Investor Decarbonisation Initiative (ShareAction)
Japan Corporate Governance Network
JapanSIF
Just Transition Challenge
Pensions and Lifetime Savings Association
Powering Past Coal Alliance
Responsible AI Stewardship for Investors
Revo
Supporter Network of SPOTT
TNFD Forum
UK Financial Institutions for Nature Group

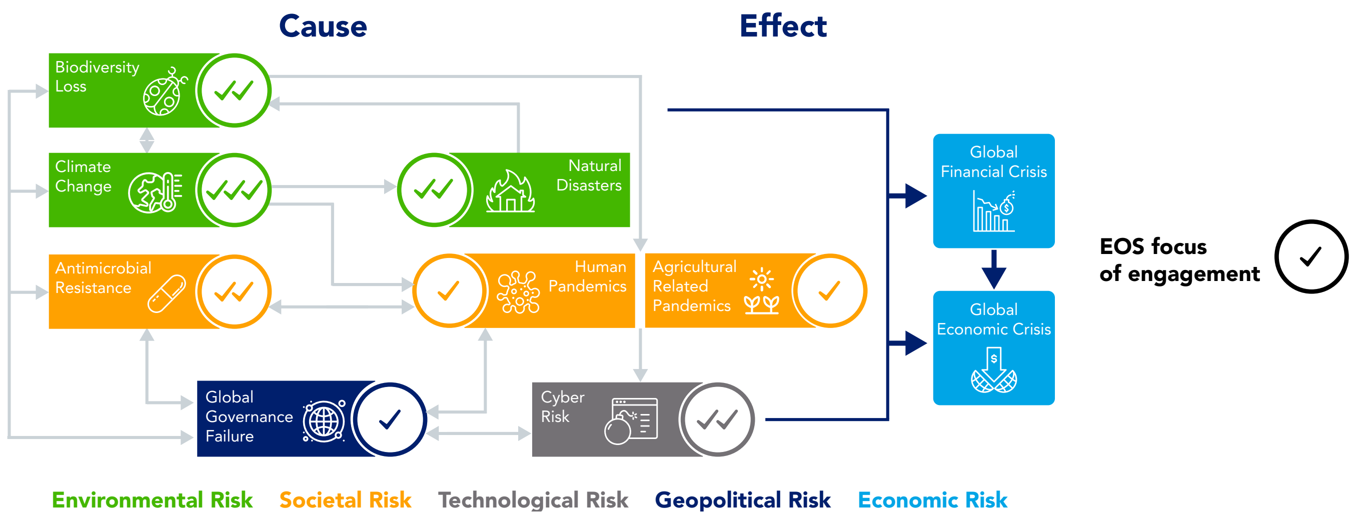
Source: FHL, as at 31 December 2024.

Engagement with investees

We take into consideration the most important systemic risks when developing our Engagement Plan and prioritising our engagement action. We have examined how the systemic risks highlighted above are interlinked, and often have cascading effects, and overlaid these with the focus areas in our Engagement Plan. For example, the three big causal systemic risks illustrated in the diagram below – biodiversity loss, climate change and anti-microbial risk – which have cascading causal effects, are important themes in our Engagement Plan.

In addition, the United Nations (UN) identified systemic risks and developed these into 17 Sustainable Development Goals (SDGs), adopted in 2015 as a global call to end poverty, protect the planet and ensure that everyone enjoys peace and prosperity by 2030. Our view is that the long-term success of businesses and the success of the SDGs are inextricably linked. We believe that all of our engagement and advocacy work is aligned to the delivery of the SDGs either directly or indirectly, enhancing our response to systemic risks.

Figure 11. Risks: Cause and Effects and EOS Engagement Priorities



Source: University of Cambridge and Citi GPS Systemic Risk Paper, and EOS data, as at 31 December 2024.

Figure 12. 1,761 of the issues and objectives engaged in 2024 in public markets were linked to one or more of the SDGs[8]

13 Climate action	621
12 Responsible consumption and production	559
7 Affordable and clean energy	430
8 Decent work and economic growth	339
5 Gender equality	190
10 Reduced inequality	161
15 Life on land	149
16 Peace, justice & strong institutions	126
3 Good health and well-being	114
6 Clean water and sanitation	113
11 Sustainable cities and communities	87
2 Zero hunger	86
9 Industry, innovation and infrastructure	76
14 Life below water	76
1 No poverty	69
17 Partnerships to achieve the goal	24
4 Quality education	10

1,761 of the issues and objectives engaged in 2024 were linked to one or more of the SDGs

Source: FHL, as at 31 December 2024.

[9] This is the total of unique SDG-linked objectives and issues engaged. Some of the objectives and issues may be linked to more than one SDG.

Where we have identified market-wide and systemic risks, we intend to engage with our investees to ensure they have appropriately assessed, managed and mitigated the risks. This may be through collaborative engagement alongside other investors or industry initiatives, which we discuss in more detail under Principle 10.

EOS focuses its stewardship on the issues with greatest potential to deliver enduring wealth for investors, responsibly including through positive societal and environmental outcomes.

The EOS Engagement Plan identifies good governance as setting the foundation for managing long term risks and creating value for stakeholders. We seek robust board oversight and management by companies of the most material long-term drivers of enduring wealth creation, responsibly affecting each company, as well as those systemic risks to long-term portfolio growth which cannot easily be mitigated through diversified investment strategies. When material and relevant, these factors should drive improved financial performance of individual companies to the benefit of investors, consistent with the long-term fiduciary interests of our clients, and more beneficial outcomes for society. The full taxonomy under Principle 9 identifies our key themes and related sub-themes for engagement, many of which could be considered systemic risks as mapped in figures above. Within this, our work maintains a focus on the most material themes.

EOS reviews its Engagement Plan every year to ensure it is up to date and reflects client priorities. Further information on continuous improvements to the Engagement Plan can be found under Principle 2.

Based on EOS' review, over 2025 we will continue our focus on the most material drivers of long-term enduring wealth creation, with a focus on four priority themes:[10]

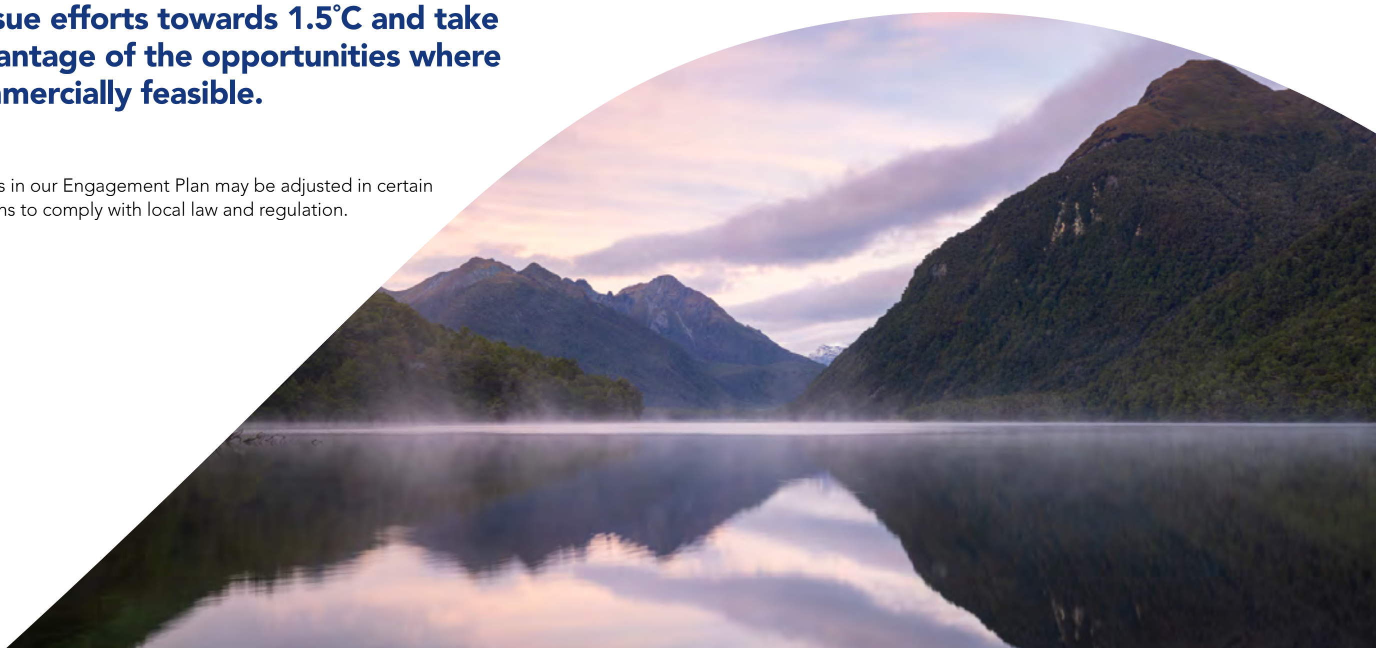
The emphasis of our engagement remains focused on companies having a strategy and greenhouse gas emissions reduction targets aligned to the Paris Agreement, to limit climate change to 2°C and pursue efforts towards 1.5°C and take advantage of the opportunities where commercially feasible.

[10] Objectives in our Engagement Plan may be adjusted in certain jurisdictions to comply with local law and regulation.

Board effectiveness: In 2025 to enhance the quality of board performance, which is foundational to good corporate decision-making, we will look to boards to set their risk appetite to be aligned with the company's strategic goals. Additionally, we will continue to seek improvements to ethnic diversity building on the progress of gender diversity, with the goal to achieve representation reflective of the diversity of the stakeholders it aspires to serve.

Climate change: The emphasis of our engagement remains focused on companies having a strategy and greenhouse gas emissions reduction targets aligned to the Paris Agreement, to limit climate change to 2°C and pursue efforts towards 1.5°C and take advantage of the opportunities where commercially feasible. Specific areas of focus will also include engagement with high methane emitting sectors and standard setters to ensure best practices in methane management; the technology sector to take action to mitigate emissions associated with the high energy demand for AI-related services; all relevant sectors to build resilience to physical climate risks; and work towards a 'just transition' for employees and communities. We will continue to support best practice standards via the Institutional Investor Group on Climate Change (IIGCC).

Human and labour rights: We encourage companies to acknowledge the likelihood that human rights impacts are present within some operations and supply chains and to demonstrate appropriate board- and executive-level governance in order to minimise operational disruption, potential legal disputes and maintain their brand value and social license to operate. We will further focus on protecting indigenous and community rights and human rights in high-risk regions such as disputed territories or areas of conflict. We are also increasing the focus on the protection of digital rights in the virtual world, such as challenges to the right to data privacy and the right to freedom of expression and protection from unfair biases, which the use of AI may amplify.



Human capital: We are intensifying our engagement on upskilling and reskilling workers, and we will maintain our focus on inclusion and representation, asking companies to develop a strategy and action plan to close the ethnic pay gap, ensuring equal pay for equal work and achieve merit-based proportionate ethnic and gender representation at all levels. We will also challenge companies to consider an expanded range of inclusion metrics beyond representation and extend our engagement on health and safety to mitigation of climate-related risks in the workplace.

Based on our review, and in addition to the above themes, our engagement will continue to intensify engagement on two rapidly evolving topics in 2025 and beyond as follows:

Nature and biodiversity: We seek companies to address marine and terrestrial biodiversity loss across their value chains, in line with the COP15 mission to halt and reverse biodiversity loss by 2030. COP16 made historic strides in recognizing the role of indigenous and local communities in biodiversity conservation, but challenges remained in securing the necessary fundingand monitoring mechanisms to achieve global biodiversity targets. Given the high impacts and dependencies of the food system on biodiversity and ecosystem services, the retailing and production of food will remain a priority, as well as other sectors with significant impacts, such as mining and agrochemicals. We encourage companies to reduce their impacts on biodiversity across the value chain, following the mitigation hierarchy, and aim for a net-positive impact on biodiversity as best practice. Depending on the specific company context, engagement will cover deforestation, water stress, regenerative agriculture, infectious diseases and antimicrobial resistance (AMR), sustainable proteins and chemical runoff management. As we outlined in our white paper on biodiversity, published in February 2021, we encourage companies to identify, assess and measure their impacts and dependencies on biodiversity and ecosystem services, in line with the 2023 Taskforce on Nature-related Financial Disclosures (TNFD)[11] recommendations and then develop strategies and targets to address the most material risks. We will continue to establish and work with investor coalitions such as the Rainforest Alliance,[12] SPRING[13] and Nature Action 100[14] to bring added weight to engagements with affected companies.

Digital rights and AI: We will continue to engage companies on our Digital Governance Principles outlining responsible development and deployment of AI. These will be updated in 2025 to consider the rapidly changing thinking around the technology and reflect the latest concerns, issues and opportunities. Digital products and services can play a critical role in strengthening human rights but have also brought unanticipated harms and new challenges. We will engage companies on negative societal impacts, including problematic content on social media, reinforcement of unintended bias, and health and safety impacts on children and youth. We encourage companies to balance freedom of expression with obligations to remove problematic content and take actions to respect privacy rights online. How they take responsibility for ensuring appropriate controls are in place is becoming critical, particularly with increasing levels of concern over the use of social media to spread misinformation and disinformation, driving a lack of trust in traditional media outlets. Cyber security and concerns over the use and impact of AI are also rising on the agenda. While the accelerating deployment of AI is creating new opportunities for companies, it also brings with it the potential for workforce disruption, regulatory infraction or reputational damage, and we will be engaging with companies on how they mitigate these risks.

The above represent particular priorities in the years ahead and more information on these themes can be found in our Engagement Plan. However, we continue to maintain a comprehensive Engagement Plan covering a broad range of other themes, including responsible tax practices, increasing resource efficiency through the circular economy, reducing harmful pollution and seeking positive wider societal outcomes through increased corporate responsibility. More information on our Engagement Plan can be found under Principle 9.

We also use our voting rights as a means of addressing systemic risks. More information on how we use our voting rights is available under Principle 12.

We track the progress of our engagement with investees, including on systemic issues, using our proprietary milestone system. The outcomes of our engagement with investees are described under Principles 9, 10 and 11. We also publish regular case studies from EOS and our investment teams to document our engagement outcomes in more detail.

[11] The Taskforce on Nature-related Financial Disclosures
[12] Rainforest Alliance, 'About'
[13] Principles for Responsible Investment, 'Spring'
[14] Nature Action 100, ' Home'

Throughout this report we have sought to provide a range of outcomes, including where we have not seen the desired outcomes of engagement. Below, we set out in more detail how we have responded to three of the key market-wide and systemic risks in 2024: climate change, nature, and human and labour rights.

These are examples of how our response to identified market-wide and systemic risks can result in changes to our investment portfolios, our engagement with companies and our advocacy efforts. The sections below are also therefore relevant to Principles 7 and 9-12.

In focus: climate change

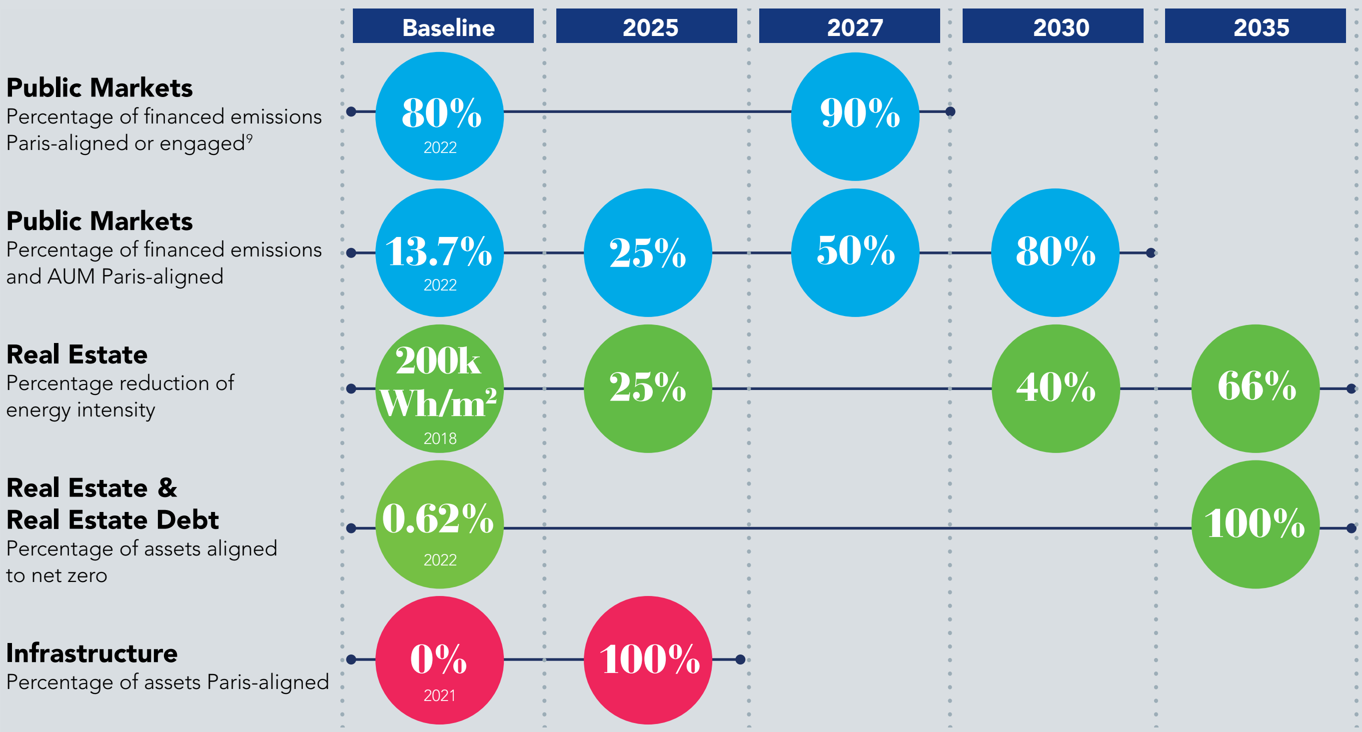
We aim to understand both a company's contribution to climate change and its exposure to related risks and opportunities, which should allow us to play a positive role in encouraging firms to generate lower emissions and reduce the risks arising from climate change.

Our Climate- and Nature-related Financial Disclosures report sets out in more detail how we have integrated an assessment and management of climate- and nature-related risks and opportunities into our investment decision making. This includes the governance structures we have in place to ensure relevant risks and opportunities are appropriately managed and that the outcomes of our risk-management processes feed into our business strategy. Our assessment of, and response to, the systemic risk of climate change spans our top-down investment risk and asset-level analysis, our engagement activities and our operational risk management.

In 2024, we introduced a comprehensive Responsible Investment (RI) Policy, which brought together a number of existing policies included a new Climate Change Policy Statement. This clearly sets out our approach to climate to complement our existing disclosures. More information can be found in Principle 5.

Our Climate Action Plan sets out our interim targets validated by the Institutional Investors Group on Climate Change (IIGCC).[15] These targets meet our obligations as a member of the Net Zero Asset Manager Initiative (NZAMI). It sets out how we will measure our progress, and the actions we will take to drive improvements. Our approach is focused on driving decarbonisation in the real economy. We have therefore set targets for the proportion of our holdings that will be aligned with a 1.5°C trajectory; these will drive our engagement with portfolio companies to achieve decarbonisation at the company level and not just in our portfolios. We updated our targets for public markets engagement levels during 2024 to include names that are both engaged and those that are already Paris-aligned. We also updated the target date for 90% of our financed emissions to be aligned or engaged by 2027. By targeting 2027 we continue to maintain a more ambitious target date than industry guidance, as the Net Zero Investment Framework guidance recommends financial institutions target 90% of financed emissions to be engaged or aligned by 2030. The Climate Action Plan also covers our approach to tackling our own operational emissions.

Figure 13. Our interim 2030 targets



Source: FHL as at 31 December 2024.

[15] Targets will be set taking into account differences in legal and regulatory regimes.

We commit to work in partnership with clients on their decarbonisation goals in jurisdictions where local law and applicable requirements allow. We reported our progress towards our targets in our Climate- and Nature-related Financial Disclosures report and will continue to do so on an annual basis.

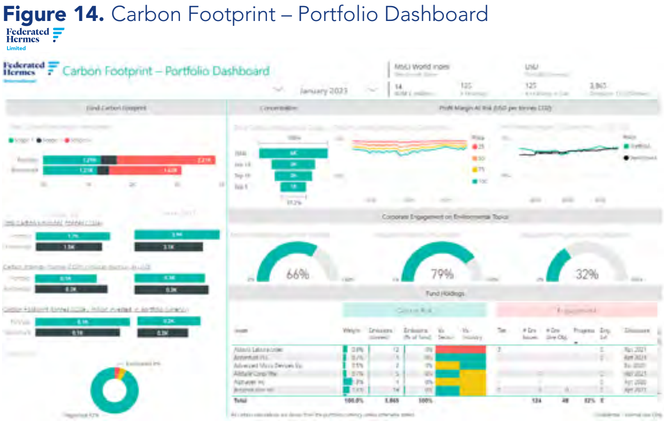
Assessing risk in public markets

Our integrated approach to managing climate risk and opportunities is based on our belief that we can create positive feedback loops between investment and stewardship. This should help reduce climate-related risks and maximise the opportunities for the companies and assets in which we invest.

We monitor and measure the greenhouse gas (GHG) emissions of our investment portfolios through our proprietary carbon tool, which measures a fund's carbon footprint relative to its benchmark and calculates its carbon intensity/footprint. The tool enables portfolio managers to identify whether high-emitting companies in the portfolio in jurisdictions where local law and applicable requirements allow are being engaged or whether engagement needs to be initiated and understand the progress on any climate or wider environmental engagements already underway.

The information also helps increase our investment team's awareness of carbon-related risks, which can lead to updated valuations and potentially change investment decisions.

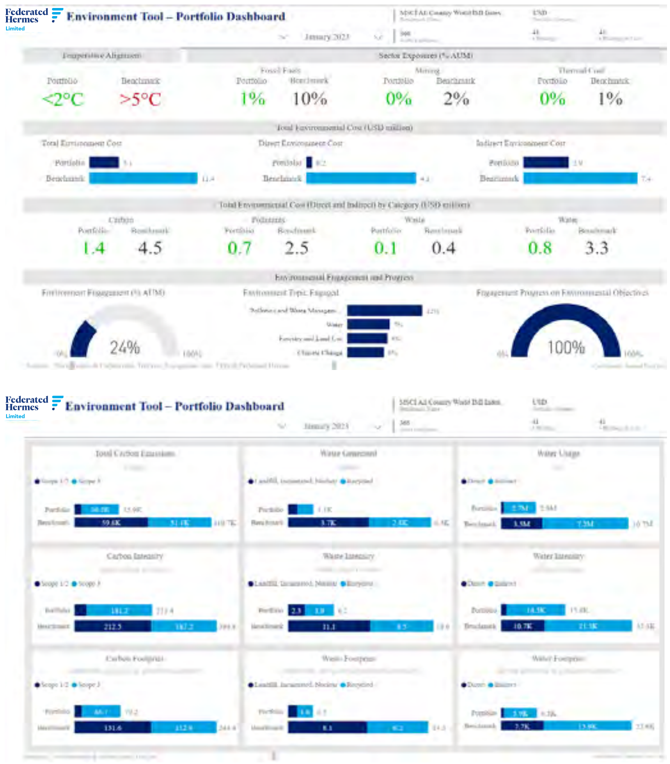
Figure 14. Carbon Footprint – Portfolio Dashboard



Source: FHL, as at 31 January 2024. For illustrative purposes only.

We have continued our work in assessing the Paris Alignment of our holdings using our proprietary alignment methodology, outlined in the Climate Action Plan described above. In addition to using this data to identify companies for engagement where local law and applicable requirements allow, this is also a tool for our investment teams in assessing the targets set by portfolio companies, to help flag particular names that may be at risk in the transition to a net zero economy. In 2024, we made markable progress on Phase Two of our Paris Alignment methodology, which will enable the test to be more industry-specific. We will continue to enhance and look to roll out the methodology in 2025.

Figure 15. Environmental Tool – Portfolio Dashboards

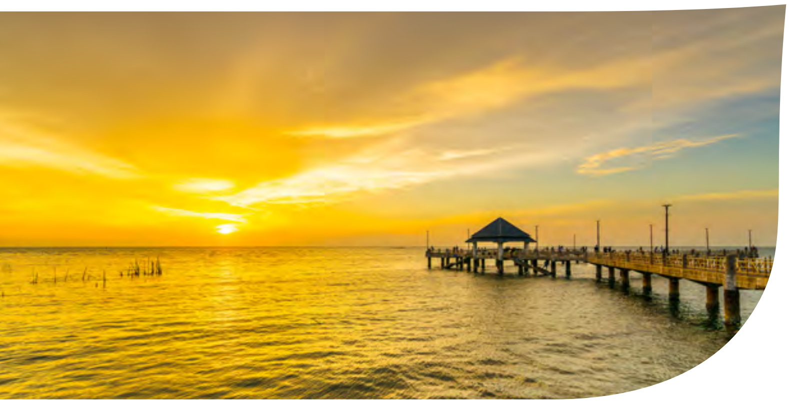


Source: FHL, as at 31 December 2024. For illustrative purposes only.

Our climate scenario analysis across our public equity and credit investments is conducted in partnership with a third-party, Planetrics. This allows us to understand transition and physical risks and opportunities related to climate change across different regions and sectors. Forward-looking data, such as that from scenario analysis, is becoming increasingly important to integrate into our investment decisions.

We also continue to evolve our work in understanding nature-related risks and opportunities. In 2024, we utilised the ForestIQ dataset to understand our exposure to deforestation risk and this has focused our engagement efforts. This is currently limited to commodity-driven deforestation, including assessment of commitments relating to deforestation or conversion and associated human rights.

We have also run analysis on our funds to understand nature-related impacts and dependencies. We will continue to enhance our approach in this area and aim to implement a more systematic approach going forwards.



EOS: engaging on climate change issues

Engagement is a crucial element of our approach to managing climate change risks and opportunities – and climate is a specific engagement focus in EOS' public markets engagement programme. Where consistent with local law and applicable requirements, EOS aims for companies to have a business model consistent with achieving net-zero emissions and an effective transition plan to deliver this in line with the Paris Agreement ambition of 1.5°C.

Our Climate Action Plan sets out the way we categorise our investees based on their extent of alignment to a 1.5°C world over time, dependent upon further advances in public policy and technology. We use an in-house Paris-alignment methodology for this assessment.

Companies identified as not aligned with 1.5°C are flagged as priorities for engagement and other stewardship actions. Engagement strategies are tailored to the region, sector and company context but include a combination of approaches, such as letters to the board, one-to-one meetings, collaborative engagement, and escalation strategies where appropriate and in line with local law and applicable requirements. We will engage in line with the expectations outlined in the EOS Engagement Plan,[16] and best-practice frameworks, such as the Climate Action 100+ Benchmark,[17] the IIGCC Net Zero Investment Framework,[18] Stewardship Toolkit,[19] and sector-specific climate change expectations.[20]

As an overview, we encourage companies to actively demonstrate that their emission reduction targets and strategies address the scenario of the 1.5°C goal of the Paris Agreement alongside other scenarios. Depending on what is commercially appropriate given the company and sector specific business context, as well as in line with local law and applicable requirements, companies should plan to reach net zero emissions by 2050 at the latest and set short and medium-term targets that are science-based, in line with what is required for a 1.5°C pathway. These targets should be backed up with a credible transition plan that articulates how the decarbonisation levers selected are expected to be sustainable and competitive once nature-related risks and dependencies are also considered, noting that targets should be met primarily through emissions abatement rather than offsetting.

Companies should also consider the social impacts of their transition plans. We encourage risk management and disclosure to be in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), with companies reflecting risks and opportunities in the annual audited accounts. Material capital expenditure investments which are expected to achieve a financial return, should be demonstrably consistent with the goals of the Paris Agreement. Effective governance of climate-related risks and opportunities, including board oversight and ensuring that direct and indirect lobbying activities are aligned to the goals of the Paris Agreement, is also in our view, critical. Companies should assess exposure to the physical risks of climate change and develop adaptation plans accordingly. In the short-term, we also encourage companies to deliver emissions reductions that correspond to their value enhancing climate strategies, and where in line with local law and applicable requirements, we will engage with companies that fail to deliver on their targets, in the absence of mitigating circumstances, for example by considering voting against the reappointment of responsible directors.

The Climate Action 100+ (CA100+) initiative also supports intensive engagement where local law and applicable requirements allow, on companies' decarbonisation strategies, capital allocation alignment, climate governance, and emissions performance. For the avoidance of doubt, we expect any such strategies to be expected to enhance company financial performance. In October 2024, the CA100+ Net Zero Benchmark (NZB) tracked further progress with 81% of the largest corporate greenhouse gas emitters now having committed to net zero by 2050 covering at least Scope 1 and 2 emissions.[21] This is an increase of four percentage points on 2023.[22]

> **Companies identified as not aligned with 1.5°C are flagged as priorities for engagement and other stewardship actions.**

Some 59% of companies assessed under the benchmark have identified a set of actions they will take to achieve emissions reductions in line with their targets, but only 26% have quantified these individual levers. Similarly, 81% of the banks captured by the Transition Pathway Initiative's banking assessment have set sector-level financed emissions targets, with 77% of these banks identifying climate-related financial risks as a material risk in annual reporting.

Through EOS's engagement across these initiatives in 2024, we continued to seek progress where companies lagged best practice, while encouraging efforts where progress had been made. We also elevated our engagement on areas of emerging best practice, such as the due consideration of material climate-related risks and opportunities in financial statements, and the financial resilience of any significant capital expenditure.

Under Principles 10 and 11 we provide further detail on our collaborative engagements with specific examples of company engagement.

[16] EOS, 'EOS Engagement Plan 2023-2025'
[17] Climate Action 100+, 'Net Zero Company Benchmark'
[18] IIGCC, 'Net Zero Investment Framework'
[19] IIGCC, 'Net Zero Stewardship Toolkit'
[20] IIGCC, 'Resources'
[21] CA100+, ' Climate Action 100+ Net Zero Company Benchmark 2.1' (2024)
[22] CA100+, ' Climate Action 100+ Net Zero Company Benchmark 2.1' (2024)

Real estate – making our assets part of the solution

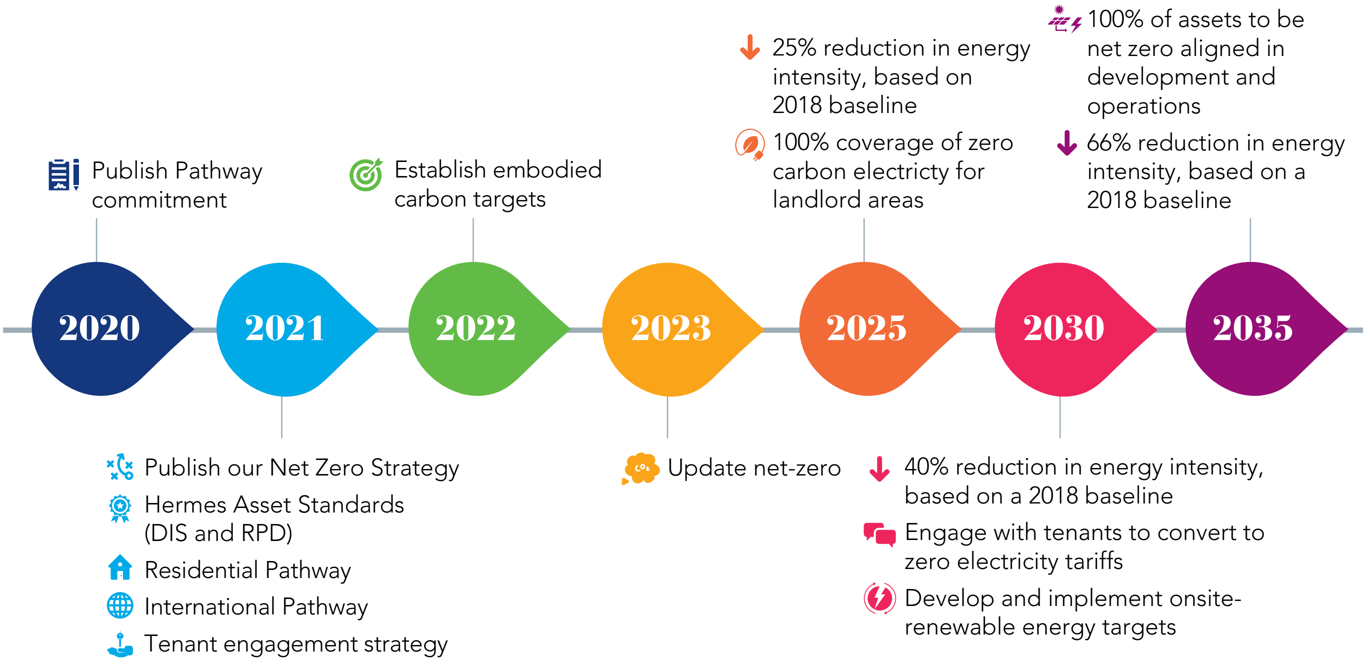
Our real estate team has integrated climate risk management throughout its investment decision-making and asset-management processes. An ESG checklist is used for every acquisition, and this has been recently updated. It covers specific E, S and G issues like climate change, with a particular focus on flood risk and mitigation.

Our real estate team's Design Innovation Standard and Responsible Property Management Guide also sets out a series of guidelines and principles for our investment and development managers to follow. This ensures a consistent, start-to-finish approach to sustainable refurbishment and development, making use of key RIBA Stages.[23] The approach also follows BREEAM principles,[24] which adopt sustainable methods of construction to deliver an operationally efficient and sustainable building or refurbishment.

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

By taking a proactive approach in developing and operating net zero buildings, we intend to reduce the risks of having stranded assets, asset value declines and potential so-called 'brown penalties' (a higher cost of capital for carbon-intensive buildings). Net zero also presents opportunities for market leadership: to generate income resilience for our clients; support and retain our occupiers; and provide long-term value to our stakeholders.

Figure 16. Real Estate approach to net zero



Source: FHL, as at 31 December 2024.

In line with local law and applicable requirements, we aim to deliver on the net zero aspirations set out in the pathway, with a focus on delivery against four specific pillars of activity:

1. **Decarbonisation**
2. **Deliver energy efficiency**
3. **Stakeholder engagement**
4. **Utilise offset opportunities**

More information on the real estate's team approach to net zero can be found in the Net-Zero Pathway document.

Addressing net zero transition risk

Decarbonising existing property portfolios is one of the biggest challenges that the real estate industry is facing and will need to respond to in the next decade. There is not a one size fits all approach but at the same time building-by-building approaches also fail to exploit the opportunities presented by portfolio-level investment decisions and economies of scale. In order to meet this challenge, an in-depth decabonisation investigation has been carried out by external engineering consultants on over 45% of the assets under management in the UK portfolio. These reports determined the actions required necessary to deliver net zero, and provide a framework for intervention solutions. The reports have been aligned in the last twelve months to plan resource allocation at fund level for decarbonisation and increase energy efficiency aligning to lease structure and the planned maintenance schedules.

[23] The Royal Institute of British Architects (RIBA) Plan of Work organises the process of briefing, designing, constructing and operating building projects into eight stages and explains the stage outcomes, core tasks and information exchanges required at each stage.

[24] 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.

Benchmark

The first step was to create a baseline to establish the current carbon position, using Decarbonomics™ Carbon Data Insights to plug material data gaps. A five-day, non-intrusive survey representative of the wider estate was then conducted to validate the data.

Roadmap

From the carbon baseline, a fully costed roadmap to achieve our 2035 net zero target was generated for each portfolio. To ensure the roadmap was realistic and achievable, Decarbonomics™ combines machine learning analysis with the expertise of building services engineers, whilst taking tenant requirements into consideration.

Deliver

We realise that roadmaps are only good if we deliver against them and demonstrate progress through robust monitoring and verification over the course of asset improvement works. This pilot project provided clarity around our asset investment decisions and demonstrated the effectiveness of tools like Decarbonomics™ in supporting our net zero transition plans and decarbonising our portfolios at scale.

We continue to develop and implement initiatives across our real-estate portfolio that are designed to reduce carbon emissions and to improve efficiencies in our built environment portfolio, making use of new technology and best practice gleaned from our active engagement in peer-group benchmarking.

Infrastructure

The infrastructure team recognise that the transition to a lower carbon economy has the potential to significantly erode or enhance returns. They therefore integrate the consideration of climate risks and opportunities throughout the investment lifecycle and seek to understand how they interact with key value drivers. Climate considerations are integrated into each of the four stages of the infrastructure investment process: initial review; due diligence; investment approvals; and the 100-day plan.

The team, in partnership with an external climate risk consultant, periodically conduct scenario analysis assessments across their portfolio to provide insights and data on climate risks and climate-related trends relevant to each of our portfolio companies. The scenarios selected by the team aim to provide a comparative view of possible climate risks under different decarbonisation and global warming trajectories.

In collaboration with ERM, the infrastructure team refreshed their climate risk scenario analysis in 2024 and produced an Infrastructure-level TCFD Report. For more information on our approach, please see the 2024 Infrastructure-level TCFD Report.

During 2023, our most recent reporting year, we engaged with 100% of our infrastructure portfolio companies, with 24% of our recorded ESG-related interactions focussed on climate change. At the time of reporting, 2024 statistics were in the process of being compiled.

Private Equity

The private equity team uses a framework to assess the climate risk exposure of any potential investments. Significant transition risks require additional analysis in collaboration with the team's sustainability specialist.

The additional analysis is tailored to the risks identified, whether relating to physical climate risk, transition climate risk or deforestation. For investment performance reasons, the team seek to avoid making any investments in companies that are not able to thrive as the world transitions to net zero.

Advocacy: delivering positive industry-wide change

Looking beyond investment and stewardship, we also believe that policymakers have a key role to play in determining the investment risks and opportunities created by climate change. In 2024, we carried out extensive advocacy work on climate-related issues.

Throughout 2024, we have participated in public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties to contribute to the development of policy and best practice to facilitate the transition to a net zero carbon economy. The aim is to protect and enhance value for our clients by improving shareholder rights.

We have advocated for a number of changes to public policy and market best practice, including asking governments to commit to more ambitious climate targets with aligned domestic policies and stimulating investment in required technologies.

For instance, EOS wrote to the new UK minister of state, Sarah Jones MP, at the Department for Business and Trade and the Department for Energy Security and Net Zero. The UK government had previously signed up to the Cement Breakthrough initiative launched at COP28, setting in motion an government exercise of reviewing cement decarbonisation policy and suggesting innovative policy levers at future international fora.

We identified three key areas where we encouraged progress. First, we highlighted the regulatory environment as critical to facilitating low-carbon cement, rather than encumbering demand, including through building codes, product standards, and public procurement mechanisms. We said that this should consider the adjacent benefits of decarbonising cement, such as waste reduction and circularity. Second, we suggested the initiation of lead markets for low-carbon cement, important for overcoming inertia and providing the demand-led signals required for confident investment in decarbonisation, which will be capital intensive. Finally, we encouraged a consideration of lifecycle emissions savings, which would highlight the contributions that decarbonised cement can make to promote long-lasting construction, circularity, and natural capital, all while contributing to the government's housebuilding ambitions. We are monitoring for further engagement.

Additionally, EOS co-signed the 2024 Global Investor Statement to Governments on the Climate Crisis. The letter called on governments to close the policy gap to delivering the goals of the Paris Agreement. This recognises the importance of a facilitating policy environment to support investors in managing climate-related financial risks and opportunities, and delivering value and returns for their beneficiaries. The letter sought economy-wide policies, sectoral transition strategies, and clear integration of the nature, water, and biodiversity-related challenges related to climate change.

In focus: nature

In 2024, the ongoing issues of deforestation, water pollution, and soil degradation remained prominent in the news, underscoring the critical need to protect biodiversity and natural ecosystems. Investors are becoming increasingly cognisant of the financial risks posed by corporate activities that affect and rely on nature and its vital ecosystem services. Concerningly, according to the IPBES Nexus Report, it is estimated that the unaccounted-for costs of current approaches to economic activity – reflecting impacts on biodiversity, water, health and climate change – are at least $10-25 trillion per year.[25]

Engagement

We responded to this challenge by engaging with companies to address marine and terrestrial biodiversity loss across their value chains in line with the mission to halt and reverse biodiversity loss by 2030, as agreed within the Global Biodiversity Framework (GBF). We continued to encourage companies to assess and disclose their nature-related impacts, dependencies, risks and opportunities in line with the Taskforce on Nature-related Financial Disclosure (TNFD) recommendations.

The insights from this assessment should be used to develop a strategy and transition plan, with time-bound targets, to address the most material nature-related risks and impacts. We also emphasised the importance of supply chain oversight and the governance of nature-related issues, including ensuring robust understanding at board-level and the alignment of lobbying positions.

In 2024, EOS also intensified its engagement with companies to identify their impacts and dependencies, and to mitigate related risks. We raised the issue of water security and asked for risk assessments and robust targets and strategies in engagements with Yum! Brands, Hormel Foods, Asahi Group and McDonald's.[26] All four have conducted water risk assessments, and Asahi has set a goal to identify 100% of its manufacturing sites located in water risk areas by 2030.

Collaborative engagement

In addition to direct engagement, in 2024 we increased our collaborative engagement on nature, including through Nature Action 100, FAIRR, PRI Spring, the Ceres Valuing Water Finance Initiative, the Investor Initiative on Hazardous Chemicals, the Finance Sector Deforestation Action (FSDA) Initiative, and as co-chair of the Engagement Working Group within the Finance for Biodiversity Foundation.

As part of the FSDA, EOS led and supported engagements with 27 focus companies in 2024, including Adidas, Cargill,[27] Home Depot, Walmart, Unilever and Yum! Brands.

Through collaborative engagement via Nature Action, in Q1 2024 we led an engagement with Chinese dairy producer Inner Mongolia Yili Industrial Group to encourage the company to develop a plan to commit to deforestation and conversion-free sourcing by 2025 at the latest. Following this and direct engagement, we welcomed their commitment to achieving a deforestation-free supply chain in palm oil, pulp and paper, soy, and soy in livestock feed by 2030.

Advocacy

Nature and biodiversity loss pose substantial risks to many of the assets in which we invest. Given the systemic nature of these risks, it is not within the control of individual companies to fully mitigate their exposure. In line with our fiduciary duty, we therefore conduct public policy advocacy to support measures to mitigate these systemic risks and the impacts they may have.

Much of our advocacy during 2024 was building towards key negotiations on biodiversity taking place in October at the COP16 event in Cali, Colombia. We engaged with governments, NGOs and industry initiatives to emphasise the importance to investors of implementation of the Global Biodiversity Framework (GBF) to mitigate the systemic risks that our assets may be exposed to. We focused on key drivers of biodiversity loss including deforestation and plastics pollution, whilst also considering broader levers for positive impact, such as credible biodiversity credits.

Deforestation: 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 and will support our engagement with policymakers on this topic.

We recognise that progress in halting deforestation has been slower than envisaged at COP26 when over 100 leaders pledged to end deforestation and land degradation by 2030,[28] and over thirty financial institutions including FHL committed to seek to eliminate agricultural commodity-driven deforestation from their portfolios.[29] We recognise the importance of policy change from governments to drive

[25] ipbes, 'Media Release: IPBES Nexus Assessment' (December 2024)
[26] Of these, only Yum! Brands was a FHL holding at time of reporting.
[27] Cargill was not an FHL holding at time of reporting.
[28] GOV.UK, 'Over 100 leaders make landmark pledge to end deforestation at COP26' (November 2021)
[29] Global Canopy, 'Thirty financial institutions commit to tackle deforestation' (November 2021)

progress more quickly. 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. Following the letter, the group is seeking to engage with DEFRA and other key departments of the UK Government during 2025.

Investing in biodiversity: We co-authored the Guide to Investing in Natural Capital for the One Planet Sovereign Wealth Fund initiative, which was founded by six of the largest sovereign wealth funds. The community seeks to increase the efficiency in global capital allocation to contribute to transition to a more sustainable economy. The guide showcased opportunities across different asset classes as well as the risks of not taking nature into consideration as part of investment decisions.

Biodiversity credits: We were invited to join the expert group of the International Advisory Panel on Biodiversity Credits (IAPB). IAPB was launched by the French and UK governments at the Summit for a New Global Financial Pact in 2023. As part of this group, we contributed to the development of the IAPB's Framework for high integrity biodiversity credit markets, which was launched in October 2024 at COP16. Over a year in development, the Framework aims to provide the solid foundations necessary for the development and growth, at pace, of high integrity biodiversity credits markets globally. It seeks to respond directly to the Kunming-Montreal Global Biodiversity Framework (GBF)'s goal of halting and reversing biodiversity loss and to the implementation of Target 19 of the GBF.

The Framework received a positive reaction and we hope to see uptake as both governments and companies consider the use of biodiversity credits.

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.[30] In the lead up to COP16, we led or joined engagements with policymakers and negotiators to share the recommendations and understand progress on implementing the Global Biodiversity Framework (GBF) at the national level. We contributed to developing the FfB Foundation delegation's position for COP16[31] and summarised our expectations in an Insight piece.

Delegates met to discuss progress on implementing the GBF, almost two years after it was agreed at COP15 in Montreal. However, only 44 out of 196 parties (22%) submitted their National Biodiversity Strategies and Action Plans (NBSAPs), which are supposed to articulate how countries will translate the GBF goals and targets into national policy and regulation.

At COP16, we focused on following the negotiations, particularly on resource mobilisation, and participated in a range of events to share our policy recommendations and our approach to engagement with companies. We were pleased to see our policy expectations well-reflected at Finance Day, including the need for economic incentives and sectoral transformation pathways that enable private sector action; the alignment of public and private financial flows with biodiversity targets; and a whole-of-government approach to this challenge. However, a significant gap between recognition and implementation remains.

COP16 resulted in progress on Digital Sequencing Information, with the formation of the Cali Fund to recognise the value of nature for scientific research, and the formalisation of participation of Indigenous people and local communities in the negotiations through the creation of a permanent subsidiary body.

In resumed COP16 talks in Rome, countries also agreed to a strategy for "mobilising" at least $200bn per year by 2030 to help developing countries conserve biodiversity.

Plastics treaty: Pollution is one of the five main drivers of biodiversity loss, and ocean ecosystems are under threat. An estimated 1.7 million tonnes of plastic waste enter the ocean annually, bringing toxic chemicals and micropollutants into the marine environment.

Delegates from over 177 nations and 440 observing organisations convened in Busan, South Korea in late November to develop an international, legally binding instrument on plastic pollution, including in the marine environment. The global plastics treaty aims to tackle plastic pollution across the entire lifecycle, from design and production to chemicals of concern and disposal.

Ahead of the UN treaty negotiations, we saw strong momentum on plastics policy in the public and private sectors. Alongside over 270 other organisations, EOS became a supporter of the Business Coalition for a Global Plastics Treaty, advocating for policy measures to address plastics pollution. To support the development of an ambitious treaty, EOS also co-signed the Finance Statement on Plastic Pollution led by the UN Environment Programme Finance Initiative, and the Investor Statement to petrochemical companies initiated by Planet Tracker.

[30] Finance for Biodiversity, 'Aligning Financial flows with the Global Biodiversity Framework: Translating Ambition into Implementation' (April 2024)
[31] Finance for Biodiversity, 'FFB Foundation urges world leaders to implement concrete actions to align financial flows with the GBF ahead of COP16' (October 2024)

Contrary to expectations, a final treaty was not agreed in Busan due to significant divergence on contentious issues between states. A resumed round of negotiations is likely to be established in early 2025. The majority of states seeking an ambitious treaty called for a global ban and phase-out of chemicals and products of concern – mainly single-use plastics. However, this was one of the major points of divergence between states. After over 80 countries said they would not accept a low-ambition treaty, this was reflected in the chair's text, opening the door for further talks. We will continue to monitor the progress of these negotiations and opportunities to support an ambitious treaty in 2025.

Disclosure Standards: In recognition of the need for better disclosure frameworks on nature-related issues, including deforestation, we are part of the Taskforce on Nature-related Financial Disclosures (TNFD) Forum and have provided feedback on the draft recommendations. This complements our engagement with companies on aligning disclosures with the TNFD recommendations. In 2024 we responded to three TNFD sector guidance consultations for food and agriculture, beverage, and apparel, accessories and footwear. For the apparel sector we made recommendations related to circularity, human health issues caused by chemicals, human rights, and the sector's power to influence. We also formally signed up as an inaugural TNFD Early Adopter after aligning our own Climate- and Nature-related Financial Disclosures Report with the recommendations of the TNFD.[32]

We also continue to evolve our work in understanding nature-related risks and opportunities, which is detailed earlier in this section.

In focus: human and labour rights

A failure to protect and respect human rights undermines not just the wellbeing and dignity of individuals but also damages the wellbeing of economies and societies. The Universal Declaration of Human Rights is clear that 'every individual and every organ of society' has responsibility to promote and protect human rights. As noted in the UN Guiding Principles on Business and Human Rights, this responsibility also applies to companies and investors.

For our investments, we consider the human rights impacts that the companies or entities in which we invest may cause, contribute to, or be directly linked to, through their own operations or business relationships. We recognise that different sectors, companies, asset classes and geographies can have different human rights impacts, and scales of impacts. We also recognise that our ability to influence is dependent on the specific company or issuer, on our place in the entity's capital and governance structures, and on the objectives and mandates of our funds. We adapt our approach depending on the scale or potential scale of the impacts, and our ability to exert influence.

More detail on our approach to human and labour rights is available in our Responsible Investment (RI) Policy.

Engagement approach: Human rights

A strong commitment to protecting human rights is crucial for responsible business development and long-term wealth creation. Without this, companies may lay themselves open to legal and financial penalties, operational disruption, and stakeholder backlash, harming their social licence to operate and ability to deliver value for their investors.

Certain geographies carry heightened human rights risks and therefore require enhanced due diligence and consideration from companies. EOS does not have a fixed definition of high-risk regions, but we consider factors such as the presence of conflict and the degree of legal protection in place for workers.

In 2020, EOS outlined our engagement approach for human rights in high-risk regions. Since then, we have seen the invasion of Ukraine by Russia in 2022, and an escalation of violence in the Middle East. Meanwhile, the proportion of global land mass impacted by conflict has increased by 65% since 2021.[33]

Our engagement remains apolitical and is guided by the expectation that all companies should operate in alignment with the UN Guiding Principles on Business and Human Rights (UNGPs). Our underlying approach and commitment to the UNGPs has been relatively unchanged, but we may emphasise certain aspects on a case-by-case basis depending on the region in question and the nature of a company's involvement. More information on our approach can be found in our 2024 EOS Annual Review.

Identifying high-risk regions

EOS identifies priority high-risk regions to address in engagement with companies on an ongoing basis. These have included Myanmar, Western Sahara, the Xinjiang Uyghur Autonomous Region (XUAR), and Ukraine. We may also engage on a region for individual companies where a major controversy arises. We had 15 open corporate objectives related to human rights in high-risk regions as of the end of 2024.

In 2024, companies faced significant pressure from stakeholders to divest from operations potentially exposed to the Israel-Gaza conflict or heightened tensions in the West Bank.[34] EOS undertook outreach to a select group of companies, including some of those identified by the United Nations Human Rights Council (UNHRC), to clarify their exposure and discuss human rights within the framework of our approach. We sought evidence that companies had rigorous human rights practices that applied across all business activities and that they were effectively managing associated risks.

In total, we engaged with 22 companies regarding their exposure via correspondence and virtual meetings. We will continue our dialogue with these companies on this issue and their wider human rights performance.

[32] TNFD, 'TNFD Early Adopters' (January 2024)
[33] Political Risk Outlook, 'Global conflict zones grow by two thirds since 2021, topping 6 million km2' (November 2024)
[34] European Parliament, 'Products made with forced labour to be banned from EU single market' (April 2024)

CASE STUDY

Freeport-McMoRan

Freeport-McMoRan is an American mining company and operates the world's largest gold mine, the Grasberg mine in Papua, Indonesia.

Engagement

In 2017, we asked Freeport-McMoRan to undertake a human rights impact assessment (HRIA) for its PT-FI Grasberg operations in Indonesia. This assessment would help identify, prevent, mitigate, and account for the adverse effects of the business on human rights in line with the UN Guiding Principles on Business and Human Rights (UNGPs). This request was in response to reports of adverse human rights impacts on Indigenous Peoples and local communities since the opening of the mine and criticism from the Indonesian Human Rights Commission related to labour rights. We encouraged the company's HRIA to follow the best practices outlined within the UNGPs.

Between 2019 and 2022, we reiterated our request that the company undertake a HRIA. The company made progress in 2021 confirming that it had engaged a consultant to conduct the HRIA for its PT-FI Grasberg operations. The process was delayed due to the Covid-19 pandemic. In 2023, we shared additional expectations for the HRIA, specifically, to ensure that stakeholder engagement was robust and transparent, to assess the effectiveness of grievance mechanisms, and to clarify whether PT-FI Grasberg operations were aligned with the specific considerations for Indigenous Peoples' rights within the UNDRIP, including free, prior and informed consent (FPIC). We followed up with the company on the status of its HRIA in 2024.

Outcomes and next steps

In 2024, the company completed the HRIA and published a public summary. According to the third party, the results of the HRIA confirmed the overall strength of PT-FI's existing business systems as they relate to human rights. Out of 18 priority areas assessed, eight were considered "aligned to international good practice," seven were considered "managed" and three were considered "basic." Key recommendations included dedicating priority attention to strengthening management capacity related to decision-making, training and knowledge management, stakeholder engagement and gender; strengthening its current human rights training materials; and implementing a campaign to raise awareness about its Principles of Business Conduct.

In May 2024, we thanked the company for completing the HRIA and doing similar assessments at other mines as part of its human rights due diligence. The public summary showed evidence of stakeholder engagement and assessed the effectiveness of grievance mechanisms. It stated that PT-FI was aligned to international best practice on Indigenous Peoples and cultural heritage. We sought to clarify whether PT-FI was aligned with the specific considerations for Indigenous Peoples' rights within the UNDRIP, including FPIC. In response, the company shared that PT-FI follows its policy on FPIC and maintains agreements and good relations with Indigenous Peoples in the area. PT-FI is also designated as "fully meets" for the Copper Mark requirement for Indigenous People's rights.

(Published October 2024)

As part of our public policy advocacy and collaborative work, EOS participates in working groups related to human rights. These include knowledge sharing on high-risk regions engagement approaches and collaborative engagement, such as through the Investor Alliance for Human Rights and the Principles for Responsible Investment's Advance initiative.

[35] Corporate Accountability Lab, 'FIFTY YEARS OF CORPORATE EXPLOITATION: ENVIRONMENTAL, LABOR, & HUMAN RIGHTS ABUSES BY US MINING GIANT FREEPORT (PART II)' (July 2022)

[36] IndustriALL, 'Indonesian Human Rights Commission calls for reinstatement of Grasberg workers' (November 2017)

[37] Freeport-McMoRan, 'Human Rights Impact Assessment: PT-FI's Grasberg Minerals District' (April 2024)

DEEP DIVE: DIGITAL RIGHTS & AI

The release of OpenAI's ChatGPT3 in November 2022 and the subsequent arrival on the market of other large language models (LLMs) raised awareness of the transformative impacts that AI may have on business and society. We have seen a proliferation of use cases for AI, which extend beyond early adopting industries, such as technology and finance, into all sectors.

While digital technologies, particularly AI, have the potential to drive a fourth industrial revolution and are creating unprecedented new opportunities for businesses, their deployment also introduces ethical dilemmas, as well as reputational and legal risks. These include potential breaches of privacy rights, cybersecurity threats, and unintended bias or a lack of transparency or explainability in AI models. Other issues include misinformation, a potentially unsustainable rise in data centre energy demand, and disruption to the workforce.

The business case for a responsible approach to digital rights and AI hinges not only on the mitigation of downside risks, but also the opportunity to enhance a company's returns and reputation. Users of digital services and AI are understandably concerned about the potential for unintended personal and societal harms, and this creates opportunities for companies to derive long-term value from establishing themselves as trusted digital and AI brands.

EOS have been engaging on digital rights since 2012, and the business and wider societal impacts of AI since 2018. In 2019, we published our Investor Expectations on Responsible AI and Data Governance[38] paper and a collaborative paper on AI Applications in Financial Services.[39] Later, in 2022, EOS's Digital Rights Principles[40] set out our core expectations of companies regarding privacy rights, freedom of expression, mitigation of negative societal impacts (including the need to prioritise children) and the implementation of robust AI governance structures and policies.

Developing and agreeing on ethical AI and data governance principles is important to a company's own internal understanding of how best to manage the associated risks, such as algorithmic bias. These principles should explain the structures for digital rights and AI governance, the ethical use principles to which a company adheres, examples of use cases, and explanations of how risks, including algorithmic bias, are identified and mitigated.

To protect privacy and freedom of expression, we expect companies to obtain user consent in a clear and transparent manner for the collection, storage, and use of data, including targeted advertising, and ensure the responsible use of facial recognition technology. We also encourage companies to endorse the Global Network Initiative (GNI),[41] a multi-stakeholder forum for accountability, collective advocacy and practices at the intersection of technology and human rights. We ask that companies seek to understand where their business models generate or contribute to negative social impacts and be transparent about the findings. They should take steps to mitigate negative societal impacts, and cede the appropriate authority to regulators where appropriate. We encourage companies to prioritise children and young people when considering potential negative societal impacts.

[38] FHL, 'Investors Expectations on Responsible Artificial Intelligence and Data Governance' (April 2019)
[39] Marsh, 'Artificial Intelligence Applications in Financial Services' (December 2019)
[40] FHL, 'EOS Digital Rights Principles' (April 2022)
[41] Global Network Initiative

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Ensuring our policies support effective stewardship

The latest versions of our policies are available on our Policies and Disclosures webpage. We regularly review our policies to ensure they remain effective. The process for doing so depends on the specific policy. For more information on our Conflicts of Interest Policy; Stewardship Conflicts of Interest Policy; Engagement Policy; Sustainability Risks Policy; and Engagement Plan can be found on page 49 of our 2023 Stewardship Report. These policies did not undergo material changes in 2024.

Since publishing our previous Stewardship Report, we have introduced a new Responsible Investment (RI) Policy, which is annually reviewed and approved by the Sustainability Regulations and Stewardship Oversight Committee (SRSOC). This Policy collated existing content from the Sustainability Risks Policy, Human Rights Policy Statement, and Deforestation Policy Statement, and included a new section – Climate Change Policy Statement. Our Approach to Controversial Activities is also published for the first time in this Policy. This Policy is available on our website.

A number of changes were made to EOS' voting guidelines in 2024 and these included: introducing a voting policy to identify and address potential corporate governance concerns in companies where the equity persistently trades at a price-to-book valuation of below one; increasing director independence expectations across Asia and Global Emerging markets; and further enhancing our approach to voting on climate and natural resource stewardship topics.

As described earlier in Principle 2, the SRSOC has superseded the Governance Committee and taken over its responsibilities. As such, the SRSOC conducts the annual review of the Engagement Policy, Sustainability Risks Policy, and Approach to Controversial Activities.

Our approach to assurance

We have several internal and external processes in place to maintain high standards of stewardship.

Internal processes

The Risk and Compliance departments, together with senior management, continue to augment and embed our firm's compliance framework, which includes managing any potential conflicts of interest, monitoring of regulatory and client-specific guidelines by using the appropriate systems, ensuring that the risks associated with new products, instruments and markets/locations are adequately considered, and overseeing staff inductions and regulatory training, including Know Your Customer, Anti-Money Laundering, and Anti-Bribery and Corruption training.

Our internal audit function's primary role is to help the Boards and executive management to protect the assets, reputation and sustainability of the organisation. In 2024, the Audit Report continued to focus on matters related to responsible investment and these were considered through the review of ESG Product Level Reporting; and the Asia ex-Japan and US SMID equity teams investment processes. For more information on our internal audit team please see page 50 of our 2023 Stewardship Report.

In 2024, the composition of the EOS & Responsibility leadership team, which manage day-to-day operations and quality assurance, altered to consist of the Head of Responsibility; the Head of Stewardship; the Regional Team Leads (North America, Europe and Asia and Emerging Markets); the Head of Client Service & Business Development for EOS; the Head of Responsible Investment Business Management; the Global Head of Institutional Clients; the Sustainability Director; and Managing Legal Counsel. For more information on our engagement quality assurance, the Responsibility Office oversight, and real estate's monitoring programme please see page 50 of our 2023 Stewardship Report.

External assurance

Our external assurance providers will from 2025 assess us on a 2-year basis. As such, we still refer to their latest limited assurance engagement on the information disclosed as part of the sustainability reporting of FHL in the period from June 2022 to July 2023 (inclusive). The results of our third assurance engagement, which included assessment of the systems and controls for our stewardship and ESG integration implementation, can be found on pages 50-51 of our 2023 Stewardship Report.

The Real Estate ESG team completes Global Real Estate Sustainability Benchmark (GRESB) reporting to benchmark our real estate assets against their peers. In 2024, eleven real estate funds were submitted for certification continuing our commitment to the benchmark which dates back to 2011. GRESB scores globally dropped this year as the methodology of the benchmark matured to become country specific and were updated with new sustainability concerns, such as climate change resilience. Our two new funds in the scheme achieved an increase in scores on 2023 results, demonstrating the effort placed on bringing new modern, high grade buildings to the market. More information on GRESB can be found under Principle 9.

For more information on the real estate team's data management and verification processes, please see page 52 of our 2023 Stewardship Report.

Our infrastructure team are supportive of external assurance and benchmarking at portfolio company level. Historically the team have encouraged portfolio company participation in the GRESB Infrastructure assessment and completed the assessment on behalf of a selection of their portfolio companies, primarily those which do not have a strategic sustainability framework in place and therefore benefit from participating.

The Real Estate ESG team completes Global Real Estate Sustainability Benchmark (GRESB) reporting to benchmark our real estate assets against their peers.

Fair, balanced and understandable stewardship reporting

As described above, we have internal and external assurance processes in place to ensure the quality of our stewardship. EOS also undertakes a competitor analysis review on a regular basis. In the introduction to this report, we set out the steps we have taken to ensure that our reporting is fair, balanced and understandable, including representing a range of outcomes in our reporting and describing lessons learned. We have sought to proportionately represent the breakdown of asset classes and geographies in the examples and case studies that we use and been clear about any differences in approach.

Relevant business areas have reviewed the content of this report relating to their business area, and the report has been approved by our Board.

Continuous improvements

We use these assurance processes, reviews and learnings from our investment and stewardship practices to continue to make improvements to our stewardship approach. This ensures we continue to provide best-practice services for our clients.

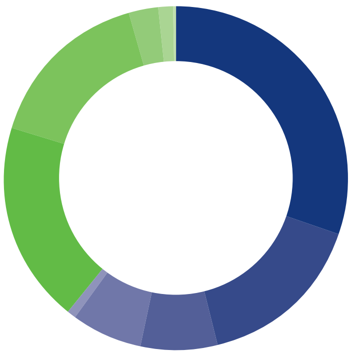
We have made several improvements based on the recommendations of the external assurance provider's last engagement, the results of which can be found on pages 50-51 of our 2023 Stewardship Report. For instance, we have obtained new datasets to broaden the ESG integration team's analysis, such as ForestIQ (as described in Principle 4); conduct quarterly catchups with our key data providers to identify issues (as described under Principle 8); continue to perform regular Paris-alignment analysis of the investment teams' portfolios; and a broader, firm-wide project to streamline the consumption of ESG data.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Our client base

Figure 17. The breakdown of our client base:



Institutional	Sum of AUM %	Wholesale	Sum of AUM %
Institutional	**60.90**	**Wholesale**	**39.10**
United Kingdom & Ireland	30.33	Europe	18.94
Europe	16.03	United Kingdom & Ireland	15.87
North America	7.13	North America	2.81
Asia Pacific	6.59	Asia Pacific	1.46
MENA	0.82	MENA	0.02

Grand Total 100.00%

Source: FHL, as at 31 December 2024.

Our investment time horizons

Our approach is to seek opportunities to deliver enduring wealth creation, responsibly for investors. It is this understanding that informs our belief that we have a duty to consider the longer-term risks and opportunities when investing. For more information of our investment time horizons, please see page 53 of our 2023 Stewardship Report.

How we have sought and incorporated our clients' views

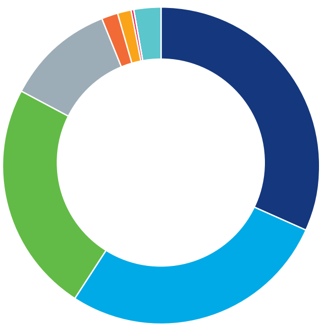
We seek client views through a number of fora to ensure we understand how we can continue to best meet their needs. For more information of on how we seek and incorporate our clients' views please see pages 53-54 of our 2023 Stewardship Report.

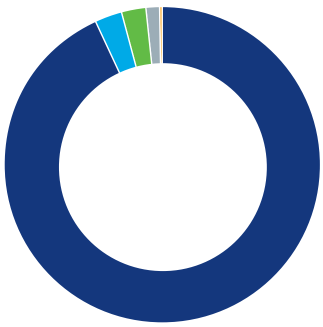
Since publishing our previous Stewardship Report, we have relaunched the Academy and further information can found on this later in this Principle.

As mentioned under Principle 2, our Product Oversight Committee (POC) has replaced the Customer Outcomes Group (COG) and has taken over its responsibilities, including quarterly reviews on our range of products.

Our assets under management

Figure 18. The breakdown of AUM by asset class and geographies





Asset Class

	% of AUM
Equity	39.84%
Fixed Income	11.24%
Liquidity	20.37%
Multi Asset	0.08%
Infrastructure	5.50%
Private Equity	9.32%
Real Estate	13.65%
Grand Total	**100.00%**

Public Market Equity, Fixed Income and Liquidity

	% of AUM
North America	31.85%
Asia	27.44%
United Kingdom	23.62%
Europe	11.19%
Latin America	1.69%
Australia	1.33%
MENA	0.18%
Africa	0.04%
Other	2.66%
Grand Total	**100.00%**

Real Estate

	% of AUM
United Kingdom	93.13%
Europe	2.76%
Australia	2.50%
North America	1.59%
Asia	0.00%
Other	0.03%
Grand Total	**100.00%**

'Liquidity' in the pie chart above includes our money market funds.

Source: FHL, as at 31 December 2024.

Finding the right fit

We offer a range of strategies across asset classes, each with their own investment style and stewardship approach, so that clients are able to invest in products that meet their needs. All of our products are high active share, integrate ESG considerations and engagement insights in investment decision making and deploy best practice stewardship. For more information on finding the right fit please see page 54 of our 2023 Stewardship Report.

Since publishing our previous Stewardship Report, and to align with new regulations, we are restructuring our investment offering. As of 2024, we have a broad investment offering, with each product managed being mapped to the EU Sustainable Finance Disclosure Regulations classifications (where applicable). For each product we clearly outline the approach to ESG integration adopted by that particular strategy in order to ensure complete transparency with our clients.

The EOS Engagement Plan was developed to provide clients with a clear articulation of the approach to engagement being carried out acting as a statement of our stewardship priorities and objectives on our clients' behalf. For more information on the development of the EOS Engagement Plan, please see page 55 from our 2023 Stewardship Report.

To ensure that we continue to manage our assets in line with the approach we market to prospects and agree with clients, our Compliance department monitors fund guidelines, IMA and prospectus rules which include fund objectives and constraints, through order management and trading system (OMS) ThinkFolio. For more information on how our Compliance team conducts guideline monitoring please see page 55 of our 2023 Stewardship Report.

The Risk team monitors adherence to internal investment risk guidelines and provides an early warning of potential breaches. For more information on how the team flag guideline breaches please see page 55 of our 2023 Stewardship Report. Since publishing our previous Stewardship Report, our Product Review Committee has been disbanded.

As mentioned under Principle 2, our Risk Team has replaced the Investment Office and taken over its responsibilities.

Communicating with our clients

We are committed to being open and transparent. As noted earlier, the Federated Hermes Pledge underpins our firm-wide commitment to always put clients first and to act responsibly.

Reporting is critical to demonstrate our activity on our clients' behalf. We therefore continue to build out our suite of high-quality, activity-based, qualitative and quantitative communications to support internal and external stakeholder communications.

We continue to regularly publish detailed case studies and periodic reports that cover a range of asset classes, alongside long-form thought pieces, blogs and podcasts on topical and emerging ESG issues. In 2024 topics included water management, climate risk insurance, hazardous chemicals, plastics and ocean pollution, and antimicrobial resistance among others. We also make publicly available a quarterly EOS engagement and voting recommendations report covering thematic ESG topics and EOS' annual report, which includes statistics, case studies and public-policy information.

Elsewhere, our online learning platform, Academy, was relaunched in 2024 with new educational content in the form of videos focusing on the ESG factor, stewardship and sustainable fixed income.

For more information on our Climate- and Nature-related Financial Disclosures (TCFD) Report please see page 55 of our 2023 Stewardship Report.

We continue to improve our reporting on ESG so that our clients can fully understand our approach to responsible investment and plan to roll out further enhancements on ESG reporting as tools and technologies evolve. For more information on our ESG reporting please see page 56 of our 2023 Stewardship Report.

For information on our **real estate** team's sustainability reporting please see page 56 of our 2023 Stewardship Report.

For information on our **infrastructure** team's sustainability reporting please see page 56 of our 2023 Stewardship Report. Since publishing our previous Stewardship Report, there has been an update; in 2024, the team published a public TCFD report detailing their approach to climate-related risks and opportunities as an infrastructure manager.

Our **private equity** team have issued a Sustainability Report for some of our latest funds with the support of a third party provider since 2022.

Typically, we offer clients annual meetings where the client director and portfolio manager review the portfolio and provide insight into ESG activities undertaken. However, we aim to meet the needs of each client and can be available to meet at more frequent intervals or via conference calls as required. This allows clients to provide feedback on our communications. For more information on our client communications please see page 56 of our 2023 Stewardship Report.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

At FHL, we believe responsible investment requires integration of material E, S and G factors in the investment process alongside material traditional performance factors and active ownership of assets through stewardship.

Holding this focus across all of our strategies, while also behaving responsibly as a firm, is integral to delivering enduring, wealth creation, responsibly.

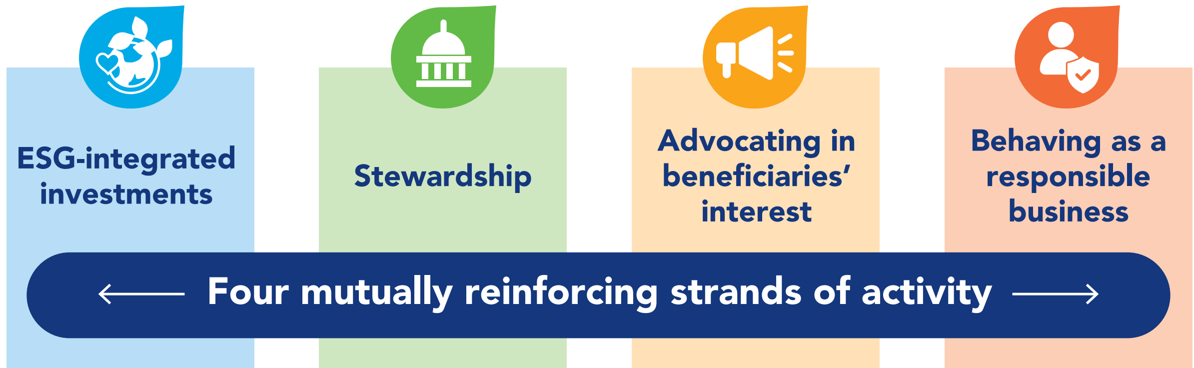
Figure 19. Creating wealth for investors

Source: FHL, as at 31 December 2024.

We do not see the integration of ESG factors and engagement insights within investment decisions as a separate category of investing. Instead, we believe material ESG risks and opportunities should inform all investment decisions. That is why we integrate ESG considerations and engagement insights into our investment processes in all of our products, across all asset classes. As our research has demonstrated, investors do not need to sacrifice returns to invest responsibly. On the contrary, our research shows that companies with good environmental, social and governance performance indicators tend to outperform others over the medium and long term.[42] In the credit space, our previous research on ESG risk in CDS spreads and sovereign credit further evidence the importance of ESG in investment decisions.[43] For this reason, we aim to ensure that investors' capital is deployed to create wealth responsibly, delivering sustainable growth which also benefits the society and environment – dual perspectives that we believe should not be separated, but considered as one.

We believe there are four mutually reinforcing strands of being a responsible investment manager: ESG-integrated investments; active ownership and management; advocating in beneficiaries' interest; and behaving as a responsible business. Together, these aim to generate enduring wealth creation, responsible for the end beneficiary investors, encompassing investment returns and their social and environmental impact.

Figure 20. Our strategy



We aim to integrate consideration of material ESG risks and opportunities into our investment processes across all strategies and asset classes.

We aim to be active, engaged and responsible owners of those companiesand assets in which we are invested and those we directly manage.

We engage with and encourage regulators and standard setters globally to intervene to reduce systemic risks and ensure that the financial system operates in the interests of its ultimate asset owners.

We aim, as a firm, to meet the expectations that we have of others. Each of us individually has a responsibility to lead by example and act ethically and with integrity.

Source: FHL, as at 31 December 2024.

Prioritising issues for assessment of investments

Taking an active approach is a central part of our investment proposition. As a result, our portfolio managers are able to take a selective approach by only investing in companies with the necessary characteristics, in the team's opinion, to be successful over the long term. This approach stems from our values and investment beliefs, which we described earlier under Principle 1. We consider all material investment factors, including those relating to material ESG issues and insights from engagement.

While the most pressing material risks are those that will crystallise in the short term, we are long-term investors that strive to deliver enduring wealth creation, responsibly for our end investors. This means that our definition of materiality is necessarily wider. We believe that a wider range of risks will ultimately become material over a longer timeframe and that we need to engage proactively to mitigate them.

The key medium- to long-term risks – many of which may also present threats over shorter timescales – that we factor into our investment analysis and engagements include climate change, natural resource scarcity, pollution, human rights, human capital and labour rights, conduct, culture and ethics, corporate governance and strategy, risk and communications. More detail about how we engage on these issues and the outcomes we seek is available under Principle 9.

An E, S or G issue will rarely be the sole or standalone driver behind any investment decision. Instead, material E, S and G factors are integrated into fundamental analysis and inform the teams' investment decision making. The impact on the investment decision will vary depending on the mandate of the fund. For a fund that integrates ESG considerations but is not a thematic fund, the presence of E, S or G risk does not necessarily preclude investment, but rather helps investment teams reach a more holistic view of the risk profile of a company and the actions needed post-investment to mitigate risk.

[42] FHL, 'Despite headwinds, ESG continues to perform', (July 2022).
[43] FHL, 'Pricing ESG risk in credit markets: reinforcing our conviction', (December 2019); FHL,' Pricing ESG risk in sovereign credit', (March 2020).

Investment teams may also identify opportunities in companies that are improving their sustainability practices, particularly given our strong engagement capabilities. For our funds with a thematic focus and/or our impact funds, the existence of sustainability risks and opportunities and the prospect of creating or increasing positive outcomes will be significant where it is one of the main drivers of investment decisions.

Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, material risks (including E, S and G factors), and the interplay between these elements. Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress – is also a key input into this process and investment decisions at a portfolio and individual asset level. Such engagement is carried out in a co-ordinated manner both by our investment teams and by EOS to maximise the impact of our engagement. These factors influence decisions to invest and are also actively monitored after investment, with the potential to influence decisions to sell an asset or increase the size of our investment. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and, where effective, reduce the investment risk and enhance the opportunity from the investment.

The ESG Integration team within the Responsibility Office also works very closely with the investment teams to help identify material E, S and G issues that are specific to the investment manager's strategy. The ESG Integration team organises sector-level knowledge-share sessions between EOS and the investment teams and also works with the investment teams to develop frameworks which assess the materiality of sustainability risks at the company level. Finally, the ESG Integration team obtains data from third-party providers, which is overlaid in our proprietary tools by insights gleaned from our engagement with companies and is also used by analysts and engagers in their company research and portfolio analysis.

We encourage our fund managers to use their own expert judgement when considering ESG issues, just as they would with other fundamental investment factors – for example, the strength of a company's structural competitive position or the quality and depth of management.

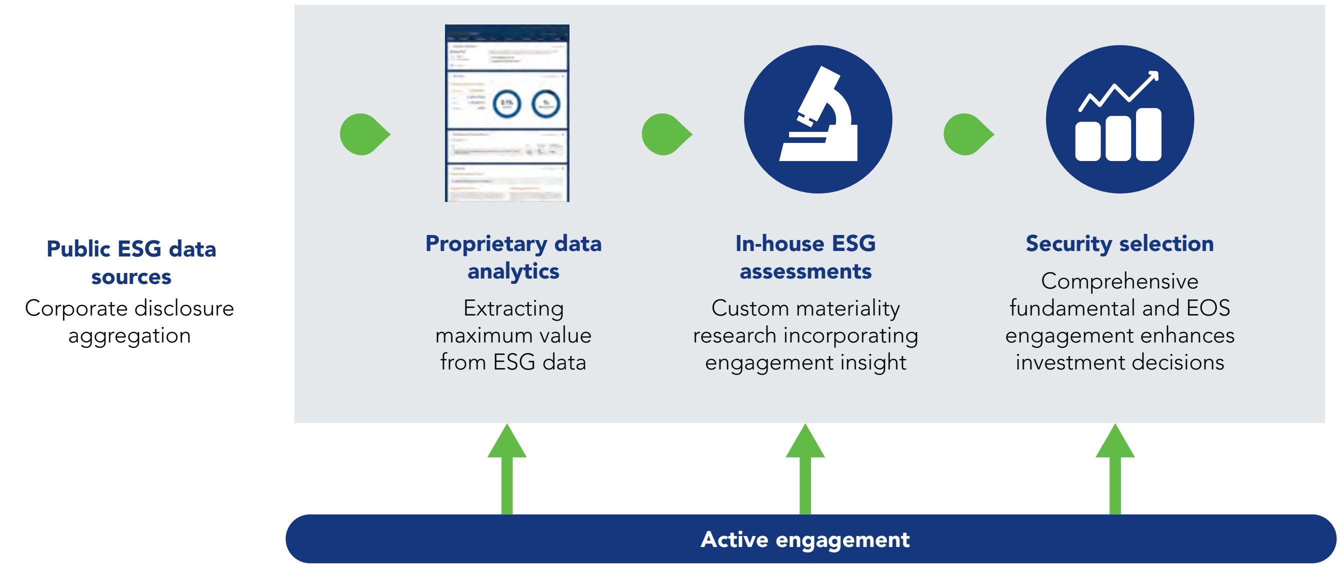
In 2024, biodiversity also remained a firm focus; we continued to assess our exposure to deforestation risk across a range of asset classes in line with our commitment and advanced the assessment of our exposure to nature-related risks and opportunities using the ForestIQ dataset. We also conducted human rights and ad-hoc biodiversity analysis across our portfolios and this will also continue as a focus for us in 2025. Another priority for 2025 is the completion of the second phase of our Paris-alignment methodology. More detailed explanations of our work on climate-change risk and opportunities, biodiversity and social issues are available under Principle 4.

In 2024, EOS identified digital rights, in addition to nature and biodiversity, as two rapidly evolving areas to intensify engagement and this will continue into 2025. For more information on their engagement approach, please see Principle 4.

Within our investment teams, we have also prioritised certain topics in certain regions. For instance, the SMID team have been focusing on human capital management, particularly around the mental health of employees in their engagement, and our Global Emerging Markets team has continued their focus on climate and nature.

How we integrate stewardship and investment across our products

Figure 21. ESG and engagement integration: leveraging market leading engagement capability to enhance investment performance



Source: FHL, as at 31 December 2024.

A tailored approach with centralised support: All our investment activity is supported by our Risk team and Responsibility Office, both of which operate and function independently from the investment teams. Regular meetings are held with the investment teams to ensure proper coordination and integration of material E, S and G factors and engagement insights. However, it is the responsibility of our investment teams to effectively integrate material sustainability and engagement information into their investment processes and ultimately our fund managers have discretion on investment decisions. This ensures that material E, S and G factors and engagement insights are fully integrated into investment analysis and decision making.

Developing a holistic view: Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, risk and material sustainability factors (including from a range of proprietary ESG and engagement tools), and the overlaps between these elements. Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress – is a key input into this process and investment strategy. Such engagement is carried out both by our investment teams and by EOS on their behalf. These factors influence decisions to invest and are also actively monitored after investment, with the potential to influence decisions to increase/decrease our exposure to the asset as well as sell an asset. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and seek to reduce the risk.

Stewardship integration: Our experience suggests that a systematic engagement approach, combined with collaboration or shareholder meeting interventions, helps to encourage change at companies. Promoting change through engagement is one side of the coin – effective integration of stewardship insights is the other.

The principal objective of stewardship is to maintain or enhance the value of an asset. The beneficial outcomes sought through engagement include those of a governance, strategic, environmental or social nature.

In addition, we believe that investors that integrate sustainability factors should not rely on data alone, as it is often backward looking and updated infrequently. As such, active ownership is an important pillar of our investment approach. Engagements can deliver useful investment insights (although engagers and analysts must always seek to avoid acquiring any inside information). The voting recommendations and engagement activities of our stewardship team can promote positive change within companies, unlocking hidden value and also providing a forward-looking view and broader performance that can lead to opportunities.

The investment teams assess and continue to monitor strategy, financials, risk, capital structure and material ESG factors and the overlaps between these elements throughout the life of the holding. This is done through carrying out analysis of company reports, attending analyst meetings and investor presentations, using media sources and third-party research and attending engagement meetings. Each investment team is responsible for looking at the financial performance, risk and capital structure of investee companies. All teams also have access to ESG data and proprietary tools, including engagement information. When a concern is identified, this will help to inform engagement and investment decisions.

The information we gather through stewardship enables us to develop a more comprehensive view of both the risk and opportunities to which a company is exposed and to factor this into valuations and investment decisions. Such assessments are not a one-off but rather form an ongoing feedback loop. Monitoring this information informs our engagements, while engagement insights inform our investment decisions. Our fundamental research benefits from our ongoing dialogue with investees, as well as that between our public markets investment teams and stewardship team. We invest time and resources to encourage companies to strengthen their governance, give our views on strategy and encourage companies to take a long-term view, particularly on sustainability issues. The insights we glean from these interactions help us to better understand a company's complex strategic challenges – something that ultimately helps us serve our clients. Research from 2020 confirmed the importance of environmental metrics as a performance indicator, as poorly ranked companies tend to significantly underperform over the long term.[44] This reinforces our aim to

[44] FHL, 'Despite headwinds, ESG continues to perform', (July 2022); Hoepner, A.G.F., Oikonomou, I., Sautner, Z., Starks, L.T., and X.Y. Zhou. (2020). ESG Shareholder Engagement and Downside Risk. ECGI Finance Working Paper 671/2020.

generate enduring wealth creation, responsibly for the end beneficiary investor, encompassing both investment returns and their social and environmental impact.

We also consider the environment that an asset is operating in when assessing risks, including sustainability risks. For example, we often find disclosures to be lacking in certain regions or small- and mid-cap companies. These companies are often ranked as poor performing companies from a sustainability perspective however, we recognise not all firms may have the resources to have detailed disclosures but are doing well in managing their sustainability risks and/or investing in the transition. Hence, our approach has always been to overlay any quantitative or third-party research with our own qualitative analysis to take into account what the companies are doing in practice. Similarly - the opposite may also hold true. We increasingly find companies setting climate targets however, not enough providing investment or developing technological advancements to meet those targets.

Given the integrated approach of all of our investment teams, information gathered through stewardship directly informs our investment decisions (alongside other factors such as more traditional financial analysis).

The nature of engagement, as described here and in Principle 9, varies between asset classes. Engagement is also influenced by sector and geography and each investment team tailors its own engagement and ESG integration approach to suit their investment philosophy (see Principle 6 for a breakdown of our asset classes). E, S and G factors and engagement insights can be a component of a screen, a source of ideas, an input into fundamental analysis or an adjustment to valuation drivers and/or a portfolio construction factor. But common across all of our funds is a set of shared investment beliefs, as set out in Principle 1, which influences every aspect of the investment process. Sustainability factors and engagement insights are integrated into investment decision making, whether it is deciding to avoid, buy, hold or exit a position.

The Responsibility Office oversees and supports all of the below stewardship and ESG integration activities. This is achieved through a number of different activities, such as coordinating knowledge-share sessions between teams (including EOS), working with the investment teams to develop frameworks to assess different sustainability risks and coordinating conversations with EOS to ensure there is good engagement across the strategies. The investment teams also meet formally with the Responsibility Office at least every quarter to discuss their engagement and ESG integration activities.

Our approach has always been to overlay any quantitative or third-party research with our own qualitative analysis to take into account what the companies are doing in practice.

Public markets

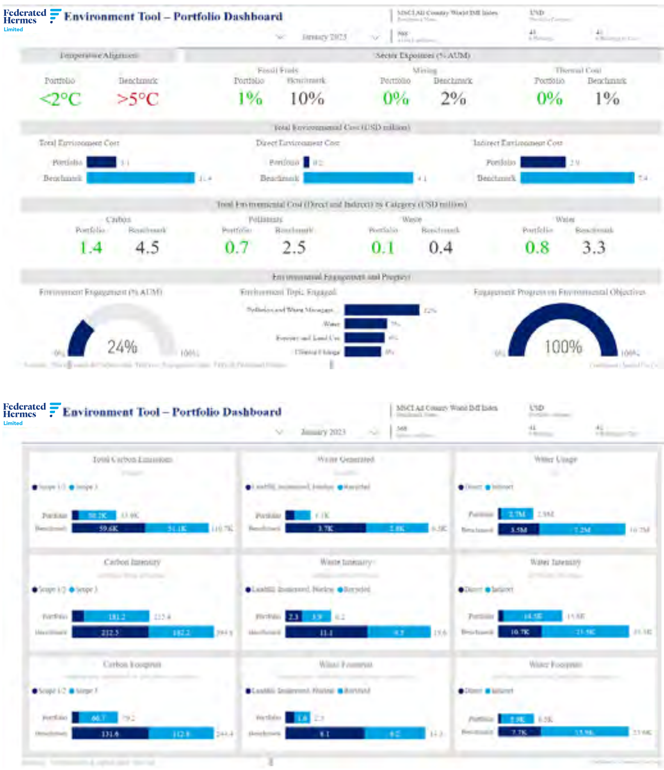
For public markets, our firm's proprietary ESG tools are of particular note:

- Our **Carbon Tool** enables fund managers and engagers to identify carbon risks in portfolios and companies that currently exist or may develop in the future. Importantly, the tool incorporates our stewardship activity and intelligence and is able to identify companies that are priorities for engagement and their progress against environmental objectives.
- Our **Environmental Tool** assesses both portfolios and companies on their carbon, water and waste performance. It also looks to quantify the environmental cost of the impact via the following six lenses; carbon, water, waste, air pollutants, land/water pollutants and natural resource use. In addition, we assess the valuation and financial risks in our portfolios and companies with exposures to carbon intensive sectors, namely: fossil fuels, mining and thermal coal. This tool also incorporates our stewardship activities with a focus on environmental engagement at both portfolio level and company level.
- Our **Corporate Governance Tool** provides a breakdown of corporate governance characteristics, such as information on board independence, diversity and audit tenure. This tool compares the governance of companies to the standards we have set and flags any companies that do not meet the expected standard.
- Our **ESG Dashboard** includes our proprietary Quantitative ESG (QESG) Score and identifies stocks with positive E, S and G characteristics and/or stocks demonstrating positive ESG change. The QESG score captures how a company manages its sustainability risks. The dashboard includes a snapshot of what themes that company has been engaged on along with progress made.
- The **Portfolio Snapshot** allows us to examine E, S and G ratings and controversies and identifies contingent risks. Our portfolio managers use this tool to evaluate a strategy's sustainability performance over time. It also provides insights into engagement and the progress made, and our voting choices relative to the benchmark.

Figure 22. Carbon Footprint – Portfolio Dashboard

Source: FHL, as at 31 December 2024. For illustrative purposes only.

Figure 23. Environmental Tool – Portfolio Dashboards

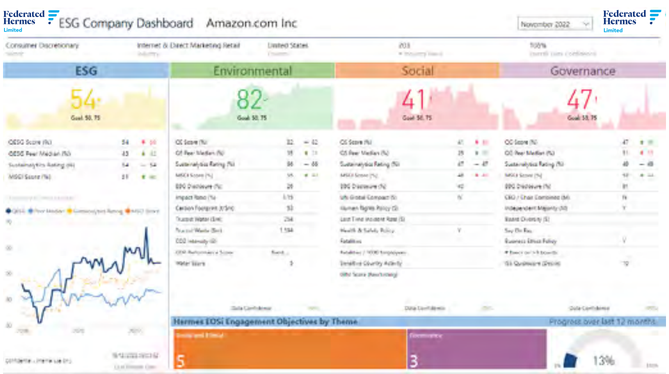


Source: FHL, as at 31 December 2024. For illustrative purposes only.

Figure 24. Corporate Governance – Company Dashboard

Source: FHL, as at 31 December 2024. For illustrative purposes only.

Figure 25. ESG Dashboard



Source: FHL, as at 31 December 2024. For illustrative purposes only.

Figure 26. Portfolio Snapshot – ESG and Engagement Performance

Source: FHL, as at 31 December 2024. For illustrative purposes only.

Through these tools, along with additional EOS engagement information, the public equities and fixed income teams have access to third-party sustainability data, as well as insights on engagement carried out by EOS with investee companies and the broader investable universe. These sources are a valuable input to the investment process, as well as to the ongoing monitoring of and engagement with companies, and complement other fundamental investment analysis carried out by the teams.

We believe that ESG-aware investors should not rely on E, S and G data alone. The information provided by companies may not be comparable with peers. In addition, it is often backward looking, updated infrequently and with a time lag. As such, engagement activities and voting information can be used by our teams to provide a forward-looking view of both sustainability characteristics and the broader performance of a company. As well as accessing EOS' engagement portal – which includes the engagement history and progress against live objectives – portfolio managers can, and are encouraged to, attend engagement meetings with the engagers. The benefit of these joint meetings is substantial and results in more effective engagement that focuses on the relevant and material ESG risks and opportunities. Our investment teams also regularly discuss salient performance issues (including ESG-related issues) with company management directly.

Our investment teams regularly interact with the relevant sector or regional lead within EOS to better understand the sustainability issues within their investment universe, and also discuss specific companies with the relevant engager. Such interactions can help the portfolio manager discern whether a particular issue is material or not, something which cannot always be gleaned from raw research data. Therefore, we believe that to implement a credible and successful ESG integration approach it is of utmost importance that engagement information is part of the sustainability information universe.

Because our EOS engagement team engages globally in respect of both our internal holdings[45] and the holdings of EOS' third-party clients, its coverage extends beyond our own holdings. This coverage allows our analysts to benefit from these engagement insights when looking at prospects, as well as in relation to ex-post monitoring.

While there are principles that govern our investment and stewardship integration across our investment teams, we believe in developing processes that are relevant to the investment strategy. Therefore, the method of this integration can vary by investment team. Below is an outline of our public credit team's approach.

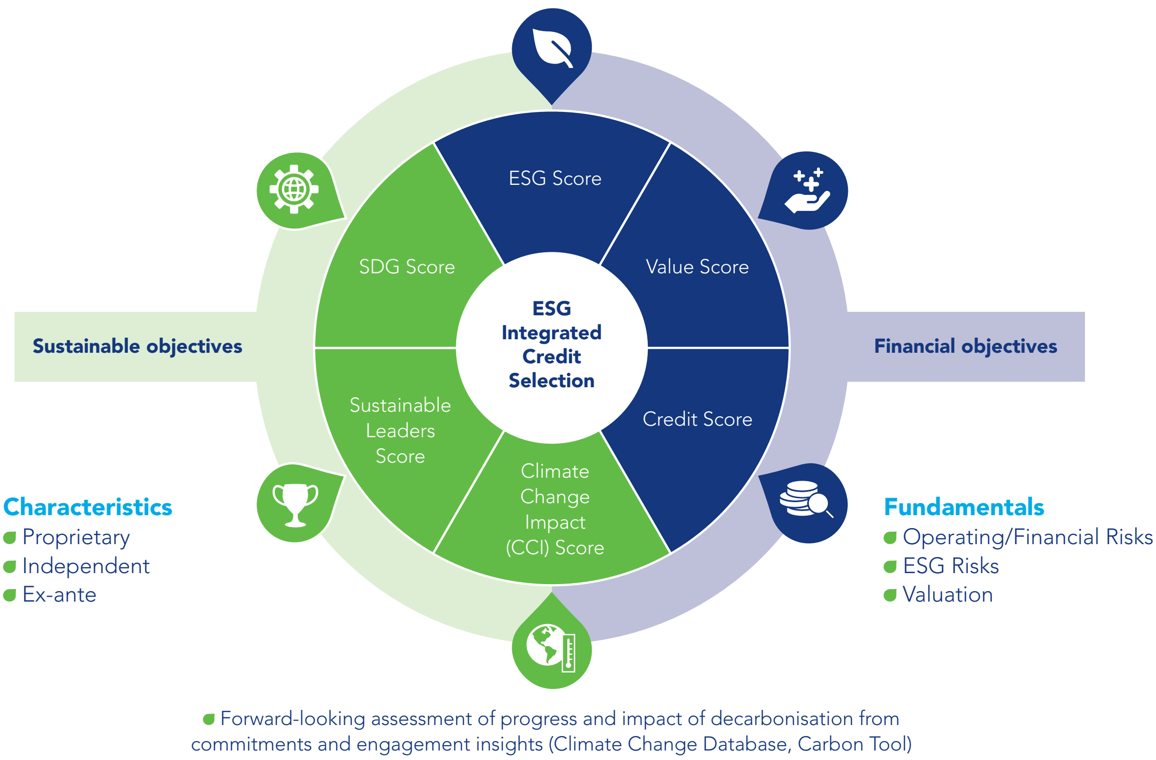
Public Credit

The public credit team believes there is a direct link between ESG risk and credit risk and sees no separation between ESG-integrated investing and more traditional investing based purely on financial metrics. Their approach not only relies on inputs from various external data providers, but also builds on the extensive experience of our EOS engagement platform and the bottom-up work of individual analysts. The methodology aims to capture the forward-looking change in a company's sustainability characteristics and not rest on static, annual data inputs. The insight gained from engaging with companies is an important ongoing additional input into the fund managers' investment considerations and a strong focus is placed on driving positive change within investee companies. The team believes that there is an opportunity to add alpha by investing in companies that may score poorly in E, S and G characteristics as measured by the traditional data providers but show an earnest desire to improve those sustainability behaviours. This can be achieved by investing and engaging with the company prior to its sustainability risk reduction being priced into market consensus.

The team's holistic approach to ESG integration considers sustainability factors within all stages of the investment process, from initial universe screening through to stewardship and advocacy. The process begins when screening global credit markets to create the core investible universe (the universe from which portfolio managers can select securities). They are able to 'screen in' securities on which we have high conviction from a sustainability perspective (as indicated by their proprietary sustainability scores) but which are not already captured by other criteria. This means they are able to include securities that would not necessarily screen highly if considered from the purely financial angle of the investment process. In addition to this, the team in line with its client mandate operates a minimum sustainability threshold for investment. Using the proprietary and forward-looking ESG scoring system (detailed below), the lowest-scoring issuers from a sustainability perspective are excluded from portfolios.

For investment solutions governed by a sustainable investment objective alongside a financial investment objective, the sustainability analysts take the lead in the development and maintenance of sustainable investment processes and proprietary sustainability scores. For the purposes of these solutions, the sustainability scores allow us to screen the investible universe to ensure the portfolio is constructed in a way that delivers into the sustainable objective of the strategy.

Figure 27. The team's suite of proprietary ESG and sustainability scores



Note: The QESG score is a quantitative assessment of a company's ESG metrics compared to its peers and how its ESG profile is changing.
Source: FHL, as at 31 December 2024.

[45] Throughout this report, references to FHL holdings relate to the holdings that we manage on behalf of clients.

- **ESG score** (from one to five) – assesses the potential forward-looking impact of non-fundamental factors on a company's enterprise value. The scores are assigned by credit analysts as part of their bottom-up assessment of each issuer, alongside more traditional financial scores of credit and value. Within their assessment, the analysts will consider the sustainability scores assigned by the engagers.
- **Sustainable Investment (SI) Score** (from one to five) – determines the overall sustainability credentials of a company, considering its ambition and performance across its most material sustainability themes and SDGs. Performance is assessed relative to peers and considers the company's demonstration of clear targets, roadmaps denoting concrete actions to achieve targets, transparent disclosure of progress against targets, and evidence of progress towards sustainable outcomes to date.
- **Sustainable Development Goals (SDG) Score** (from one to five) – utilises insights gained from engagement with a company to build on the team's assessment of its sustainability credentials (as denoted by the SI score). It determines the ex-ante potential for a company to effect positive change on society and the environment, articulated within the framework of the 17 UN SDGs.
- **Climate Change Impact (CCI) Score** (from one to five) – assesses the climate change credentials of a company along two dimensions: 1) how credible is the company's process and progress in decarbonisation compared to its own goals — if any — and compared to its sector peers (i.e. scope and ambition of decarbonisation plans; near-term and mid-term goals innovation; capital expenditure; reporting) and 2) the impact of decarbonisation on the company and on the wider economy (i.e. materiality; time frame; avoided emissions; value change contribution).
- **Sustainable Leaders (SL) Scores** (from one to five) – a sector-weighted, ordinal assessment of the sustainability leadership of companies, derived from the sector-weighted average combination of our proprietary scores overlaid by views from credit analysts and engagers.

The credit research analysts and engagers discuss the ESG and sustainability scores in detail at the credit committee when evaluating credit selection. Engagers work closely with the credit research analysts throughout the process and take ownership of evaluating each issuer for the sustainability scores.

If a company advances through the initial screening, then it is included in the investment universe. These scores are reviewed on a regular basis to ensure any updates are taken into consideration.

Once in the universe, the credit research analysts will assess various factors to understand how much the company's behaviours jeopardise or enhance its enterprise value. The criteria do not differ across jurisdictions or sectors; however, the team recognises that certain sectors are more vulnerable to sustainability behaviours which can lead to sudden degradation in firm value. To that end – while the team looks at the relative standing of a company within its sector for each of the three components of ESG – for each sector they might emphasise one ESG factor more than others. The main criterion for the governance category is the earnestness with which a company seeks to improve all of its behaviours and their responsiveness to the team's engagement. The analyst assesses management's desire and ability to build a sustainable business that will support and perpetuate firm value.

Once issuers have gone through our screening and bottom-up research process, they are available for selection by portfolio managers across our range of credit funds. Our suite of ESG and sustainability scores have a direct effect on the sizing and selection of securities, depending on the fund's objective.

The team's approach to stewardship

The fixed income team's stewardship work is supported by a team of dedicated sustainability professionals. Its approach to engagement is based on the intellectual capital, systems and quality control developed by EOS. It identifies engagement opportunities with investee companies through the assessment of their sustainability practices. This tends towards companies with weak sustainability practices but which present room for improvement and demonstrate a willingness to engage. In addition to its own engagement work, the team also rely on EOS to engage with a broader pool of companies. Regardless of who is leading the engagement, EOS or the fixed income team, there is only one assigned engager within the business. This is so the company being engaged hears a single message coming from FHL.

Wherever possible, the relevant credit analyst will attend joint engagement meetings. If this is not possible then credit analysts will sit with the engagement lead before or after meetings to share knowledge, perspectives and ideas. Likewise, engagement analysts are invited to present on engagement progress at credit committees.

SDG ENGAGEMENT HIGH YIELD CREDIT STRATEGY CASE STUDY

The company specialises in the design and manufacture of cabling systems and services that are used across a variety of sectors, and is based in France. The company's strategic plan is to focus on electrification products and services to take advantage of the megatrend of electrification, more specifically, the development of renewables and modernisation of grid infrastructure.

We have been engaging with the company on the following:

- **Expansion and disclosure of circularity strategy [SDG 12] –** Electrical cables are comprised of a significant amount of copper. Cable manufacturers are therefore reliant on a steady supply to provide their core products and services. The security of the supply chain is threatened by long-term projections which suggest copper production is set to fall short of demand. The company views a potential shortfall of copper as an opportunity, due to both its vertically integrated business structure and established recycling projects. It has a solid foundation on which to build out a supply of recycled copper to gradually replace its use of virgin copper in the long-term. To help ensure the company's supply of recycled copper and aluminium – and help it become less reliant on virgin metals – we set an objective for the company to develop a circularity strategy with targets and initiatives that seek to increase its use of recycled content in products. This contributes towards the targets of SDG 12.5 which aims to reduce waste though recycling and reuse.

  During our engagement with the company, we provided feedback on its circularity strategy. We noted the company had been transparent about its approach to circularity, acknowledging its disclosure of recycled content which showed better performance than direct peers. To maintain its position as a leader, we requested that it provide more detail on its initiatives to collect and recycle copper and to introduce a formal plan for capital expenditure to align with its goal to use a minimum of 30% recycled copper in cable products by 2030. It acknowledged our feedback and indicated that it would prioritise both the growth and reporting of its recycling operations. The 2023 annual report showed an increase in the use of recycled copper from 19,700 tonnes (5% of total copper use) up to 33,600 tonnes (5.4%). This increase was driven by the company acquiring a facility in Peru which expanded its copper recycling capacity.

- **Approach to ethnic and cultural diversity [SDG 10] –** The company has an advanced approach to gender diversity in the workplace that is in keeping with a global company of its size. During the process of our engagement, we noted that there was scope to further develop its approach to ethnic and cultural diversity across all regions. To help the company capture the benefits that a more inclusive workforce brings and align with leading peers, we set an objective for it to introduce regional-specific initiatives and/ or targets that look to improve ethnic and cultural diversity across the business. This contributes to the target of SDG 10.2 which aims to promote the economic inclusion of all irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

  We engaged with the company and identified several areas of potential development. The company acknowledged the opportunity to improve its DEI strategy in line with other international French companies and expressed interest in receiving examples of peer DEI strategies that meet our expectations. We followed up with the examples and additional feedback, such as the introduction of employee resource groups which offer a voice to minority groups across the workforce. The company has acknowledged our feedback but is yet to include it in its DEI strategy. We will continue to push the company to enhance its DEI strategy by addressing all forms of diversity, with initiatives and targets to measure progress across regions.

- **Climate-related Investment and Disclosures [SDG 12, 13] –** The company has a significant greenhouse gas (GHG) footprint that is largely driven by its scope 3 emissions. The bulk of these emissions are related to the carbon-intensive activities of power generators through the 'joule effect'.[46] Over the course of our engagement, we determined that providing increased transparency around these emissions can help explain how the company can achieve its climate goals and help investors set more realistic expectations. To achieve this, we set an objective for the company to introduce more detailed reporting on its decarbonisation plans. This includes explaining the size of emissions from the joule effect, potential scenarios in the power generation sector that could influence these emissions, and company's financial commitment to achieving its decarbonisation targets. A more detailed roadmap to achieving net zero GHG emissions helps contribute to the targets of SDG 12.6, which aims to integrate sustainability information in company reporting, and SDG indicator 13.2.2 which measures the reduction of total GHG emissions per year.

  During our engagement, we have discussed the company's climate strategy on multiple occasions. In a call during Q3 2024, we requested more transparency around financial commitments, as well as the sources of its GHG emissions. The company acknowledged our feedback and indicated that it was open to the idea of providing climate-related investment figures in its upcoming reporting. The company was also positive on the suggestion of a more detailed approach to emissions disclosures. In November 2024, the company released its 2024 Capital Markets Day presentation. This incorporated our request with the inclusion of capital expenditure figures for business units, including the amount dedicated specifically to electrification.

[46] The Joule effect refers to the rise in temperature that occurs within a material when subjected to an electric current.

Further examples of how some of our investment teams integrate ESG and stewardship in their investment decision-making processes are below:

Global Emerging Markets

The investment team analyses E, S and G risk and opportunity as part of its fundamental research of companies. To understand a company's sustainability trajectory, the team believes both quantitative and qualitative analysis is critical, particularly in emerging markets where accurate sustainability data is less available. It is only through a detailed understanding of the social and environmental challenges facing a company – in the context of its actual business and the beliefs of its board and management – that one can truly invest responsibly.

The team maintains a low carbon footprint against the benchmark and prioritises engagement with high emitting companies and those that are identified as exposed to higher physical and transition risks. To future proof the portfolio, it has developed a climate risk framework involving three key steps as laid out by the figure below. More information on the framework can be found in the Global Emerging Markets ESG Materiality H2 2023 report. This involves three key steps as laid out by the figure below.

Figure 28. Global Emerging Markets Equity climate risk framework

Key steps	Transition risk	Physical risk
1.Vulnerability assessment	Assessing exposure based on the nature of the business, location of its operations and how and where its revenue is generated. Focus on emissions intensity and carbon regulation risk.	Assessing geographic exposure and resilience to acute and chronic[47] physical climate risks.[48]
2.Contextual adjustment	Adjusting for likelihood, severity and timing of transition impacts, considering mitigating factors.	Understanding the likely operational and supply chain impacts, including impacts on people (eg. safety, physical and online connectivity); productivity and business continuity; impacts to local infrastructure; and climate-related opportunities.
3.Modelling financial impact or risk premium	Key financial impacts to consider may include: inflationary costs, regulatory costs, capital expenditure (CapEx) requirements, revenue loss, stranded assets.	

Source: FHL, H2 2023 GEMS Materiality Report.

Engagement is also a key feature of the investment strategy and, in the team's experience, is powerful way to foster change in emerging markets, often more impactful than exclusion. The team, in tandem with EOS, engages with companies on material E, S and G topics, including climate, nature, biodiversity and human rights, alongside broader corporate governance issues. These engagements – which are outcome-based and subject to regular progress reviews – seek positive impact across companies' value chains.

The team draws on a wide range of ESG data including FHL's own proprietary ESG tools and EOS, combined with its own qualitative assessment, to generate an overall ESG rating for the company (i.e. below, average, above, leader). This takes into account whether the company is demonstrating positive momentum and a commitment to addressing sustainability challenges and opportunities.

The team prefers to invest in stocks that perform well on sustainability but may invest in 'below average' companies where they show commitment to improve and are engage-able. The team also continues to calculate an engage-ability score, launched in 2023, to evaluate whether companies would be receptive to engagement and whether they have the capacity to engage. The score reflects a company's willingness and capacity to engage on material sustainability issues with scores ranging from 1A at the top end to 4D at the bottom.

Global Equities

Assessment of the sustainability characteristics of a company is a vital part of the team's investment approach and the team uses sustainability research in both proprietary models and in discussion with EOS.

The team have built a bespoke quantitative assessment of the most important E, S and G issues, the QESG Score, which evaluates a company's sustainability characteristics and identifies positive change. The team believes that companies less exposed to E, S and G risks than peers will outperform over the long term. Further, it believes that companies that are improving their sustainability profile through positive change can unlock shareholder value.

[47] Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.

[48] This draws on the Notre Dame Global Adaptation Index's climate scores which consider each country's vulnerability and readiness. Country Index // Notre Dame Global Adaptation Initiative // University of Notre Dame..

The QESG Score is designed to capture a company's behaviour on various sustainability issues, as well as observed change in its sustainability behaviour. The score combines data from EOS, Sustainalytics, MSCI, CDP, ISS, Trucost, FactSet and Bloomberg and is weighted 50% governance factors, 25% environmental factors and 25% social factors. The score is shown in the ESG Dashboard. The weightings used are based on the expertise of the EOS team. Following research into the growing impact of E, S and G factors, the team found a meaningful correlation between the ESG scores and stock performance.

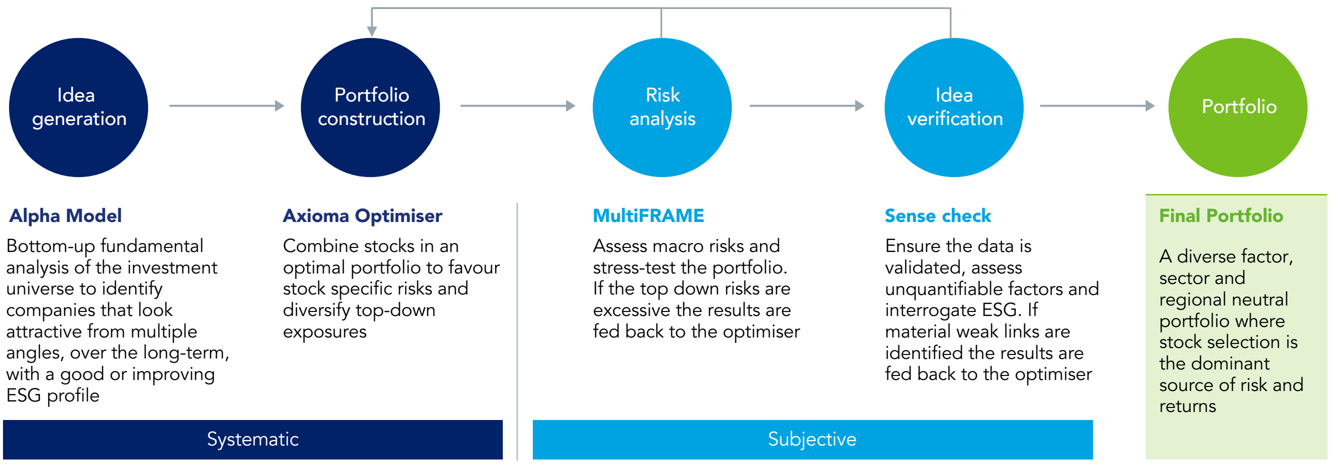
The QESG Score is a valuable component of the ESG Dashboard, which is used in the subjective part of the process and provides a concise digest of the ever-increasing amount of data on sustainability risks. As such, all of the team's investments are analysed from an ESG perspective.

In 2024, the QESG Score version 3.0 was launched. The latest version incorporates the framework built for the team's Sustainable Opportunities score, introduces new factors and data sources, and expands the granularity of the underlying indicators where possible. Ultimately, the QESG 3.0 offers a more robust, more dynamic assessment of ESG with more relevance for the industry in which a company operates. How a company manages its sustainability risks continues to be of utmost importance, but it also gives more consideration to social and environmental opportunities that could help unearth a wider variety of potential investments.

The expertise of EOS has also helped define the key performance indicators or risk factors on which each company is measured. These are either generic, such as board structure, or sector specific, focusing on the major risks by industry – such as CO_2 emissions and fleet consumption for the automobiles industry, paper sourcing for media and energy efficiency for airlines. The team uses it to identify sustainability risks within companies and determine the materiality of these risks. Any change in the level of sustainability risk and progress on current engagements are key factors that could influence an investment decision.

The ESG integration approach adopted by the team is complemented by direct dialogue with businesses that is made possible through EOS, which ensures the team remains active owners of the companies held in the portfolio.

Figure 29. Global Equities Investment Process



Source: FHL, as at 31 December 2024.

SDG Engagement Strategies

While all of our strategies integrate engagement into their investment processes, we have a selection of strategies with a specific focus on selecting companies with engagement potential. Our SDG Engagement Equity strategy and SDG Engagement High Yield Credit strategy seek to achieve a meaningful social and/or environmental impact as well as a compelling return through investing in and engaging with companies to drive positive change in line with relevant SDGs. The SDGs provide an ideal framework to identify ex-ante potential for creating positive societal and environmental change through engagement to create more impactful and sustainably profitable companies.

Given the added focus on engagement for these strategies, we have dedicated engagers based in the relevant investment teams who focus solely on these strategies and work closely with EOS to ensure a consistent approach (see Credit section above for additional detail). All investments are formally reviewed by the lead manager and lead engager, while the relevant analysts and team members also provide input every six months. These meetings investigate whether the original engagement thesis is still valid and also measure progress towards any specific objectives. In addition to the case study below, case studies for our SDG Engagement strategies are available under Principle 9.

SDG ENGAGEMENT EQUITY STRATEGY CASE STUDY

Burckhardt Compression

Burckhardt, a Swiss industrial compressor manufacturer, employs approximately 3,300 people – across Switzerland, India, the US, South Korea and China.

The company has expanded its footprint in recent years – particularly in China and India – and we have focused our engagement on their human capital practices in these regions, and questioned whether it is doing enough to support employee wellbeing.

Wellbeing was a key topic for our engagements in 2024. We wrote to Burckhardt's CEO asking about the company's approach to promoting and safeguarding workplace mental health.[49] The letter led to a meeting with Burckhardt's CEO who has been open and responsive on this issue.

We discussed how employee wellbeing should be prioritised on a global and regional level and how it can contribute to reduced staff turnover. In addition, we discussed how differing cultural attitudes towards wellbeing can necessitate varying approaches to the subject, depending on the region.

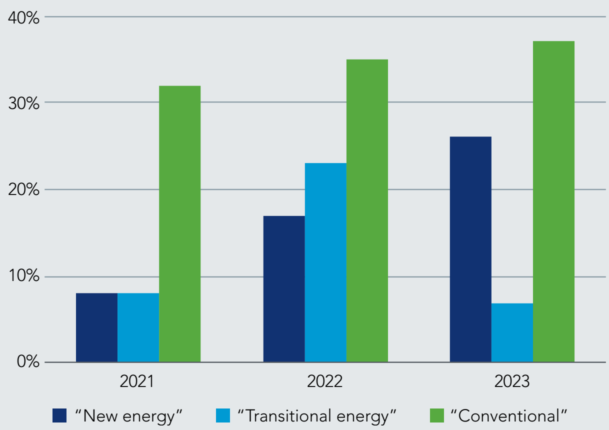
Burckhardt is in the process of developing its strategy around staff wellbeing and has welcomed our input. It has pledged to consider line manager training; incorporate grassroots committees sponsored by senior leadership; and to ensure its existing programmes are more visible in its reporting.

In the meantime, the company has increased sales of 'green' compressor systems. 'New energy' applications – including for green hydrogen projects and solar panel applications – contributed more than a quarter of system sales in FY 2023.[50]

In addition, the company has fleshed out its target to double its 'revamp and repair' services activity by 2027. It has launched BC Activate, a tailored programme to enhance the sustainability and reliability of all compressor systems, including other brand compressors.

As 99% of compressors' GHG emissions occur in the use-phase, this should help its customers achieve their own sustainability targets and reduce their carbon footprint.

Figure 30: Burckhardt 'green' compressor system revenue



Source: Company Reports (2021, 2022, 2023)

(Published September 2024)

[49] Evidence from Deloitte shows for every £1 put into mental health by employers, there is a £5 return on investment. Deloitte, 'Mental health and employers: the case for investment – pandemic and beyond' (2022).

[50] Company reports.

Private markets

In private markets, sustainability data is often less readily available. As such, the teams are heavily reliant on their due-diligence process and have developed their own frameworks for assessing ESG risks within their investments.

Private debt

The private debt teams consider sustainability behaviours when carrying out credit analysis for each potential investment. Sustainability considerations are a fundamental part of the research presented, and discussed, for all new transactions tabled at the Investment Committee. Material E, S and G issues will often form part of engagement with the company prior to investment and once invested.

For our direct lending team, the key is to identify meaningful sustainability risks (both current and potential) before investing. Due to the difficulty of divesting and the capped upside, it is important to manage the downside and engage where possible ex-ante. The direct lending team undertakes enhanced due diligence on industries that are deemed controversial, such as energy, chemicals, forestry and agricultural commodities, manufacturing and mining and metals. They also undertake transaction specific sustainability analysis by carrying out an assessment on sustainability risks for every investment opportunity. In addition, the team focuses acutely on the sensitivity of the company's cashflows to the identified potential sustainability risks. With that in mind, the direct lending team will evaluate if investors are adequately remunerated for the E, S or G risk(s) of the transaction.

CASE STUDY

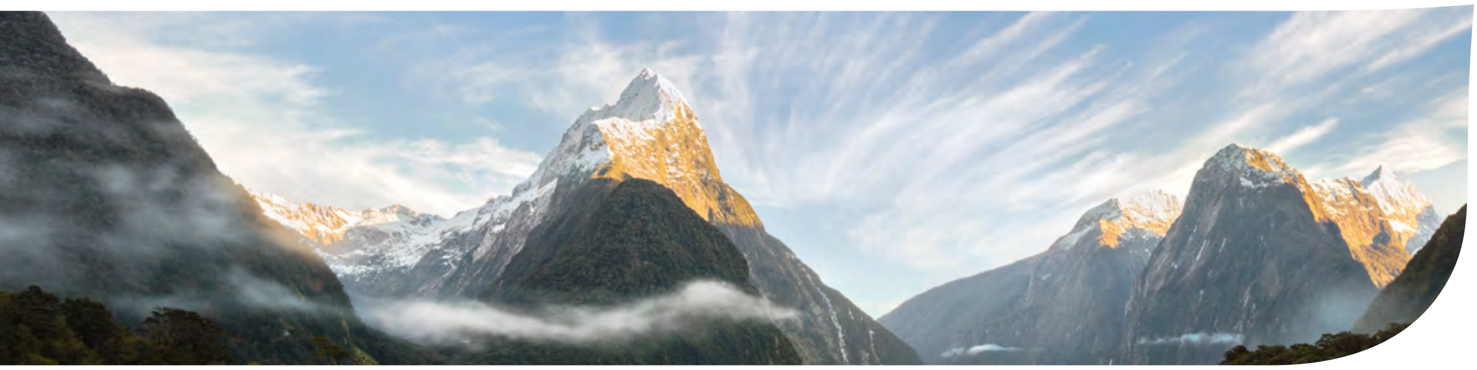
Direct Lending

Our direct lending team reviewed the opportunity to increase its exposure to an existing borrower, a Danish manufacturer of pumps and pumping systems. The company's product portfolio provides customers with clear benefits with regards reducing their environmental footprint, for example, reducing CO_2 emissions and preventing contamination of marine ecosystems. While the borrower's products assist customers with their emission footprint, the borrower's operations are somewhat "environmentally heavy". As such, to ensure the borrower remained focussed on improving its sustainability practices, an 'ESG margin' ratchet was included in the loan documentation which, depending on the meeting of certain ESG-related criteria, impacts the quantum of interest paid by the borrower on the loan. These criteria include the reduction of Scope 1 and 2 GHG emissions and developing the infrastructure to measure Scope 3 emissions.

As with our direct-lending investments, it is important for our asset-based lending team to identify risks that may impact on a borrower's ability to repay their loan. We have integrated our responsible property investment (RPI) principles and programme into the debt-investment procedures. This is done as follows:

- **Underwriting and due diligence:** The focus of our responsibility programme is on ensuring a strong due-diligence process, including assessments of climate and other E, S and G risks and opportunities before agreeing new loans.
- **Loan origination and documentation:** The business plan agreed is included in the loan documentation at the loan-origination stage. This includes all mitigation activities identified and detailed in the asset business plan, asset refurbishment plans and/or planned and preventive maintenance programmes. .
- **Management and monitoring post closure, asset upgrade finance:** We collect and manage the sustainability information we hold on the borrowers and the underlying assets.

Where we provide capital for refurbishment in accordance with the business plan, refurbishment agreements include a review of our responsible refurbishment guide and minimum requirements.



Real estate

E, S and G is integrated into the investment strategy and working practices of all our managed real-estate portfolios. A consideration of sustainability principles is embedded into the property selection and investment process, including through initial screening and due diligence and as part of the investment decision.

At the transaction stage, we use several procedures and tools that have been developed internally and through our sector engagement programme. This includes an initial screening, where the team assesses the risks and opportunities for value-add from sustainability characteristics. This is then followed by a responsible investment due diligence for any new acquisitions, where surveyors and environmental consultants collect relevant data on the buildings to identify risks and opportunities. As part of our due diligence process, we inquire to understand the level of community and occupier engagement in the assets being considered. The findings from this then inform the asset-management plans and processes.

Sustainability regulatory risk assessments are then used to identify typical risks that should be incorporated when devising the parameters entered into the investment models (using discounted cash flow analysis). Typically, the team integrates sustainability information that can affect investment fundamentals such as refurbishment budgets, risks of voids, lease lengths and obsolescence. Sustainability criteria and assessments are integrated into the investment decision papers submitted for approval to the Investment Executive Committee. The ESG team reports to the Private Markets Chief Operations Officer, Real Assets who sits on the Investment Executive Committee to review and ensure that ESG integration is appropriately covered.

Sustainability and engagement information continue to be integrated into the development and monitoring of our real-estate assets after purchase:

- **Setting ESG requirements:** through our internal responsible property development requirements we have set minimum requirements that assets must meet when undergoing refurbishment or new construction.
- **Monitoring and data collection:** we work with our property managers and consultants to monitor ongoing implementation and improvements. This is reported back to the business on a quarterly basis. Annual key performance indicators (KPIs) are set and progress against them is measured.
- **Engagement:** we work with our property and asset managers on site to engage with the delivery teams, occupiers and visitors. Site-specific annual surveys and other engagement activities are carried out successfully.

For our real estate team's indirect and international investments, we carry out active engagement on governance matters and on sustainability policies and strategies with property developers, property management teams, tenants, lawyers and agents. We include commitments to develop a joint sustainability plan on acquisitions for jointly managed assets.

Infrastructure

Material sustainability considerations are fully integrated into all of our infrastructure products and activities. As investors, we integrate an assessment of sustainability risks and opportunities related to a prospective investment into our investment analysis and consider the long-term sustainability of each investment with reference to internationally recognised sustainability objectives. As owners, we see ourselves as stewards of infrastructure assets, not only for this generation but also for future generations. We engage actively with our investments on all areas of potential risk and opportunity supported by robust data monitoring.

We select investments based on strict investment criteria and restrictions in accordance with our clients' needs. E, S and G matters are considered together with all other risks and opportunities identified in the course of due diligence. They are factored into Investment Committee papers at each stage of our investment process. Conclusions are factored into the investment decision, investment valuation, transaction documentation and/or transitioned to our asset management team for further engagement post-completion.

We identify potentially material sustainability matters which may pose a risk (to value or reputation), represent significant opportunities or have significant environmental or social impacts using a proprietary GRESB[51]-derived materiality matrix. We then undertake internal due diligence or appoint third party advisers to deep dive into areas of focus where appropriate. We further undertake a high-level assessment of alignment of key business activities with the SDGs. Our most recent investment assessments take into account whether an investment has the capacity to reduce its emissions on a trajectory aligned with a 1.5°C warming scenario pursuant to the Paris Agreement, and/or whether the investment represents a solution with reference to the climate mitigation and adaptation criteria within the EU Sustainable Finance Taxonomy. We will decline investments which are unlikely to achieve stable, sustainable returns over our long-term investment horizon (e.g. which bear stranded asset risk) and where an opportunity lacks the governance, information or alignment with co-shareholders to enable us to influence material sustainability matters over time.

[51] GRESB is the global real-estate sustainability benchmark for real assets.

Figure 31. ESG Integration in investment process

Initial review

- Mandate compliance and ethical exclusions check
- Potential key sector or thematic issues identified via an ESG materiality matrix
- Assess need for targeted sustainability due diligence

Due diligence

- Focus on any potentially financially material E, S and G issues on which deep dive due diligence is conducted
- Include due diligence output in the investment valuation process and in the negotiation of acquisition documentation and / or transition plan for future engagement

Investment approvals

- Outputs from the above are included in the investment approval papers presented to the Infrastructure Investment Committee

Develop 100-day plan

- Development of the 100-day plan for the relevant asset identifying areas of strategic focus, engagement themes and development of KPI's to monitor

Source: FHL, as at 31 December 2024.

Where we invest, we will transition any identified sustainability risks or opportunities identified in due diligence to the ongoing asset management team. A 100-day transition plan for the investment is developed during the final stages of investment due diligence and execution to ensure a smooth transition, including of key relationships. In addition, where practicable, the ongoing asset management team will include team members who have undertaken the original acquisition.

Sustainability is fully integrated into our ongoing strategic asset management framework. Given the long-term nature of our investment, engagement is the primary means to tackle sustainability risks post-completion.

Private equity

Our private equity team invests both directly in a selection of companies through co-investments alongside other General Partners (GPs) and indirectly through fund investments. Typically, we are a minority investor for direct co-investments. Our private equity team have identified four key megatrends that they believe will reshape global economic activity over the next 10-20 years and drive the growth of certain companies in niche sectors regardless of economic cycles. It is these fast growing, noncyclical businesses in the EMEA, North America and APAC, which are our investment targets. Within the megatrends we look for investable growth themes, and then drill down to the sectors most likely to benefit in order to find companies capable of generating sustainable long-term alpha. All investment opportunities are subjected to our rigorous, systematic investment process which we have developed over many years. As well as driving our co-investments, our fund selection also closely follows the key themes we have identified. When investing in funds, we form close relationships with the GPs we back, often initially via a co-investment relationship. This gives us valuable insight into the experience of the team and how value is created.

The team firmly believe that acting responsibly does not impede results. Creating a positive effect on society and the environment – sustainable investing – is closely aligned to our objective of delivering above market returns for our investors.

The team considers both sustainability risks and opportunities ahead of each investment. Due to the nature of the asset class and our position as a co-investor, our private equity team aim to identify sustainability risks at the point of investment due to the difficulties faced in progressing activities during the investment hold. The team assess all investments using a proprietary responsible investment framework to guide decisions. The team has one framework for funds and one for direct co-investment. The aim is to protect investors from the impact of 'bad' investment decisions, avoiding businesses that are later penalised for failing to meet legal, regulatory or public standards of conduct.

The private equity team considers the sustainability practices of managers ahead of making fund investments. The team assesses managers capabilities across 5 key areas; (i) policies and commitments to standards; (ii) governance and mindset; (iii) investment process; (iv) climate risk; and (v) communication and reporting. Each manager is scored on each dimension using a standardised and proprietary matrix that leverages Institutional Limited Partner Association and UN PRI recommendations. The assessment of managers' capabilities is included in the Investment Committee papers and contributes to the investment decision.

For direct co-investments, material sustainability risks and opportunities are presented (at a minimum) in the Investment Recommendation Paper (IRP), (for example, practices, company culture and board composition). E, S and G considerations are tabled across the investment process in local team discussions and formally considered and discussed at the Investment Committee where each investment is scored on a proprietary ESG framework. Based on a risk-based approach, only investments which have risks within tolerable limits are progressed to investment. For these investments, material sustainability issues and KPIs are identified to be monitored post-investment. Deals are routinely rejected when they do not clear the ESG risk threshold and good sustainability practices are considered positively into the investment thesis.

Our private equity team collaborate with various industry initiatives and subscribed to the ESG Data Convergence Initiative in 2021. This initiative aims to improve disclosures of sustainability KPIs in private equity by selecting a limited series of KPIs that subscribers of the initiative shall aim to collect and share with their own investors. As part of this initiative, we now engage with each new company or lead investor as part of the investment process to receive the KPIs from the ESG Data Convergence Initiative on a yearly basis.

We seek to improve and protect the financial value of investments through assessing, monitoring, and seeking improvements to material risk areas. Our private equity team takes a risk-based approach to effectively identify, monitor, and manage sustainability risks, opportunities and impacts identified across its portfolio. For direct co-investments, we receive quarterly reports from the GP that include both financial information and qualitative data. These reports often contain E, S and G information. In addition to this, we often have a quarterly call with the GP where we discuss the reports and any other topics we wish to raise. For fund investments we also receive quarterly reports and are invited to participate in AGMs. In a minority of cases, we are part of the limited partner advisory committee (LPAC) and hence part of the fund's governance structure. We can raise issues with managers in those forums or bilaterally.

The Responsibility Office

Our Responsibility Office is tasked with monitoring and overseeing every investment team's integration approach. To that end, the Responsibility Office meets with every investment team on a quarterly basis to review the portfolio holdings to assess sustainability risks and opportunities and flag, if necessary, particular holdings that might present an issue. A combination of in-house and external tools are used to review the sustainability performance and engagement coverage of our holdings.

The Responsibility Office also conducts an assessment using our proprietary ESG Assessment Matrix on an annual basis to determine where each of the investment teams are in their stewardship and ESG integration journey. The matrix contains 30 indicators across 4 key areas of assessment and aims to assess the teams on the following:

- **Investment process and philosophy –** how well the team understands material sustainability factors for its universe and how they stay abreast of developments, where in the process the team integrates ESG and stewardship insights and how this impacts investment decisions to the benefit of clients and their investors. Within the stewardship sub-category – the teams are assessed on their proactiveness in identifying areas of engagement, their interactions with EOS and how involved they are in the engagements, how regularly the teams assess the progress made on engagements and how this influences their investment decisions.
- **Sustainability commitments –** how actively the team is monitoring their alignment with FHL's various commitments, such as FHL's net zero commitment.
- **Communication –** how clearly the team articulates, for clients and their investors, the sustainability and stewardship approach of an investment strategy, and how it reports on its sustainability performance.
- **Advocacy –** how actively the team is involved in initiatives in clients and their investors' interests, both internally and externally, on E, S and G themes as well as stewardship and ESG integration in asset management.

Figure 32. Authentic ESG integration

Corporate level Driving responsibility	**Responsibility strategy** a clear vision to mitigate risk and generate long-term sustainable value	**ESG integration** UNPRI founding signatory ; integrate ESG considerations across all asset classes	**Proactive stewardship** promote sustainable best practices and advocate for positive change	**Firm wide commitment to integration, advocacy and responsibility**
Portfolio level managing responsibility	**Risk management** Measure and manage aggregate exposures to ESG risks	**Tracking ESG risks** in-house ESG talk at highlights red flags and engagement progress	**Responsibility office** regular meetings with active engages and responsibility office to access ESG risks	**Advanced ESG and engagement tool is integrated throughout the investment process**
Security level investing responsibly	**Security selection** avoid issuers with egregious ESG risks and identify companies undergoing positive change	**Systematic assessment** ESG embedded in fundamental analysis via proprietary data analytics	**Active ownership** unique ESG insights from global EOS engagement experts	**Combining active fundamental and ESG analysis**

Source: FHL, as at 31 December 2024.

How we have aligned our approach with client investment time horizons

Under Principles 1 and 6 addressed earlier in this report, we set out our belief that the purpose of investment is to create wealth responsibly over the long term. This informs our view that we have a duty to consider the longer-term risks and opportunities when investing, which aligns with the goals of our pension-fund clients who typically look out over the long term. All of our strategies adopt a long-term investment horizon. Even strategies that involve short-term securities often invest in the same issuers, making a long-term view essential. While this will vary depending on the investment strategy and the markets in which they invest, a typical time horizon for investment decisions adopted by our investment teams is three to five years. As such, depending on the investment being considered, its fundamental or E, S and G performance drivers are likely to be relevant in any evaluation for significantly longer than three to five years.

All of our strategies look to deliver enduring wealth creation, responsibly over the long term and our combined approach to responsible investment and responsible ownership is the key to catalysing positive change within companies and generating financial gain over the long term. We believe we cannot deliver long-term returns without identifying and working towards mitigating material sustainability risks and, where possible, seizing positive opportunities.

We consider our clients' and potential clients' needs throughout the entire product-development process. As such, consideration of stewardship and ESG integration is built into the investment process at the outset and clearly articulated in any legal and marketing documentation for the strategy. The Product Oversight Committee (POC) then uses this documentation to monitor the investment teams on a quarterly basis to ensure they are acting in line with the parameters they have set for themselves. More information about the POC and other processes that ensure we continue to meet client needs is available in our reporting under Principle 1.

> **All of our strategies adopt a long-term investment horizon. Even strategies that involve short-term securities often invest in the same issuers, making a long-term view essential.**

Service providers

Our stewardship is undertaken in-house by our investment teams and EOS, as described under Principles 7, 8 and 9. In the case of private equity, the team work with lead GPs in instances where they do not have the ability to engage directly. Likewise, the investment teams are responsible for integrating ESG and engagement information into their investment processes (with the support of the Responsibility Office, which promotes best practice).

We also use third-party data providers, as described under Principles 7 and 8. In some cases, we integrate this third-party data into our proprietary tools to enable our investment teams and engagers to access and compare a wide range of data quickly. The parameters for such services are clearly set out in the relevant contracts and the ESG Integration team within our Responsibility Office monitors the provision of such services on an ongoing basis. Key parameters that we consider when assessing a data provider are data quality, methodology used for any calculated or modelled data points, frequency of update, data delivery mechanisms and coverage.

As described in more detail under Principle 8, our real estate team use external property managers for all day-to-day property management. To ensure our expectations are clearly understood, sustainability requirements and commitments are included in their contractual service agreements. The managers are responsible for the implementation of our ESG programme and health-and-safety measures, as stated in their service agreement. As described under Principle 8, our private equity team make direct and indirect investments and monitor the GPs.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

All of our investment teams' voting recommendations are made by EOS and engagement activity across asset classes is carried out by EOS personnel and/or the investment teams themselves, with the exception of some engagements for our private equity funds as described below. More detail on how we use ISS research to inform our voting decisions – and how EOS use ISS research to inform voting recommendations to voting services clients – is set out under Principle 12.

As noted earlier we use a number of external ESG data providers, as each data provider has developed their own methodology which can result in differing views. Taking this range of views into account, along with our qualitative fundamental analysis and insights from engagement by EOS or the investment teams, helps us to form a more comprehensive view of the company.

As part of our ongoing research into assessing sustainability within companies we have spoken with a number of data providers about their frameworks and how these are applied to companies and sectors. Having worked with data providers over many years we are able to critically assess the strengths and weaknesses of the approaches and feed this insight back to the service providers.

We may also engage with data providers when we identify incorrect information. In 2024, we established quarterly catchups with our key data providers to allow us to raise any data issues and improvements. We have an ongoing project to improve our practices in monitoring and managing the data quality of the datasets we ingest.

Assessing nature-related risks and opportunities was a continued area of focus in 2024 and we continue to work towards developing a framework that allows us to integrate these risks and opportunities in our investment process, engagement and for external reporting. Whilst we advanced the assessment of our exposure to nature-related risks and opportunities using the ForestIQ dataset, we are looking to expand beyond this and have a complete solution in 2025.

For our **real estate** team, all day-to-day property management – including rent and debt collection and active responsible property management – is dealt with by external property management agents. They are selected following a rigorous process that includes E, S and G considerations, while sustainability requirements and commitments are included in their contractual service agreements. The performance of property manager agents – and any other agents appointed for work on activities such as rent reviews, lease renewals, transactions property maintenance, health-and-safety issues and environmental issues – is closely monitored by our internal investment managers. The property managers are contractually responsible for implementing the ESG programme and health-and-safety measures, as stated in

their service agreements. Their requirements include risk management, refurbishment and development, utilities measurement and reporting, ESG business plans, energy management, water management, waste management, social value, procurement and supply chain, environmental risk and management, occupier engagement and quarterly monitoring of progress against targets. In 2024, property managers were re-tendered across the majority of the real estate portfolio. The sustainability KPIs included in the Property Management Agreements (PMAs) were updated to reflect the evolving area of ESG within property management.

Our **infrastructure** team is primarily a significant minority shareholder in operational businesses with robust governance rights, typically including Board representation. We engage via day-to-day asset management with operational teams, as board and or committee member and as a shareholder. We also have some majority shareholder investments in energy and transport assets at which we engage directly with Operations and Maintenance (O&M) providers in the day-to-day running of the assets. Collaboration on sustainability matters with the O&M providers is a key priority at these assets and we value positive relationships with aligned counterparties.

We also have two legacy indirect (fund) investments. Engagement with managers for our indirect investments, including on ESG and sustainability considerations, is integrated into our asset management approach. However, our approach changes where holdings are indirect. Where ESG reporting and engagement by underlying managers is limited, we remain focussed on foundational, open questions focusing on risk mitigation.

When investing in funds, our **private equity** team form close relationships with the GPs we back, often initially via a co-investment relationship. This gives us valuable insight into the experience of the team and how value is created. Sustainability risk assessments are conducted on lead GPs for all new co-investments and fund investments. The private equity team considers the sustainability practices of managers ahead of making fund investments. The team assesses managers capabilities across 5 key areas: (i) policies and commitments to standards; (ii) Governance and mindset; (iii) Investment process; (iv) climate risk; and (v) communication and reporting. Each manager is scored on each dimension using a standardised and proprietary matrix that leverages Institutional Limited Partner Association and UN PRI recommendations. The assessment of managers' capabilities is included in the Investment Committee papers and contributes to the investment decision. We seek to improve and protect the financial value of investments through assessing, monitoring and seeking improvements to material E, S and G risk areas. Our private equity team takes a risk-based approach to effectively identify, monitor and manage sustainability risks, opportunities and impacts identified across its portfolio. For direct co-investments, we receive quarterly reports from the GP that include both financial information and qualitative data. These reports often contain sustainability information. In addition to this, we often have a quarterly call with the GP where we discuss the reports and any other topics we wish to raise. For fund investments we also receive quarterly reports and are invited to participate in AGMs. In a minority of cases we are part of the limited partner advisory committee (LPAC) and hence part of the fund's governance structure. We can raise issues with managers in those forums or bilaterally. We describe in more detail under Principle 9 how we work with GPs when it comes to engagement with investee companies.

In terms of our investment operations, our middle office is responsible for monitoring outsourced functions on a day-to-day basis. We also have a Supplier Review Group that is responsible for the oversight of material outsource arrangements and critical supplier arrangements, where regular reviews of the risks and performance of these arrangements are overseen, in particular key risk indicators are used to monitor any deterioration in the service and/or risk profile. Furthermore, our contracts with material third parties include a service level agreement (SLA) where applicable. The SLA details service standards we expect from our third parties – which include several agreed key performance indicators (KPIs), and where applicable, dependencies and escalation requirements in respect to risk incidents. The contract and/or SLAs include details of the required governance structure and frequency of service reviews between the third party and our business.

As part of the governance structure, significant or persistent issues can be escalated to the Risk, Compliance and Financial Crime Committee. In addition to the service reviews, periodic on-site visits and due diligence reviews take place and the latest SOC2 reports (or equivalent controls report) and credit worthiness are reviewed to identify any adverse conditions that may have an impact on the service provider and the services provided.

Our private equity team takes a risk-based approach to effectively identify, monitor and manage sustainability risks, opportunities and impacts identified across its portfolio.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

How we identify issues for engagement and develop objectives

Our approach to engagement is driven by our purpose and investment beliefs. We believe that the purpose of investment is to create wealth responsibly over the long term and that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors and companies, which also delivers benefits for society and the environment. We aim to generate enduring, responsible wealth creation for the end beneficiary investor, encompassing both investment returns and their social and environmental impact. As a result, our engagement is outcomes-driven and focused on ensuring that the companies we invest in are creating wealth responsibly. Given the time horizons of our strategies to meet our clients' needs (as described under Principle 6) we are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies. We believe that this approach delivers the best results for our clients and end beneficiaries.

We adopt a systematic approach to identifying companies for engagement. We select companies and tailor the intensity of engagement based on the size of our investment, materiality of the risks and issues and feasibility of achieving change through engagement. We believe that this enables us to most effectively serve our clients' needs by focusing our efforts on where they are needed the most and can have the most impact.

Our EOS Engagement Plan and related corporate governance principles and voting guidelines, as well as our FHL Voting Policy and Guidelines which are updated each year drawing on our extensive experience as an active and engaged shareholder, set out a number of best practice recommendations which we believe should exist between owners, boards and managers to create a framework for communication and dialogue.

Our aim is to deliver value for clients, not to seek headlines through campaigns that could undermine the trust that would otherwise exist between a company and its owners. We are honest and open with companies about the nature of our discussions and aim to keep these private. Not only has this proven to be the most effective way to help encourage change, but it also offers a level of protection for our clients by ensuring their positions will not be misrepresented in the media.

As climate change continues to be the biggest single issue of concern for long-term investors, the emphasis of our engagement is on encouraging companies to match long-term commitments with a Paris-aligned strategy and targets.

Our Climate Action Plan, which we first published in 2022 and updated in 2024, details our engagement-driven approach to climate change. As climate change continues to be the biggest single issue of concern for long-term investors, the emphasis of our engagement in line with local law and applicable requirements, is on encouraging companies to consider climate related opportunities which could potentially benefit and positively impact business and the climate. We also support action to ensure that published financial accounts and political lobbying are similarly aligned. We set out our engagement-driven approach across asset classes to deforestation, and human and labour rights respectively in our Deforestation and Human & Labour Rights Policy Statements, both of which are located in our Responsible Investment Policy.

Public markets

EOS has established a detailed public markets Engagement Plan on a rolling three-year basis, with themes ranging from human and labour rights to circular economy and zero pollution. EOS focuses its stewardship on the issues with greatest potential to deliver enduring responsible wealth for investors including through positive societal and environmental outcomes. The full taxonomy below identifies the key themes and related sub-themes for engagement. This breadth of coverage across the whole programme is necessary to reflect the diversity of issues in our global Engagement Plan, which covers all regions and sectors, including those which are most material to the individual companies. The selection of these themes is developed in line with input from the investment teams at FHL, as well as EOS' third-party clients.

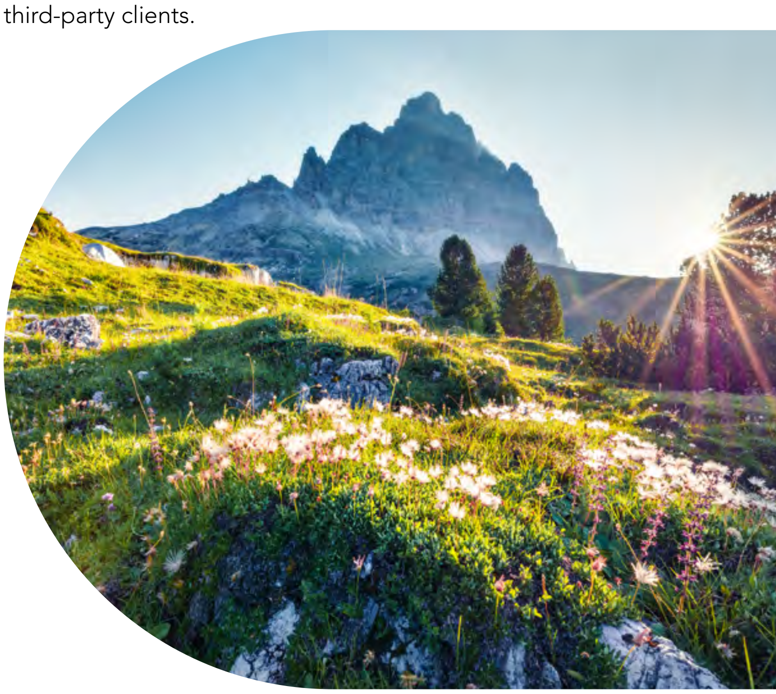
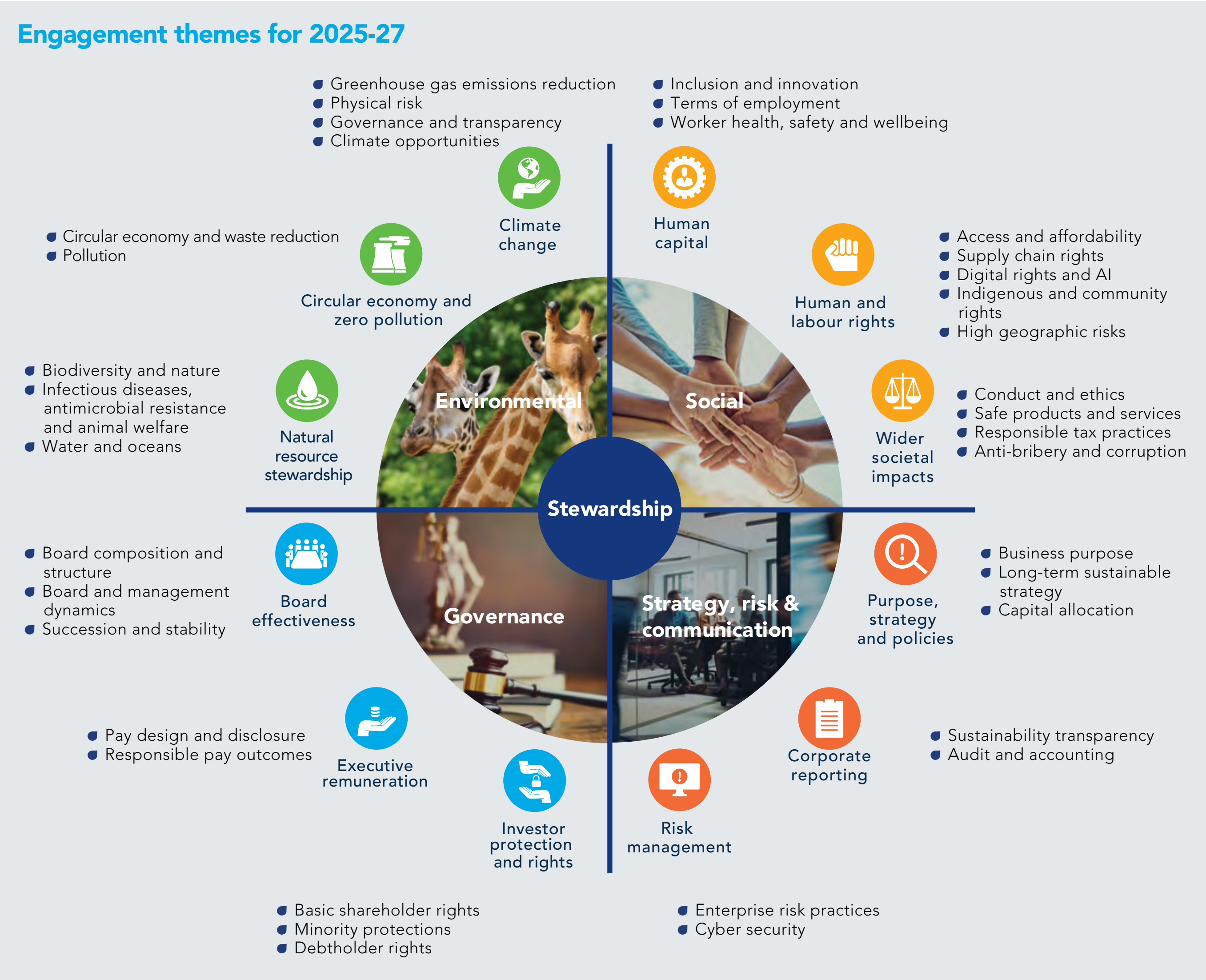


Figure 33. Engagement themes: our stewardship process to achieve long-term sustainable returns on investment



Source: FHL, as at 28 February 2025.

We review our Engagement Plan every year to ensure it is up to date and reflects client priorities. Geopolitical instability persisted throughout 2024, with ongoing conflicts between Russia and Ukraine as well as in the Middle East. Although inflation concerns have eased, the stagnation in real wage growth continues to exacerbate the sense of a high 'cost of living'. This series of environmental and macroeconomic challenges reinforced the focus of our advocacy and stewardship activities in 2024. 2024 also saw half the world's population going to the polls, leading to administrative changes in the US, UK and India. This is likely to herald new approaches to tackling mega-trends such as climate change, the risks to nature & biodiversity, digitisation and AI, and new policy responses to ease the cost of living and reduce geopolitical conflict. As a result, we continued to engage companies and their boards to navigate these and other sustainability-related trends firmly in line with their fiduciary responsibilities and those of our clients, as well as with policy-makers and standard-setters to ensure associated risks and opportunities are well-regulated in line with international best practices.

Through client feedback, it was again confirmed we were continuing to strike "about the right balance of breadth and intensity" of engagement.

Based on the review, our engagement work in 2024 continued to focus the four priority areas – climate change, human and labour rights, human capital, and board effectiveness – as these remained the most material themes. Information on the four priority themes can be found under Principle 4.

We annually review, develop and publish a rolling three-year Engagement Plan. The EOS engagement selection process is a key structure which enables us to support client stewardship. We select around 315 companies for the core EOS Engagement Programme, of which approximately 135 are also held by FHL's equity and credit teams (as at 31 December 2024). These companies are formally identified on an annual basis and reviewed for continuing materiality throughout the year. The three key considerations are:

1. **Size of holdings.** EOS take into consideration the aggregate holding size of FHL and EOS clients.

2. **Materiality of identified ESG and financial risks.** This is assessed by EOS engagers using quantitative and qualitative data sources, including inputs from external providers like Planetrics, NetPurpose, Sustainalytics, MSCI, Trucost, CDP, BoardEx, ISS, FactSet and Bloomberg. EOS also considers the output from our quarterly screening tool, the Controversial Companies Report, which looks at any severe controversies and a number of internal norms and standards including the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. It also uses the proprietary ESG Dashboard and QESG score, which captures how a company manages its sustainability risks and whether it is improving. All this data is scrutinised by the EOS team, alongside insights from engagement and voting recommendations history, media flow, investment management intelligence, public policy and market best-practice trends.

3. **Feasibility of engagement.** We endeavour to allocate our engagement resources efficiently and towards companies where we can effect change.

This combination of analysis supports our pursuit of stewardship through our shared service model.

Each company in our core engagement programme is given an appropriate intensity tier, based on the likely impact of engagement and ultimate benefit to the value of the underlying investment. We then assess the required intensity or depth of the engagement needed to resolve the issues:

Tier 1+ - a small number of companies also termed 'Super Tier 1' companies with material client holdings that have more significant or numerous long-term sustainability or corporate governance issues with the opportunity of feasible engagement and where intense engagement and possibly time spent collaborating with other investors, supported by detailed research, is anticipated to be required in order to achieve material change, with the expectation of approximately eight to ten interactions per year.

Tier 1 – Companies with material client holdings that have more significant or numerous long-term sustainability or corporate governance issues with the opportunity of feasible engagement and which we consider require more time and effort to progress, including more detailed research, leading to typically more intense engagement, with the expectation of approximately five interactions per year.

Tier 2 – Companies with material client holdings and identifiable long-term sustainability or corporate governance issues with the opportunity of feasible engagement, which we consider can be meaningfully pursued with average levels of time and effort, with the expectation of approximately three interactions per year.

Tier 3 – Companies representing significant client holdings which either a) face a particular identified ESG-related risk which can be addressed with limited, targeted engagement; b) have generally lower levels of risk to long-term sustainability or c) are in the process of being monitored for implementation of the outcomes of previous engagement work. We typically only set one engagement objective, or follow a limited number of engagement issues rather than specific engagement objectives, and plan one or two interactions per year.

There are many companies with whom we engage that sit outside of our core Engagement Plan. EOS proactively engages with around 1,000 companies annually, of which approximately 515 are held by FHL. Around 380 of the companies which are not in the core engagement programme are selected as EOS engagement targets by our investment teams based again on the size of our holding, the materiality of the issues and the feasibility of engagement. Although these engagement targets are selected by our investment teams, the output of these engagements are also provided to EOS third-party clients. The remainder of reported engagements align with issues around voting at general meetings or are in reaction to events that cannot be predicted in advance. In addition to the above, non-dedicated engagers in our investment teams also conduct engagements with companies directly. These engagements are not reflected in our overall engagement statistics.

EOS proactively engages with around 1,000 companies annually, of which approximately 515 are held by Federated Hermes Limited.

In addition, EOS provides voting recommendations for around 14,500 meetings to both FHL and third-party clients, using engagement insights to inform its rationale where possible. Finally, EOS monitors around 25,000 companies held by FHL and third-party clients. Overall, these processes enable us to provide comprehensive stewardship coverage.

The EOS & Responsibility senior leadership team[52] review and advise on the design and implementation of our Engagement Plan and engagement programme, in addition to our voting recommendations and screening services. It considers engagement quality, continuity, and coverage in the interests of clients.

Setting engagement objectives: We set clear and specific objectives within our company engagements to ensure we achieve positive outcomes. An objective is a specific, measurable change defined at the company – an outcome we are seeking to achieve. Each objective is tracked using milestones. Objectives are regularly reviewed until they are completed – when the company has demonstrably implemented the change requested – or discontinued. Objectives may be discontinued if the objective is no longer relevant, or because the engagement is no longer feasible or material.

Issues: An issue is a topic we have raised with a company in engagement but, unlike objectives, we do not precisely define the outcome that we are seeking to achieve. This can be more appropriate if the issue is of lower materiality and so we do not anticipate engaging with the frequency required to pursue an objective. Or perhaps we are still in the process of identifying what type of change we may want to see at a company and so are not yet able to set a precise objective. Issues are frequently used for companies outside our continuous engagement programme, for example those where we typically engage only around the annual shareholder meeting and our voting recommendation.

Measuring progress – Milestones: Our four-stage milestone system allows us to track the progress of our engagement, relative to the objectives set for each company. When we set an objective at the start of an engagement, we will also identify recognisable milestones that need to be achieved. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

Figure 34. EOS' proprietary milestone system

Source: FHL, as at 31 December 2024.

In this example, we have applied climate change, which is one of our Engagement Plan environmental themes, and focused on the specific greenhouse gas emissions reduction sub-theme to set a tailored objective for a French energy company. We asked the firm to demonstrate alignment of the company's strategy with a reduction in net-zero emissions and detail below how we would recognise progress along our milestone stages:

- **Milestone 1:** Concerns raised at company regarding the lack of alignment between capital expenditure with the goals of the Paris Agreement.
- **Milestone 2:** Company acknowledges our concerns and the requests we made to improve alignment.
- **Milestone 3:** Milestone progress made: company demonstrates it is working to decarbonise its future capital expenditure and invests only in the most resilient oil and gas assets.
- **Milestone 4:** Completion: company demonstrates that its future capital expenditure is consistent with the Paris Agreement goals. This is evidenced by disclosure of the assumptions, such as oil price, carbon tax and depletion rates, that underpin that conclusion.

Our milestones are specific and measurable, which helps us identify progress towards achieving the objective. An engagement objective can take up to three years to complete, depending on factors that include the nature of the issue and how receptive the company is to engagement. Engagement clinics are held with directors to review and challenge engagement strategy, to ensure that objectives are appropriate and also that milestone progress correctly reflects reality. In some rare instances, we will discontinue engagements on the basis that our engagement efforts have been met with strong resistance or the matter has dissolved.

Actions: These are the interactions that take place between our engagement professionals and the companies or public policy bodies with whom they are engaging. Every call, meeting or correspondence is recorded as an action. Actions can be linked to objectives or issues. We only consider companies to be engaged when we have an individual interaction, or interaction has part of a collaborative group, with the company that relates to an objective or issue.

Our approach to climate change engagement is detailed in our Climate Action Plan.

[52] The EOS & Responsibility Senior Leadership Team consists of the Head of Responsibility; the Head of Stewardship; the Regional Team Leads (North America, Europe and Asia and Emerging Markets); the Head of Client Service & Business Development for EOS; the Head of Responsible Investment Business Management; the Global Head of Institutional Clients; the Sustainability Director; and Managing Legal Counsel.

Private markets

For our private market strategies, engagements are prioritised according to the exposure of the portfolios. For example, in our Direct Lending strategy, the team engages with the sponsor and management team to remedy any ESG issue that arises during the life of a loan. This engagement is conducted in collaboration with EOS, where appropriate, to ensure that the engagement is outcomes-focused and impactful.

Real Estate

Our real estate business is an industry leader in responsible asset management. The team has developed their sustainability framework with principles, commitments and targets.

The real estate team has been monitoring the sustainability performance of its directly managed assets since 2006 and has annual targets which are monitored and reported against in our public Real Estate ESG report. The team has also created a range of dedicated tools and procedures that cover all aspects of our real estate operations. Our ESG programme integrates the following procedures and tools:

- Minimum sustainability requirements for refurbishments and developments set out in our internal Design Innovation Standards and Responsible Property Management Refurbishment Guide. These include requirements that construction contractors comply with sustainability guidelines, environmental site-selection requirements, environmental site-development requirements, resilient building design and orientation and minimum requirements on pollution, sustainable materials, waste, energy, water and biodiversity.
- Dedicated ESG guidelines for our directly managed assets, such as on the following topics: water efficiency requirements, energy efficiency requirements, energy generation from on-site renewable sources, waste management plans at sites and occupier health and wellbeing requirements.
- Strategic and operational sustainability benchmarking of our real-estate funds.
- Active data management systems for utilities and waste.
- Ongoing monitoring of performance with continuous feedback between property managers, investment managers and sustainability experts.
- Stringent risk and safety requirements and supporting tools.
- Community and occupier engagement tools and programmes.

These tools enable us to assess, monitor and manage social and environmental risks and opportunities in the real-estate portfolio, and therefore informs the objectives of our engagement.

These tools enable us to assess, monitor and manage social and environmental risks and opportunities in the real estate portfolio, and therefore inform the objectives of our engagement.

As part of our Real Estate ESG programme, we have been assessing what positive impact investment would mean for each step of our investment process. Our 'impactful intent' approach aims to deepen our sustainability practice by intentionally seeking a defined positive environmental or social outcome in a particular place or market as a core focus of our responsible investment strategy, in addition to strong risk-adjusted financial returns. This involves using a purposeful framework to focus our real-estate operations on three specific impactful investment themes. For each of these investment themes, we are committing to activities with measurable environmental, economic and societal outcomes, which ultimately support specific SDG targets.

At the heart of our approach is our commitment to creating a 'meaningful city' – or a place that people want to live and work in, and which foster a sense of belonging among inhabitants. Because most of our investment is concentrated in densely populated urban areas, it is inevitable that the way we manage these developments will have a deep, long-lasting effect on the cities and the people that live in them.

Under Principle 4, we describe our real estate team's commitment to net zero and the pathway to achieving these goals.

Infrastructure

Every investment professional in the infrastructure team has responsibility for asset management, albeit with certain professionals primarily focussed on this area. The asset management team for each investment is responsible for the ongoing monitoring of the investment including annual strategic reviews, the semi-annual valuation process and investor reporting, and engagement at the portfolio company-level, for example through board representation on operating or holding companies, as applicable.

Our principal asset management purpose is to generate long-term, sustainable and mandate compliant returns for our investors. We have a mature framework in place which creates the environment to achieve this purpose. Figure 35 below demonstrates this approach.

Post initial acquisition, annual strategic reviews, undertaken in Q1 each year, provide a status update of each investment, investment performance to date, key valuation metrics and outlook, and key risks and opportunities, informing our strategy at asset and at portfolio-level. Strategic reviews incorporate an assessment of sustainability risks, opportunities and impacts.

Figure 35. Infrastructure asset management approach

Source: FHL, as at 31 December 2024.

Targeted asset and portfolio level objectives are developed in an integrated nature with sustainability, through our detailed Asset Management sustainability guidance document, which is aligned with the EOS stewardship model building blocks. Objectives will either relate to specific financial/commercial areas (where success is often based on having completed the objective), or sustainability, where we apply an EOS-informed milestone approach with the aim of seeking continuous improvement.

Progress against objectives is subject to semi-annual reviews. Day-to-day financial and operational performance is monitored, analysed and then reported through an internal monthly flash report. We produce quarterly reporting, in line with ILPA guidelines, to investors which includes progress against engagement objectives. In addition, we hold an AGM to provide a detailed overview of the full-year performance and outlook across the portfolio. We produce annual sustainability reporting that includes performance against sustainability KPIs. Performance against engagement objectives is reported to investors in our quarterly reports. In 2024, we produced a TCFD report detailing our approach to managing climate-related risks and opportunities as a manager, as well as TCFD reporting at a product-level in line with FCA guidance.

From a thematic perspective, climate change and emission reductions are currently our number one sustainability engagement priority with infrastructure portfolio companies. The climate crisis, manifested through the increasing frequency of extreme climate events, necessitates a strong and continued focus to reduce business carbon footprint and manage climate risk and opportunity at board level, which given our strong governance rights and active engagement approach, we are able to influence. The infrastructure team has set an objective for all portfolio companies to put in place Paris-aligned targets (aligned with a pathway that limits temperature increase to 1.5°C) by 2025, in line with the Paris-alignment approach described under Principle 4.

Pollution and waste from operations, supply chains or products are inconsistent with a sustainable business model in infrastructure. Shifting to circular business models and a pro-active approach to natural resource conservation and management are central to futureproofing businesses and protecting the environment. This is an important engagement priority for our infrastructure team.

Infrastructure often involves heavy industry and potentially dangerous activity meaning occupational health, safety and wellbeing is always of primary importance. We also encourage active promotion of all facets of physical and mental wellbeing, as drivers of overall health, happiness and productivity.

We promote talent management strategies where possible within the applicable legal framework, actions and advocacy covering closing pay gaps, representation of all elements of diversity at all levels of an organisation and the creation of an inclusive workplace. Such strategies should include relevant targets (in jurisdictions where this is permitted), dedicated resources, implementation, monitoring, metric reporting and continuous effectiveness assessment and improvement.

We are also continually conscious of the public service nature of infrastructure investments; the need to maintain our social licence to operate in a variety of ways; and the importance of maintaining a reputation as a force for good to both the businesses we invest in and our investors.

From a thematic perspective, climate change and emission reductions are currently our number one sustainability engagement priority with infrastructure portfolio companies.

Private equity

We seek to improve and protect the financial value of investments through assessing, monitoring and seeking improvements to material sustainability risk areas. Our private equity team takes a risk-based approach to effectively identify, monitor and manage sustainability risks, opportunities and impacts identified across its portfolio. For direct co-investments, we receive quarterly reports from the GP that include both financial information and qualitative data. These reports often contain E, S and G information. In addition to this, we often have a follow up call with the GP where we discuss the reports and any other topics we wish to raise. For fund investments we also receive quarterly reports and are invited to participate in AGMs. In a minority of cases, we are part of the limited partner advisory committee (LPAC) and hence part of the fund's governance structure. Engagement objectives are focused on the assets with higher identified sustainability risks.

How we engage

Our **public markets** dialogue with investee companies is primarily conducted through in-person meetings, calls, letters or emails, either individually or as part of a collaborative group. The nature and frequency of the dialogue depends on the location of the company, stage of engagement, severity of the issue and willingness of the company to engage. As evidenced by research, effective engagement that delivers value, demands a specific skill set that goes far beyond written activity or interaction with lower-level company representatives. Change is brought about by access at the board level gained by engagement professionals who have industry or professional experience, gravitas and specialist skills at challenging senior decision makers.[53] The majority of our dialogues are conducted with the board of directors (primarily the chair, lead independent director and chairs of board committees), corporate secretary, subject specialists or investor relations. Occasionally the dialogue is with executive teams, although only where we believe the concern justifies their time and attention.

Figure 36. Number of companies engaged at board/senior level in public markets

We have engaged 327 companies at board/senior management level,[54] including:

Senior management	
CEO	51
Chair	36
Company secretary	83
Executive management team	81
Head of Sustainability	154
Other board director	43
Other company executive	119
Grand Total[55]	**327**

Source: FHL, as at 31 December 2024.

We use our own relationships to initiate and progress engagements in the majority of cases, whether this is through the investment teams or EOS, in addition to attending meetings facilitated by intermediaries. Most public markets engagements are carried out by EOS, who may be joined by relevant portfolio managers or analysts from our investment teams. The investment teams also carry out engagements themselves, although these are only reported if conducted by dedicated engagement staff. The Responsibility Office ensures that our investment teams and EOS work closely together with a joined-up approach.

Making realistic and realisable requests of companies, informed by hands-on experience of business management and strategy setting, is critical to the success of our engagements. With all engagements, we seek to build a strong relationship with the company and are willing to be patient, remaining focused on achieving goals which are directed towards long-term success. Our proprietary systems enable us to track progress against specific objectives and remain outcomes-focused throughout the duration of our engagement with a company. We have invested in the underlying systems in which we capture, measure, manage and then express our stewardship activity and outcomes. Not only can our engagement professionals better capture their progress, momentum, challenges and next steps and general workflow, but our clients are able to absorb the information in ways and through lenses that suit them.

Geographies: There are some nuances in how we engage within each market. EOS has developed regional voting guidelines and policies which set out our fundamental principles in relation to of the companies we invest in across a number of important sustainability topics. This regional approach reflects the variations in the markets in which the companies we invest in operate. They also inform EOS' Global Voting Guidelines and FHL's Global Voting Policy and Guidelines. Together these guide EOS' voting recommendations and our investment teams' voting decisions for listed equities. EOS has intentionally built a diverse team of experienced and international voting and engagement professionals who have the expertise, language skills and cultural knowledge to work to encourage real beneficial change at companies. Our ability to engage in the local language and understanding of local culture and business practice are critical to the success of our engagement work. Within our team, we have nationals from a range of countries and fluency in 17 languages.

[53] FHL, 'New research shows the importance of board', (September 2017).
[54] Individual companies may be engaged at multiple levels of board or senior management.
[55] In the table we count a company in multiple categories, hence why these don't add up to the Grand total.

Figure 37. 2024 Engagement activity[56]

Theme	Issues and objectives engaged
Environmental	1,072
Social and Ethical	673
Governance	739
Strategy, Risk and Communication	239
Total	**2,723**

Source: FHL, as at 31 December 2024.

We engaged with 571 individual investee companies, some of which were engaged on one or more themes.

Figure 38. Engagement by region in 2024

Region	Companies engaged	Issues and objectives engaged
Australia & New Zealand	22	73
Developed Asia	78	355
Emerging & Developing Markets	87	385
Europe	116	541
North America	234	1193
United Kingdom	34	176
Total	**571**	**2,773**

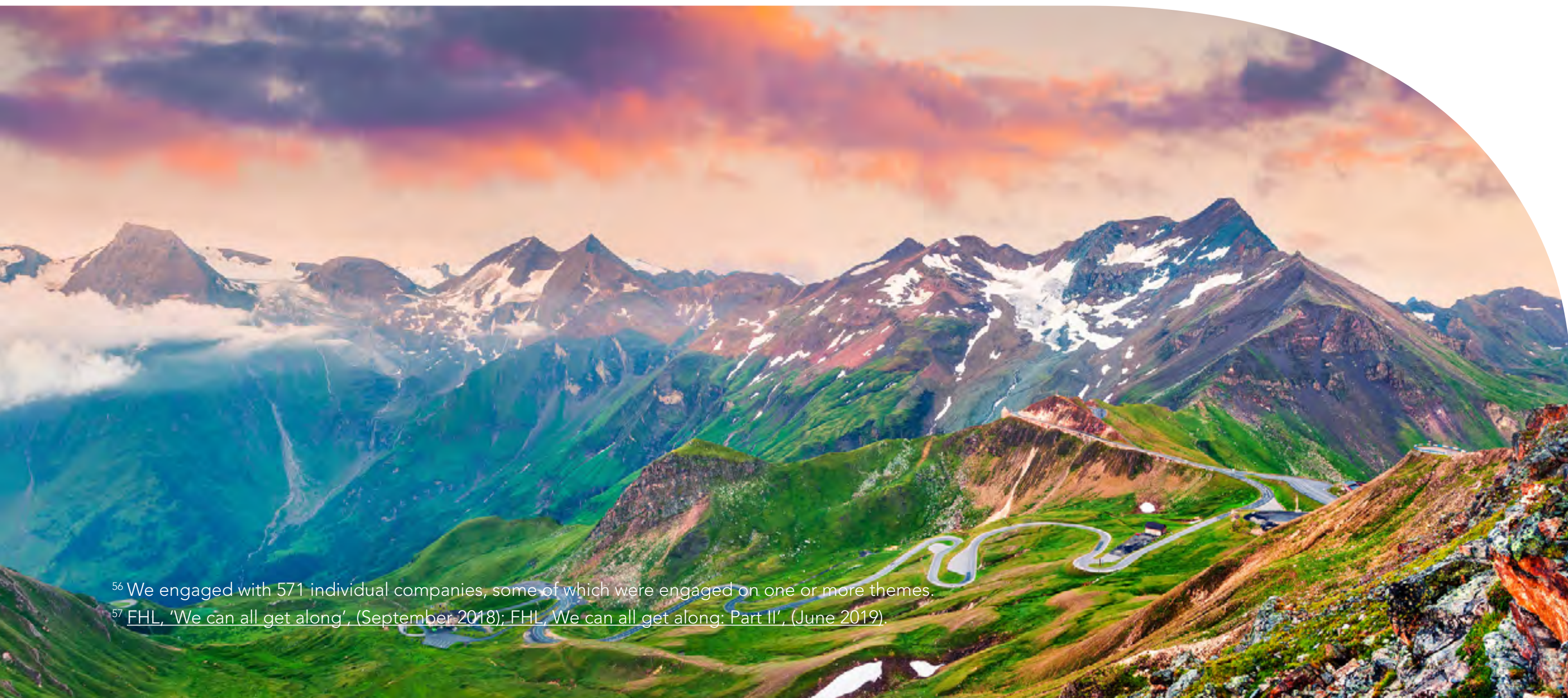
Source: FHL, as at 31 December 2024

Equity vs. Credit: Both equity and bond holders have a shared interest in sustainable growth, increasing enterprise value and the long-term health of companies. EOS' breadth of engagement allows us to engage with companies on behalf of equity and bondholders. We believe that engaging simultaneously on equity and credit creates a common long-term voice, increases access and influence and shared resourcing to pool the priorities of like-minded investors. In a two-part paper over 2018-19, we explained why we believe the shared interests of bondholders and shareholders provide incentives to jointly engage companies – and generate positive outcomes by doing so.[57]

Where there are rare conflicts such as when a company is failing, and its very survival is in doubt, the interests of bond and shareholders can diverge as they compete over what remains for investors. We have established a Stewardship Conflicts of Interest Policy to follow in such rare situations, as described under Principle 3. If a potential conflict of interest is identified, the issue is escalated first to a line manager and then to the escalation group if the conflict cannot be resolved. If a potential conflict materialises, the joint equity-credit engagement is restricted to those objectives that are not affected.

As shareholders and creditors are both financial stakeholders, they share a common basis to engage in constructive dialogue with companies. However, as creditors serve as a recurring source of cash to a company, they have a different kind of influence. This influence varies even within fixed income. For example, for smaller companies in leveraged finance or direct lending, the disintermediation of capital is spread over a smaller investor base. This means these investors may have greater influence versus any individual investor in a large-cap name. When engaging as bondholders, we may be able to use other routes to the company such as the Chief Financial Officer or treasury department, or as part of bond roadshows, which are typically more frequent than equity issuance. Also, we may encourage companies to issue green and sustainability-labelled bonds to encourage clearer sustainability frameworks and reporting, and, in cases where companies issue such bonds, we may engage on the validity of any sustainability claims made.

Engaging on derivatives in credit portfolios is done in the same way as we engage with equities and bonds; we engage with the underlying issuer. Engaging on sovereign bonds poses a particular challenge, as there is often a shortage of relevant data and little accessibility. However, we use what data we do have to assess sustainability risks and their potential impact on the sovereign's ability and willingness to meet financial obligations. Momentum is building across the investment industry to improve the availability of data and engagement within this asset class.



[56] We engaged with 571 individual companies, some of which were engaged on one or more themes.
[57] FHL, 'We can all get along', (September 2018); FHL, We can all get along: Part II', (June 2019).

CASE STUDY

AstraZeneca

Background

AstraZeneca is one of Europe's leading pharmaceutical companies, primarily focused on oncology, biopharmaceuticals, and rare disease. In 2014, as part of its defence against the Pfizer takeover bid, the company announced an ambitious revenue target.

EOS identified robust succession planning for both the CEO and the chair as integral to the achievement of a long-term strategy, as well as the alignment of incentives with long-term revenue targets.

We subsequently engaged on the robustness and quality of the succession and compensation processes. In April 2024, AstraZeneca became the UK's largest public company by market capitalisation.

Our engagement

In 2014, we initiated engagement on the company's ambitious long-term revenue target, which was the basis of its defence against Pfizer's takeover bid. We signalled the importance of shareholders holding the board to account on its commitment to these long-term targets and heard of the chair's intention to tie management incentives to long-term targets. The CEO emphasised the success of the long-term strategy and revenue generation would be underpinned by a highly collaborative, and thus innovative, atmosphere that would increase the size of the pipeline. We also explored how compensation would be structured to ensure management incentives were aligned with long-term shareholder value creation.

We held regular meetings with the company between 2015 and 2024, including with the chair, to ensure progress was being made. We were given assurances over the commitment to tie remuneration to the long-term strategy. We pushed the company to disclose performance against confidential metrics in the long-term incentive plan (LTIP), noting that it would provide transparency and accountability while protecting commercial interests.

In 2019, we took the opportunity to discuss succession planning for the CEO, whose tenure made this likely in the medium term. With the chair also likely coming to the end of his tenure, however, we raised concerns over the senior independent director's capacity to effectively support the CEO succession given his additional role as chair of the remuneration committee and as CEO of another company.

We believed that robust succession planning at the CEO and board level was essential to ensure strategy consistency towards the long-term revenue target. The senior independent director (SID) remained responsible for CEO succession planning, so we questioned how this process would be designed to support the achievement of long-term revenue targets. However, we learned that CEO succession was not now expected for several years (and after a new chair had been appointed) and as the SID would also likely soon step down the new chair would instead be responsible for overseeing the CEO change. While a few years away, we raised concerns over the risk of a vacuum after a strong CEO departs, affecting long-term strategic delivery, but heard that the company was confident in its internal talent pool and the CEO was focused on ensuring business performance post-departure.

We met with the outgoing chair in 2021 and reviewed progress on CEO succession planning, again hearing that the company was confident in its internal pipeline given the CEO had managed to retain a strong executive team around him. We found this encouraging, but through to 2023 we raised concerns over visibility of the process. In 2023, we requested greater clarity over progress including how far the company had gone to identify and develop internal candidates, especially with the CEO's 11-year tenure coming under the media spotlight.

Changes at the company

In April 2023, we welcomed the appointment to chair of one of the current board directors, who also had previous experiences of chairing other companies. We were also pleased to learn that the company had in April 2023 ultimately achieved its target, announcing annual revenues of $45.8bn in 2023. In April 2024, AstraZeneca became the UK's largest public company by market capitalisation.

Early in 2024, we met with the new chair to better understand the strength of the internal pipeline now that CEO succession is very likely under his tenure. We were pleased to hear that the chair is working to ensure candidates for CEO have experience across the business in time for a formal selection process. We obtained reassurance over the diversity of this pipeline and that the company is also looking at external candidates.

Throughout our engagement on CEO succession planning, we have raised concerns over the high level of variable pay, which again increased significantly as recently as the 2024 AGM. The company has consistently justified pay to retain a high-performing incumbent in a competitive global environment. We recognise global competition for talent, but we are not convinced that delivering such significant pay increases are warranted, especially if a robust internal CEO pipeline is available, as the company claims.

This led to us recommending votes against the proposed remuneration policy at the 2024 AGM. After the AGM, we met with the chair and obtained reassurance that a future CEO would not necessarily be remunerated under as generous a performance plan.

Next steps

We will continue to engage on how the board governs this level of ambition while ensuring the company's risk management practices remain grounded by a well-articulated culture and a robust approach to ethics. Additionally, while we have obtained reassurance over the ongoing work on CEO succession, EOS will continue to engage on this.

(Published October 2024)

Within private markets, **our real estate team** has an extensive community and occupier engagement programme across our retail and office assets that focuses on governance, skills, safety, health and wellbeing. Retail and office assets represent, on average, about 50-60% of our direct investment, depending on the fund. We aim to positively impact the health and wellbeing of our occupiers and local communities by establishing a constructive dialogue through a range of activities carried out during the life cycle of real estate assets, including: development and refurbishment; asset management; wellbeing and comfort; as well as:

- **Attaining wellbeing certification:** In 2024, we continued to maintain our BREEAM in-use coverage. This certification adds value to our assets demonstrating that they are run in a sustainable manner, ensuring that occupiers benefit from reduced utility costs from occupying space in an efficient building and showcasing environmental improvements over time for an asset. In total, we obtained 31 BREEAM in-use certifications and 4 Fitwel certificates.
- **Participating or supporting initiatives that promote wellbeing among occupiers and communities:** we have addressed sustainable transport, healthy living among occupiers and community health, and have implemented measures in line with the UK Modern Slavery Act through our activities and supply chain.
- **Achieving greater occupier engagement:** The team have also engaged with all occupiers during lease negotiations, with the intention of including sustainability clauses in all lease agreements.

We have continued to focus on our journey within real estate to become Net Zero Carbon by 2035 by reducing carbon emissions and energy use and using technology to increase the energy efficiency of our managed assets in 2024.

For our direct lending and real estate debt teams, the key is to identify both current and potential meaningful ESG risks before investing. Due to the difficulty of divesting these illiquid investments at par prior to maturity, it is important to manage the downside ex ante. Because of a lack of market benchmarks, the teams often use more qualitative information – often gained through dialogue with the borrower – as well as information contained in the due diligence packs. The teams collaborate with EOS, where appropriate, to ensure that their engagement is outcomes focused and impactful.

Following the completion of an investment in the direct lending funds, sustainability risks – like all credit risks – are monitored. Should an E, S or G issue arise during the life of the investment, the Direct Lending team will seek to engage with the sponsor and management of the borrower to rectify or improve the issue.

> **Because of a lack of market benchmarks, the teams often use more qualitative information – often gained through dialogue with the borrower – as well as information contained in the due diligence packs.**

We include information requirements in all of our real estate debt loan documentation to ensure that the borrower passes on the relevant E, S and G information to us, which we use to monitor sustainability in our investments. Some of our real estate debt loans support assets where a wider impact is delivered, such as refurbishments and regeneration. These factors are a strong consideration before investments are made, as are risks posed by sustainability factors. As with our direct lending investments, the key is to identify risks that may impact on a borrower's ability to repay their loan. We also intend to engage with the borrower where additional E, S and G issues arise during the life of the loan.

For our **infrastructure team**, superior investment performance, for the benefit of all stakeholders, begins with best-in-class governance, where transparency of information, clear lines of responsibility, accountability and appropriate management of conflicts are paramount.

We encourage the integration by management teams of sustainability considerations into companies' governance structures, strategies and risk registers in the belief this will have a catalysing and disproportionate positive impact on a company's long-term sustainability.

As an active investor, we engage directly with companies, at all levels, on a range of issues whilst maintaining an appropriate level of executive accountability. We set engagement priorities annually in an integrated approach with wider non-sustainability objectives. Priorities are guided by the use of the EOS stewardship model. This provides the framework on which asset teams will develop priority areas, focusing on the parts of the model deemed most material to the particular asset. Progress against engagement priorities is reviewed twice annually.

We engage with the lead GP and management team on a regular cadence (quarterly or yearly, depending on the severity of the risk) to monitor the risk and engage on potential outcomes.

In **private equity,** for a small proportion of our assets where the team have some control and/or the ability to influence company decisions directly, we seek to work closely with investee companies to monitor, challenge and improve sustainability performance. We engage with the lead GP and management team on a regular cadence (quarterly or yearly, depending on the severity of the risk) to monitor the risk and engage on potential outcomes. Engagement objectives are focused on the assets with higher identified sustainability risks.

However, in almost all cases our team has limited control and/or ability to influence decisions directly (whether for direct or indirect co-investments). In these instances, the team will work closely with the lead GPs to assess, monitor, and seek to improve sustainability performance of the underlying investee companies. Where we believe there are significant E, S and G risks we will ask the lead GP to address these. Whilst we have no formal rights in this situation and the assets are illiquid, we seek to leverage on our relationship with the GP to have a constructive discussion. The GP would then typically engage with the company management. We only invest with active GPs who are very closely involved with the investee companies and in regular contact, and as set out under Principle 7 ESG considerations are factored into the GP selection process.

Where we believe there are significant E, S and G risks we will ask the lead GP to address these. Whilst we have no formal rights in this situation and the assets are illiquid, we seek to leverage on our relationship with the GP to have a constructive discussion.

Outcomes of engagement in 2024

Public markets

Through stewardship activities, led by EOS, we engaged with **571** of our public markets' holdings in 2024, covering **2,723** identified objectives or issues. We made progress on **47%** of all objectives related to our holdings, which equated to **80%** of our equity and credit AUM (compared to 81% in 2023).[58]

Figure 39. Fund level engagement coverage for pooled public equity and credit funds during 2024

Fund name	% AUM Engaged in 2024
Federated Hermes Asia Ex-Japan Equity Fund	67%
Federated Hermes Biodiversity Equity Fund	80%
Federated Hermes China Equity Fund	44%
Federated Hermes Climate Change High Yield Credit Fund	77%
Federated Hermes Emerging Asia Equity Fund	42%
Federated Hermes Emerging Markets Debt Fund	22%
Federated Hermes Global Emerging Markets Equity Fund	87%
Federated Hermes Global Emerging Markets ex-China Equity Fund	84%
Federated Hermes Global Emerging Markets SMID Equity Fund	75%
Federated Hermes Global Equity ESG Fund	90%
Federated Hermes Global High Yield Credit Fund	68%
Federated Hermes Global Small Cap Equity Fund	68%
Federated Hermes Impact Opportunities Equity Fund	65%
Federated Hermes SDG Engagement Equity Fund	97%
Federated Hermes SDG Engagement High Yield Credit Fund	97%
Federated Hermes Sustainable Global Equity Fund	96%
Federated Hermes Unconstrained Credit Fund	74%
Federated Hermes US High Yield Credit Fund	41%
Federated Hermes US SMID Equity Fund	54%

Source: FHL, as at 31 December 2024.

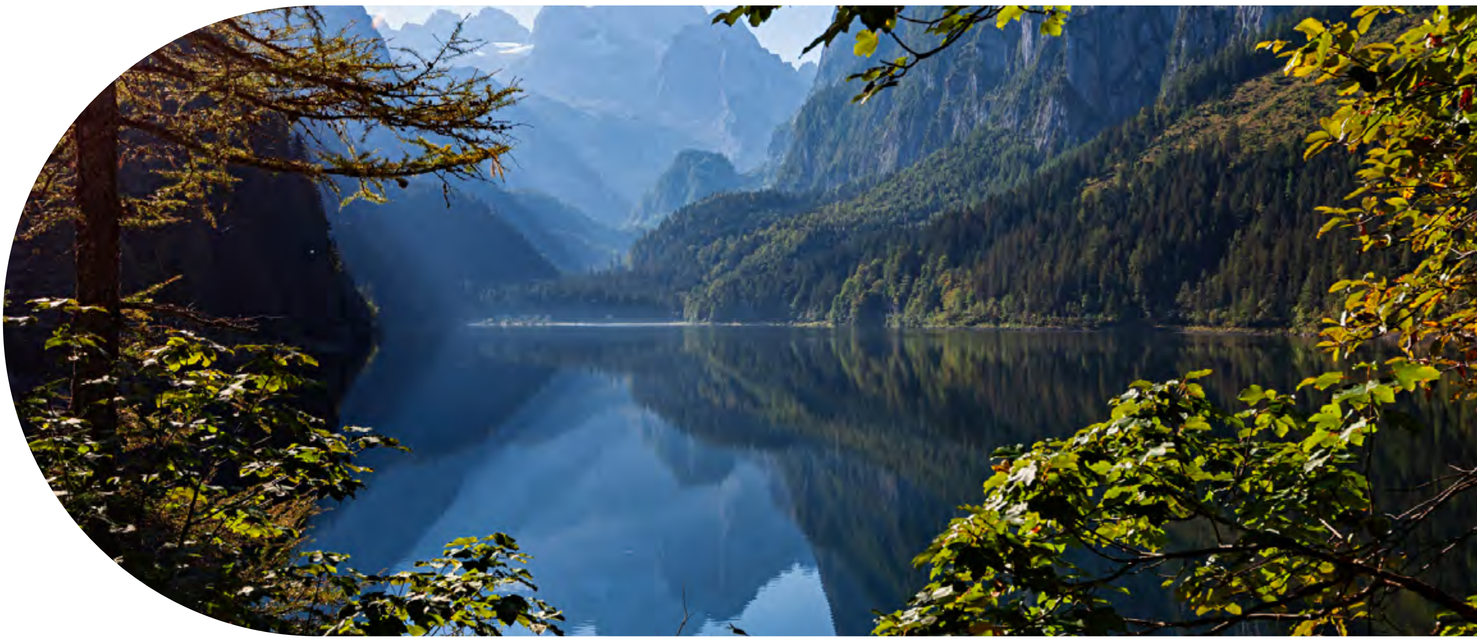
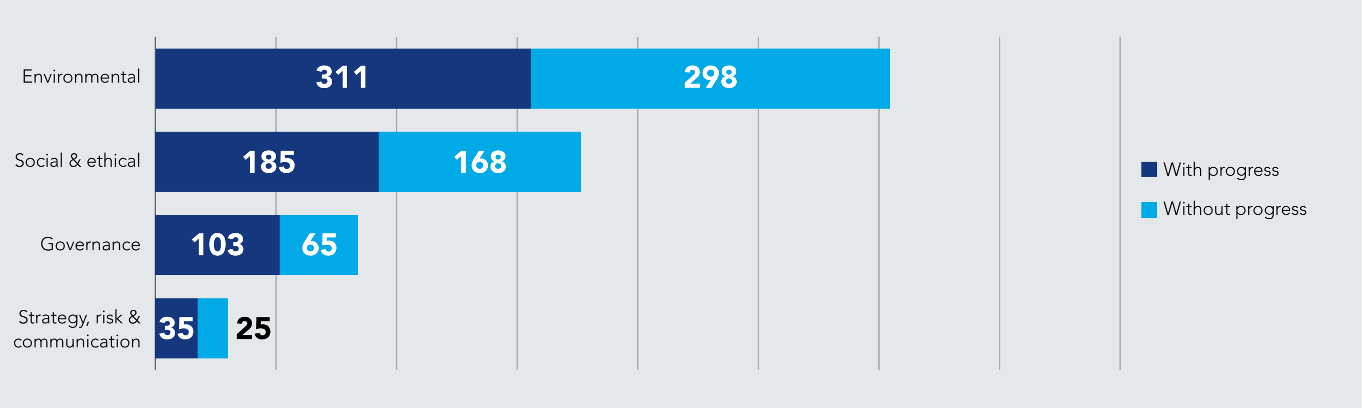


Figure 40. Progress made on our engagement objectives by theme in 2024



Source: FHL, as at 31 December 2024.

We publish case studies throughout the year on our website to demonstrate the approach we take and the outcomes of our engagement, as well as the case studies published throughout this report. EOS case studies are fact checked by the engagement companies and published on the EOS Insights website page.

CASE STUDY

Anhui Conch Cement

Engagement

Since 2019, EOS have been engaging with Chinese cement manufacturer, Anhui Conch, on governance, decarbonisation strategy, and climate-related risks. In a call with Anhui Conch in 2019, we communicated our recommendations for the company to have at least one female board director by the 2019 AGM and for the board to comprise at least 20% women by the 2020 AGM. As supporters of the 30% Club, we reiterated our corporate governance principles and encouraged Anhui Conch to improve its board gender diversity, aiming for 30% by 2030. The company acknowledged our concerns, while expressing the challenge of finding qualified female candidates within the industry, making suitable board appointments difficult. In 2021, we further clarified our recommendations via email and recommended voting against the election of a director to emphasise our concerns. We reiterated the importance of having a diverse board, not only in terms of skills but also gender, in both an in-person meeting and in calls in 2024.

Outcomes and next steps

Following our initial engagement, the company appointed a new female independent director to the board at the 2019 AGM. By 2022, a second female independent director had been elected, resulting in 25% board gender diversity, meeting our recommendations ahead of the 2025 target.

We welcomed the improvement during a face-to-face meeting with the ESG committee director at the company headquarters in China in April 2024. The company stated that gender diversity is a top priority for the board's future appointment. Moving forward, we will extend our engagement to promote diversity in the workforce and the long-term 30% by 2030 goal.

(Published December 2024)

[58] Our AUM here includes equities, warrants and bonds, as well as single name credit default swaps that give the firm long exposure to the underlying instrument and its associated company. Other derivatives, cash, index and government instruments are excluded.

CASE STUDY

Roche

Engagement

Our aim for Swiss pharmaceutical company, Roche, was to develop and publish principles on how it uses artificial intelligence (AI). We began engaging with the company on this issue in 2020, discussing its management of ethical risks associated with the use of AI. We shared a copy of our paper setting out investors' thoughts on responsible AI and data governance to outline what we would recommend.[59]

In subsequent engagements in 2022 to 2024, Roche showed its advanced thinking on this topic. For example, it explained that the collection of millions of patients' data reduced bias but that fair demographic representation remained an issue in the industry. The company was working with ethicists to ensure that datasets used in algorithms were representative of the entire population.

In 2023, we continued to ask the company about the development and disclosure of its AI policy. In July that year, we asked for a further update. Whilst the company had recently published its data ethics principles,[60] this document excluded concepts relating to AI as the company considers that this complex topic is worthy of a separate future guidance document.

Outcomes and next steps

In a 2024 engagement meeting, we welcomed the publication of a new document[61] with a set of principles to guide the ethical use of AI as this is something we had been requesting for several years. We noted the CEO's letter in the latest annual report indicating the increased use of AI at all stages of the drug development process.

(Published September 2024)

[59] FHL, 'Investors' Expectations on Responsible Artificial Intelligence and Data Governance' (April 2019)
[60] Roche, 'Roche Data Ethics Principles'
[61] Roche, 'Roche Artificial Intelligence (AI) Ethics Principles'

CASE STUDY: SDG ENGAGEMENT EQUITY STRATEGY

Varun Beverages

Indian multinational Varun Beverages manufactures, bottles and distributes soft drinks and is one of the largest bottlers of PepsiCo's drinks in the world. The group's international presence is growing and includes Sri Lanka, Morocco, Zimbabwe and South Africa.

During our period of investment in Varun Beverages we have engaged with the company on various occasions to discuss a number of matters as detailed below:

1. Governance

In terms of the 'engagability' of the business, we have been generally pleased at how receptive senior management has been. We had concerns at the outset about the company's governance arrangements in light of its family-controlled structure.

While we welcome the progress made to date, we continue to encourage the company to prioritise independence in future board appointments in order to: a) guard against perceptions that board independence is a secondary concern and, b) bring fresh perspectives to board discussions.

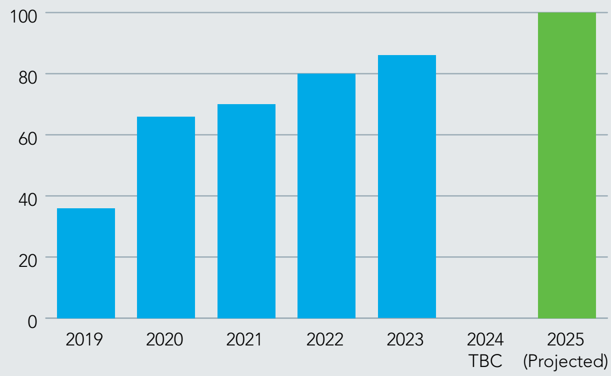
2. Increasing recycling (and recycled content used in packaging)

The Indian government is to require that 30% of recycled plastic content is used in plastic packaging by 2025-26 (increasing to 60% by 2028-29). Varun has been proactive in this area. It has already committed to recycling 100% of its used PET[62] bottles and has established a target to incorporate 30% recycled-PET into its packaging in India by 2025. The company has set up a joint-venture with Singapore-based chemical producer Indorama to manufacture recycled-PET at two locations in India, with these facilities set to be operational by 2025.

As it seeks to achieve its recycling target, Varun has been working with a third party, GEM Enviro Management, which specialises in the collection of packaging waste and recycling used-PET bottles into green products. The partnership enables Varun to gain plastic credits[63] for the waste collected and recycled.

> **In terms of the 'engagability' of the business, we have been generally pleased at how receptive senior management has been.**

Figure 41. Varun Beverages plastic waste recycled



Source: Company reports.

The GEM Enviro team works with ragpickers who collect packaging waste at large waste generation facilities. In light of our concerns about the welfare of such individuals, we are pleased that Varun has launched a programme that seeks to improve the livelihoods of ragpickers, providing for better working conditions and a fair price for the waste collected.

We remain keen to engage further to understand what more Varun can do to support the welfare and wellbeing of ragpickers, while also accelerating the adoption of recycled plastics within its packaging.

3. Water stewardship

The company has made meaningful improvements in recent years in terms of its water intensity – the proportion of water consumed during production of its products. Varun has set targets and the company's water strategy seeks to achieve these targets by reducing water consumption per litre of production and cutting down wastage; improving water efficiency through process improvements; and harvesting rainwater to recycle and replenish groundwater levels.

[62] Polyethylene terephthalate (PET): The most common thermoplastic polymer resin used in fibres for clothing, containers for liquids and foods, and thermoforming for manufacturing, and in combination with glass fibre for engineering resins

[63] Plastic credits are transferable certificates that measure the collection of a specific weight of plastic waste that has been recovered or recycled, which would have otherwise ended up littering the natural environment.

In terms of recharging the local water table,[64] much of Varun's positive impact is because of the 118 ponds it manages – approximately half of which are in water-stressed zones. The company has conducted impact assessments on its water ponds and analysed the impact of the water rejuvenation projects on local communities. It found significant increases in crop yields, better land productivity and soil fertility and ultimately an increase in income and savings of local rural households (FY 2023).

It is encouraging that the company has been reducing its dependency on production from water-stressed sites year-on-year. We are nonetheless mindful that the equity of access to water[65] in these particular communities is an issue that needs ongoing monitoring.

4. Obesity challenge

Varun has been working towards introducing healthier and zero-sugar variants of its products – in line with PepsiCo's global strategy to reduce its overall sugar content.

The proportion of 'low and no-sugar' beverages in Varun's product mix has gradually risen from 35% in 2021 to 40% in 2023. It includes some of Varun's fastest-growing products such as Sting (energy drinks), Gatorade (sports drinks), Tropicana (juices) and bottled water as well as zero sugar variants of its carbonated brands (7Up Zero, Gatorade Zero and Pepsi Black).

PepsiCo is looking into developing its partnership with Varun to include the distribution of a wider range of healthy and fortified products across India; utilising the logistics and distribution infrastructure Varun offers could provide further opportunities for social impact creation – it's an angle we will explore further with the company.

While 'low and no sugar' products have potential health benefits for consumers (relative to sugar-sweetened drinks) we remain keen to discuss with Varun how it plans to innovate its 'no sugar' portfolio and enhance the accessibility of its more evidentially healthy products. The company needs to set out clear targets on how it intends to reach low-income populations, while guarding against the promotion of harmful products to children.

Next steps

We will continue to engage Varun Beverages to these matters going forwards.

This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments. 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.

(Published September 2024)

In some instances, we will discontinue engagements on the basis that our efforts have been met with strong resistance, or the matter is no longer relevant. The following are reasons an objective may be discontinued:

- **Company unresponsive:** the company has not been responsive to our engagement, and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- **Company disagreed:** the company has expressed its disagreement with our engagement proposals, and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- **No longer relevant/material:** the original objective is no longer considered sufficiently material or relevant. This could be due to a change in the company's business profile (such as divestment of a business unit of concern) or if engagement reveals that the original concern is of lower materiality than originally anticipated.
- **Restarted as new objective/issue:** engagement reveals that the original objective should be materially changed – for example, split into two separate and related objectives or combined with another objective.

Providing explanations for scenarios where engagement has stalled – that is, in instances where engagement is moving slowly, or a company refuses to make changes – is more challenging because we conduct the majority of our engagements behind closed doors. We are mindful of the relationships we have built with companies, as well as our future engagements with them. For these reasons, we provide anonymised case study examples.

[64] Groundwater recharge or deep drainage or deep percolation is a hydrologic process, where water moves downward from surface water to groundwater. Recharge is the primary method through which water enters an aquifer

[65] Water equity is defined as the proportional and equitable distribution of water related to environmental benefits and risks among diverse economic and cultural communities.

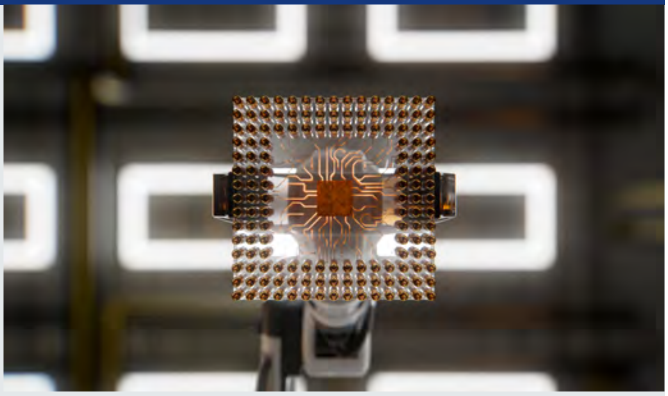
CASE STUDY

Discontinued objective, science-based carbon emissions reduction target

Details of engagement:

We have been engaging with the company since 2018 on its climate change strategy, particularly the setting of science-based carbon emissions reduction targets. Over the course of our engagement with the company, both bilaterally and in collaboration with other investors, at management and board levels, there has been significant development in the company's climate change action plan. The company's two main lines of business are different in terms of climate change strategy. The DX division, responsible for consumer electronics and household appliances, accounts for 5% of Scope 1 and 2 emissions. The company has committed to achieve net zero Scope 1 and 2 emissions by 2030, which is an ambitious target in this sector.

The company's DS division, responsible for semiconductor components manufacturing, accounts for 95% of the company's Scope 1 and 2 emissions. It has committed to achieve net-zero emissions by 2050, without interim targets yet. Although its main peers have interim targets, no one has had them verified, as the Science Based Targets initiative has not yet developed a methodology for the semiconductors sector. The company has a plan to achieve its net-zero targets, built around its most material impacts and supported by detailed sub-targets, such as renewable energy target, gas treatment efficiency tech development target, and power consumption improvement in key product categories target.



Outcomes and next steps:

This objective of establishing a groupwide science-based absolute carbon emissions reduction target is being discontinued as it is not anticipated that the company will achieve this, given the diverse nature of its business units and of their impact on carbon emissions. The company was proactive in trying to achieve its targets, including by joining the Semiconductor Climate Consortium as a founding member, an initiative aimed at addressing climate change challenges in the semiconductor supply chain.

However, ultimately we believe this engagement can be more effective by approaching the decarbonisation challenges specific to each business unit, building on the progress achieved so far. A new objective has been set on the on the development of an interim Scope 1 and 2 carbon emissions reduction target specific for the semiconductor components division (DS division).

(Published October 2024)

Private markets

Real Estate

Our real estate team publishes an annual ESG report, which publicly discloses environmental and social outcomes for our real estate funds. Through our placemaking activities, we have created significant social and economic growth in a number of our real estate construction projects. This has been achieved through generating construction jobs, apprenticeships and local supply chain spending. As we expand our reporting to cover the eight social hubs identified for real estate placemaking initiatives, we have developed a comparative framework which enables us to clearly measure and analyse the positive impact that investment has on social infrastructure. This work will focus on different types of operational assets within our portfolio in a range of locations. We have continued to work with Social Value Portal to develop our understanding of the social capital generated by our placemaking schemes in Leeds and Manchester.

GRESB – the global real estate sustainability benchmark for real assets – is an investor-driven sustainability benchmark and reporting framework for listed property companies, private property funds, developers and investors that invest directly in real estate. The assessment is shaped by what investors and the industry consider to be material issues in the sustainability performance of real estate investments.

In 2024, the real estate team continued to support the GRESB benchmark, submitting all 11 funds and all assets for assessment. This shows our commitment to sustainability on both new build and operational assets. The use of the benchmark increases our understanding of asset performance and identifies areas of improvement.

We maintained strong performance on the 'Performance section' with increased scores in the data coverage and like-for-like analysis in the Energy, GHG and Water components. GRESB has changed its scoring methodology significantly this year affecting scores globally, specifically, the shift from regional to country-specific benchmarks, the changes in the peer group allocation and the changes in the point allocation and the changes in the point allocation of the green building certification created a significant dropped to the scores across all submissions. We have completed a gap analysis and engaged with our external consultants and property management teams to drive performance improvements to increase the score where possible for next year's submission.

Figure 42. Real Estate 2023 GRESB scores

Fund	Star Rating		GRESB Rating		Peer Ranking	
	2023	**2024**	2023	**2024**	2023	**2024**
BTPS Direct Real Estate Portfolio	4	**3**	85	**79**	1	**4**
BTPS Developments	4	**3**	96	**92**	3	**8**
Federated Hermes Property Unit Trust (FHPUT)	2	**2**	75	**70**	53	**79**
Hermes Central London (HCLLP)	4	**4**	85	**87**	4	**3**
Metro Property Unit Trust (MetroPUT)	3	**1**	76	**62**	3	**6**
Centre:MK	5	**4**	92	**85**	1	**3**
Hestia (UK residential)	5	**3**	89	**78**	2	**12**
Paradise	4	**4**	82	**86**	6	**4**
Paradise Developments	4	**4**	92	**93**	5	**7**
NOMA	3	**3**	76	**80**	9	**5**
NOMA Developments	5	**4**	100	**95**	1	**5**
Wellington Place	5	**4**	92	**87**	1	**3**
Wellington Place Developments	5	**4**	100	**95**	1	**5**
Silverstone Park	2	**2**	69	**68**	3	**4**
Milton Park	2	**1**	71	**60**	5	**5**
Milton Park Developments	4	**2**	92	**78**	5	**12**

Source: FHL, as at 31 December 2024 (scores for 2023 included as information only).

Continual improvement at the asset level is a key driver of our sustainability goals. To measure this, we use recognised certification schemes that focus on environmental and social improvements. Over the past twelve months, we have achieved 13 recertifications and obtained new certificates at asset and placemaking scheme-level to demonstrate social impact. These schemes not only demonstrate our commitment but also highlight areas for future focus.

Information on our wellbeing certifications can be found earlier in this section.

Infrastructure

At a number of our portfolio companies, our roles at board and committee level have enabled us to successfully collaborate and influence sustainability strategy and go on to approve matters related to the strategy's implementation.

Owing to our engagement approach and nature of the asset class, we have a significant number of day-to-day engagements. We choose to monitor number and quality of engagements on a sample basis, using a single quarter of the year. For 2023 we recorded engagements for Q4. In Q4 2023, we recorded 74 sustainability-related engagements. Of these, 38% were direct engagements with investee company management teams. The other engagements were mainly with co-shareholders, Board Committees and industry associations. In terms of theme, 24% of engagements were related to climate and 12% focused on health, safety and wellbeing . At time of finalising this report, Q4 2024 statistics were in the process of being compiled.

The majority of infrastructure portfolio companies participate in benchmarking assessments, typically GRESB or EcoVadis, which we encourage. The results of the 2023 assessment were issued in 2024 and the majority of companies improved their scores against 2022. The results of these are shared with clients in the Infrastructure Annual Sustainability Report for investors, in addition to the UN PRI scores.

Private Equity

In 2024, our private equity team piloted an outcome seeking engagement strategy focused on portfolio climate change risk, encouraging GPs to measure greenhouse gas emissions, assess climate risk where material, and transition portfolios to net zero.

Please see private equity case study on page 77.

INFRASTRUCTURE CASE STUDY

Scandlines

Danish ferry business Scandlines, one of the Infrastructure team's portfolio companies, operates routes between Denmark and Germany. As a Board member and Chair of the Board's Safety and Sustainability Committee, we have been very active in supporting the business to decarbonise its fleet.

Marine transport is considered a hard-to-abate sector and achieving net zero emissions from ferry operations will require significant investment, while offering attractive opportunities for cost reduction, risk mitigation and an enhanced customer offering. The Federated Hermes Infrastructure Investment Committee, alongside Scandlines' management team and co-shareholders, have carefully evaluated and executed two investments with the potential to deliver on these opportunities and meaningfully reduce emissions.

In 2021, we supported Scandlines in the decision to procure one of the world's first electric freight ferries (PR24). This was the result of detailed work that showed this offered additional value as a solution for expanding the fleet versus a second-hand combustion engine vessel. For the first time, PR24 enables Scandlines to offer a zero direct emissions transport solution to customers.

During 2023, the team built on the work done in the PR24 project and evaluated a proposal to retrofit some existing ferries to be hybrid and capable of battery propulsion. In supporting due diligence and contributing to steering group and Board discussions, we consistently advocated for the project. From prior work carried out with specialist climate risk advisors ERM, we were conscious of Scandlines' potential exposure to material emissions pricing charges. Mitigating this exposure through decarbonisation was a central feature of the investment case for the project and deemed to be value accretive for investors.

The project achieved final investment decision in December 2023, with two ferries expected to be retrofitted in 2025. The capex required is expected to be offset through avoided costs under the EU Emissions Trading System and will reduce emissions by approximately 40% on the route these ferries will operate on and approximately 10% for Scandlines overall. When completed, Scandlines will be able to offer customers a lower emissions transport service with lower operating expenditure, therefore setting the business up to deliver improved value for our investors. It also represents tangible progress towards achieving FHL Infrastructure's target for 100% of portfolio companies to be aligned with the 1.5°C goal of the Paris Agreement by the end of 2025.

PRIVATE EQUITY CASE STUDY

Refurbed

Refurbed, a private equity portfolio company, operates as a marketplace for refurbished goods, initially focusing on mobile phones. The company has a significant positive impact on the climate by promoting the reuse of electronics and other goods, thereby reducing e-waste and conserving resources.

Sustainability and Climate Impact: Refurbed directly addresses climate change by extending the lifecycle of electronic products, which significantly reduces CO_2 emissions, e-waste, and water usage. Since its inception, the company has saved approximately 270,000 tons of CO_2 emissions, 885 tons of e-waste, and 94 billion litres of water. These efforts align with Sustainable Development Goal (SDG) 12, which focuses on responsible consumption and production.

Engagement on Net Zero Commitments: While Refurbed operates according to high environmental standards, it has yet to make a net zero commitment or implement Paris-aligned decarbonisation targets. We have encouraged the company to set such targets to align with the Paris Agreement. We believe that this commitment will not only enhance Refurbed's brand, which targets sustainability-conscious consumers, but also add value to the equity at exit.

Engagement on the EU Corporate Sustainability Reporting Directive (CSRD): We participated in a CSRD investors workshop where we discussed material topics for the company. Together with the investor group, we encouraged Refurbed to include human rights aspects (especially child labour and forced labour) regarding the treatment of workers in the supply chain, which is a material topic in the European Sustainability Reporting Standards that underpin the CSRD. Given that Refurbed's suppliers possibly source new batteries from East Asia, we emphasised the importance of ensuring that the entire supply chain abides by human rights standards to the best of their abilities.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

We see value in both direct and collaborative engagement, and it is the combination of both which helps us to influence issuers and borrowers and to carry out effective stewardship. Where there are shared objectives – in particular the promotion of long-term sustainable value – we use both formal fora and other more informal links to work collaboratively with other investors on a global basis. Such interactions can be ad hoc or ongoing. Crucially, the primary concept of EOS' stewardship service is to provide a mechanism for like-minded asset owners to pool their resources and, in so doing, create a stronger and more effective stewardship voice. We consider initiatives on the basis of factors including effectiveness, feasibility, alignment, benefits to the end user and reputation. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert in the relevant jurisdiction(s). Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration. As described under Principle 4, we contribute to policy discussions both directly and in collaborative fora and initiatives. We are a member of a number of industry bodies and initiatives around the world, through which we conduct collaborative engagement both on thematic issues and with specific issuers.

Our collaborative engagements

Public markets

We collaborate with other investors in our engagement with companies when this may be beneficial for the engagement and could influence the actions and governance of investee companies. We seek collaboration where interests are aligned, and the objectives are based on material issues. Any collaboration is carried out in line with applicable laws and regulations relating to issues such as antitrust, conflicts of interest and acting in concert in the relevant jurisdiction(s).

In order to succeed in the long run, we believe that companies will need to effectively manage relationships with key stakeholders. They also need to be mindful of their impact on the environment and their role in both the communities in which they operate and society as a whole – something that grants them their licence to operate. As a result, we are interested in and seek (if necessary) to ask a company's management to consider these wider risks, where they have been raised. While we do not generally communicate directly with stakeholders, we will feed back their concerns – once verified – to company management through our position as shareholders. We believe we have a duty to use our influence to improve the behaviour of the companies in which we invest; in turn, this should benefit society as a whole. Our stewardship activities may also include discussions with relevant stakeholders of investee companies, such as industry bodies, policymakers, regulators, customer groups, employee groups and civil society organisations. All of our activities are supplemented by our belief in transparency, and our public reporting may be of value to relevant stakeholders.

We list here examples of how we have collaborated with other investors to engage with issuers in 2024:

- **Nature Action 100:** EOS led a Nature Action 100 collaborative engagement with Dow on biodiversity and water. We welcomed the company's increased focus on water stewardship with the announcement of new ambitious water targets in 2024. Dow has identified 20 priority water-dependent industrial sites representing around 90% of its water footprint; these were selected on the basis of expected business growth and increasing competition for water. Dow wants each site to have a holistic water stewardship plan to mitigate the effects of water usage on the environment and local communities. By 2035 the intention is for all of its sites to have water stewardship plans in place. Dow's strategy is designed to support resiliency for its sites and the surrounding natural ecosystems, protecting them from unpredictable conditions such as drought and flooding.
- **Climate Action 100+ (CA100+):** Through our co-lead role of the Kinder Morgan Climate Action 100+ collaborative engagement, we laid out our top priorities consistent with achieving a goal of net-zero emissions by 2050, which included trade association alignment. In a recent engagement with a director, the company clarified that it does not have a public position on the goals of the Paris Agreement, but its trade associations reflect its positions and do not oppose Paris Agreement or methane regulations. We will continue engaging with the company on enhancing its climate lobbying disclosures to include its recent improvements on trade association alignment.
- **Finance Sector Deforestation Action (FSDA):** The FSDA Initiative was launched at COP26 and since its inception, the initiative has been successful in accelerating financial institutions' efforts to end deforestation. In 2024, EOS and FHL engaged with over 27 focus companies through the initiative, encouraging commitments to deforestation-free production and sourcing by 2025. We provided informal feedback to the FSDA initiative and the Institutional Investors Group on Climate Change (IIGCC) on the draft deforestation investor expectations for commercial banks.

We consider initiatives on the basis of factors including effectiveness, feasibility, alignment, benefits to the end user and reputation.

Private Markets

As well as to collectively finance a loan, our private debt teams may collaborate with other lenders to influence borrowers as part of the engagement process. As described under Principle 9, we would typically do this at a point at which we are in the strongest position, i.e. when we have been mandated to provide the financing and we are negotiating the loan documentation. In particular, as our direct lending team has a co-lending programme with four major European banks, we often work with the relevant co-lending bank to influence the borrower. For example, during 2024, with regards to two loans we made alongside two of our co-lending banks, we are currently negotiating the appropriate ESG KPIs which will be incorporated into the loan documentation and which will contribute to the calculation of the interest rate of the loans, for example, the interest rate will decrease as the company reaches targets across the sustainability targets, while the interest rate will increase if the borrower fails to meet the targets.

We work with the other investors within our real estate joint ventures at both the ownership and asset-management levels. The boards of our joint ventures have representatives from both investors. We work together with investors within the decision-making framework of the Partnership Agreement. Each vehicle has an appointment with a FHL company (including MEPC, a fully owned subsidiary) for one or more of the investment management, development management and/or asset management of the asset. The appointed team reports to the board and is responsible for the day-to-day running of the asset, engaging with both owners within the joint venture to suggest and progress initiatives. It is at this level that our sustainability approach strongly influences the delivery of the asset and property management services.

Our infrastructure team invests directly in assets as a minority (and sometimes majority) shareholder with proportionate governance rights, typically a board seat. Collaborative engagement with portfolio company management teams and co-shareholders is part of our day-to-day interactions, as described under Principle 9, along with a case study in Principle 11.

In private equity, as described under Principles 2, 7 and 9, as a minority investor we interact with the lead GPs of our direct co-investments and fund investments. Due to the nature of the asset class, other collaborative activities with other investors are limited and usually relate to informal discussions around governance or fees.

Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration. More information on our advocacy and collaborative engagement on thematic issues and public policy through industry initiatives is available under Principle 4.

We work with the other investors within our real estate joint ventures at both the ownership and asset-management levels.

The outcomes of our collaborative engagement

We monitor the progress of our collaborative engagements with specific issuers in the same way we monitor our direct engagements. We do not categorise our engagements with specific issuers into either collaborative or individual/staff engagements. The outcomes of our collaborative engagements are therefore included in our reporting under Principle 9 of our broader engagement outcomes. However, here we provide some case studies as an example of how we collaborate with others in our engagement with issuers. As noted above, more information on our collaboration on thematic issues and public policy is available under Principle 4.

Each quarter, EOS publishes a Public Engagement Report which details its collaborative work on public policy and best practice over that period. These are publicly available on the EOS library page of the website.

CASE STUDY

Carrefour

We have engaged Carrefour, a leading French retailer, since 2008. In 2022, we placed greater emphasis our engagement around biodiversity and in 2024 we engaged them in a collaborative effort with FAIRR. As a retailer selling own brand and other brands' food products, it has significant impacts and dependencies on biodiversity.

In early 2024, as part of the Farm Animal Investment Risk and Return (FAIRR) collaborative engagement on protein diversification, we were pleased to hear from the company that it intended to report against the Taskforce on Nature-related Financial Disclosures (TNFD) framework.

That year, we also joined the Nature Action 100 (NA100) collaborative engagement as lead engagers for Carrefour and held our first NA100 meeting with the company in mid-2024 to challenge the biodiversity impacts it disclosed in its report. We also encouraged the company to strengthen its targets by using the Science-Based Targets Network (SBTN) nature methodology. The company provided reassurance that targets based on SBTN methodology will be published before the end of the year.

Changes at the company

In early 2024, the company published its 2023 universal registration document which outlines its biodiversity impacts and dependencies, and related risks and opportunities. The company assessed its entire value chain, in line with our recommendations. It provided a representation of the group's biodiversity footprint by country and type of pressure, showing its most significant impacts are in Brazil and France due to land use change.

It also shows the pressures exerted on biodiversity by several raw materials identified as high impact by SBTN, including palm oil, beef, cocoa, soy, fishery products, aquaculture products and cotton. The report also provided a narrative on pollution-related risks and opportunities including on pollution of living organisms and food resources, air, water and soil pollution, elimination of substances with controversial health and environmental effects, and microplastics. Carrefour outlined an action plan to promote responsible consumption and sustainable agriculture.

The company also followed our suggestions on water disclosures, and reports that it seeks to limit the water footprint of its products in the procurement process. For example, it helps suppliers manage water by helping them set up efficient irrigation systems.

Next steps

We will continue our discussions on nature through our direct engagement and the NA100 group, and assess the strength of the company's targets once they have been disclosed.

(Published July 2024)

CASE STUDY

Mizuho Financial Group, Inc.

Background

Mizuho Financial Group is a Japanese bank holding company.

The engagement on the company's financing policy was developed in response to environmental and social concerns including climate change, deforestation and biodiversity loss. For investors, ensuring sustainable practices in financing policy is crucial to mitigate climate risks and impact towards biodiversity and human rights.

Our engagement

Despite improvements in the company's climate change and biodiversity disclosures, including their TCFD report, EOS remained concerned that the company should raise its ambition to align its financed emissions to 1.5°C pathways, including net-zero by 2050. We also wanted to see evidence of a robust due diligence process by which the company appraises its client's climate transition plans.

We placed greater focus on our engagement in 2021, acting as co-lead of the Institutional Investors Group on Climate Change (IIGCC) collaborative engagement with the company. We suggested the company join the Net-Zero Banking Alliance (NZBA), validate its targets with the Science Based Targets initiative (SBTi) and adopt the guidelines of the Partnership for Carbon Accounting Financials (PCAF).

In 2022, we engaged on a number of occasions, including meeting with the company's chief sustainability officer at its headquarters in Tokyo. We requested the company to set and publish its benchmark sector-level financed emissions decarbonisation pathways in line with a 1.5°C scenario and to publish details of its engagement process with clients and its escalation approach. In 2023, we continued our discussion with the chair of the board and later in the year with the chief risk officer. In 2024, we challenged the company on its financing policy in relation to unconventional oil and gas projects and encouraged it to tighten its policy. For the climate-related shareholder proposal in 2023 and 2024, we recommended support for two climate change shareholder proposals, one of which requested an evaluation of director competencies to manage climate-related business risks and opportunities and assessment of Mizuho's client's climate change transition plans.

Changes at the company

During the course of our engagement, the company made a series of improvements in its climate action and disclosures. In 2021, it joined the Net-Zero Banking Alliance international initiative, which involves an overarching commitment to aligning their lending, investment, and capital markets activities with net-zero greenhouse gas emissions by 2050. In 2022 the company announced that its consulting unit would help clients develop and implement their decarbonisation strategy. In 2023, the company enhanced disclosures on its client engagement process across hard to abate sectors such as coal mining, oil and gas, steel and cement and set financed emissions reduction targets covering five sectors including automotive and maritime transport, further adding steel and real estate in 2024. In 2024, it announced that it had updated its client evaluation criteria to include target-setting consistent with a 1.5°C aligned pathway, and emissions reductions, verified by an independent third party.[66] The company estimate that by the end of March 2024, 74% of its total financing of ¥6.9 trillion in the resources sector was aligned with the Paris Agreement.[67] Each client's transition plan is now evaluated annually and if a client does not improve its commitments, the bank will make a judgement on termination. The company's latest climate and nature report follows the guidelines of the TCFD and TNFD.

Potential outcomes and next steps[68]

The development of expectations around its clients' climate transition plans should facilitate and accelerate the bank's management of climate-related risks. For example, if Mizuho can achieve its published 2030 target for its financing provided to the Steel sector, namely a reduction of 17-23% in absolute financed emissions (Scope 1 and 2) by 2030 compared to its 2021 financed emissions of 17.3 $MtCO_2e$, then this is expected to result in a reduction of at least 2.9$MtCO_2e$ in 2030 vs. 2021 levels.[69]

We continue to encourage the company to enhance its financing policy to be in line with global best practice and consistent with efforts to limit climate change to 1.5°C. This could include enhancements to its policy of engagement with its clients.

(Published December 2024)

[66] Mizuho Financial Group, 'Sustainability Progress 2024' (April 2024)

[67] Mizuho Financial Group, Climate & Nature-related Report 2024

[68] Potential outcomes stated above are not intended to be a forecast of future performance, which will depend on a range of factors which cannot be guaranteed. These may include factors such as wider business performance in the context of dependencies such as developments in public policy, technology and market demand. Any quantified potential outcomes are based on the company's disclosed targets and other assumptions as referenced in this report.

[69] Estimated as -17% of 17.3$MtCO_2e$, which is approx. 2.9 $MtCO_2e$

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers

Any voting recommendation or other intensification or alternative stewardship approach is carried out in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to vote. Our engagements across all asset classes are outcomes focused, although the nature of stewardship approach varies depending on both the rights available and the specific context.

Public markets

The companies identified for the core engagement programme at the beginning of each year are assigned an engagement intensity tier, although this is subject to change throughout the year, as individual company circumstances change.

We adjust the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue. Generally, our engagement activity becomes more active where we believe that engagement will lead to an increase in or prevent/limit a decrease in the value of a company over the long-term.

Engagements on some objectives may involve only a small number of meetings, although others are more complex and will entail multiple meetings with management and board members over several years. Such activity often requires perseverance. Our long-term and diverse perspective enables us to continue with the more difficult and time-consuming engagements to encourage changes in either strategy, financial structure, operational or risk management or governance, including in relation to ESG risks. Any change we encourage a board or management team to make will be with the intent of improving a company's long-term performance.

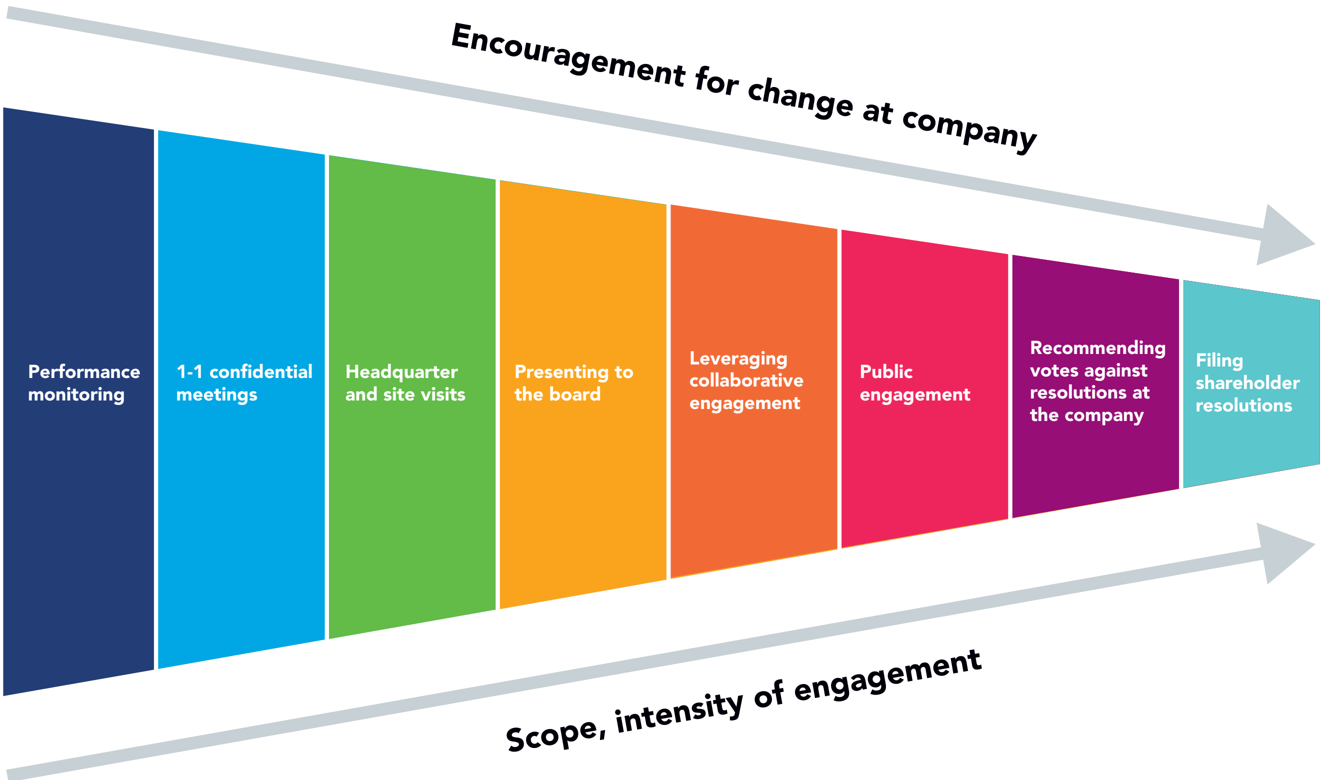
Our primary aim is to deliver value for clients, not to seek headlines which could undermine the trust that we believe should otherwise exist between a company and its owners. As a result, we generally prefer to conduct engagement privately, rather than taking a public route when seeking change at companies, although (as described earlier under Principle 7) details of all engagement meetings conducted by our stewardship team are shared across investment teams and with EOS' third-party clients. In our experience, working constructively with boards and management in private is the most effective way to encourage positive change, as it allows us to build trusted relationships with companies, which results in more open and frank discussions.

However, on the occasions that we are not able to achieve success by our usual methods of conversations behind closed doors, we may adapt our engagement approach, for example by choosing to speak publicly at the company's annual general meeting (AGM) to garner additional investor support. When doing so, we would normally notify a company in advance. We may also vote against (or EOS may recommend voting services clients vote against) a resolution or management/the board at a company's AGM – we consider this choice carefully as we only want to use this technique if our usual engagement has consistently stalled, and we are not confident that the company is taking any action to address our concerns. We disclose a number of these instances under Principle 12.

Similarly, we have demonstrated a willingness to use a range of engagement techniques, including in a small number of instances, the tabling of resolutions at shareholder meetings when necessary and in line with our fiduciary duty or collaborating with others to co-file shareholder resolutions (as described under Principle 12). Using the stewardship techniques described can be a time consuming, and sometimes costly, process. As mentioned above, through the EOS annual survey, we have seen that a consistent majority of clients say engaging for impact and outcomes is a priority.

EOS uses the following engagement tools to adapt engagement over time to the needs of the situation in the interests of clients. The graphic demonstrates how different tools are selected as the scope or intensity of the engagement increases in tandem with greater encouragement for change at the company.

Figure 43. Engagement tools employed by EOS



Source: FHL, as at 31 December 2024.

If our usual private engagement approach has not been successful and EOS decides it is appropriate to change stewardship strategy, relevant portfolio managers are notified about it as soon as possible, to allow this to be factored into their investment decision-making process. Companies that consider changing their practices show a willingness to engage and listen to shareholders. This indicates the potential for positive change, which may enhance the investment case. If a company is unwilling to make changes in relation to material strategic or performance (including E, S or G) issues, this may be an indication that it is less likely to create sustainable wealth over the long-term.

Adapting engagement on debt has many similarities to equity, including the use of collaborative engagement, formal letters to the company and public statements. There are, however, some differences. Companies have a recurring presence in the debt capital markets, which gives our public credit teams additional opportunities to seek to influence corporate behaviour. Where a company has been unresponsive to our engagement efforts, we may also contact the banks involved in a new issuance.

For our engagement-focused funds, we may also withdraw our capital where we deem the engagement has failed, for example, where the company's actions contradict the outcome our engagement has been seeking. However, this is a last resort and only used after allowing sufficient time for the situation to improve.

Our case studies provide detailed insights into how our engagement changes over time and can lead to change and completion of our objectives. In addition to the case study below, there are further examples of how we have used voting and shareholder resolutions as a technique, and the breakdown of why we have voted against proposals during 2024, under Principle 12.

Private markets

For most of our private markets' teams, a lack of liquidity means that it is not easy to divest or decrease exposure to investments. As a result, investments in this space are considered to be long-term relationships, and it is for the investment team to conduct appropriate due diligence prior

CASE STUDY

Engagement escalation

The company is an Australian oil and gas company that engages in the exploration, evaluation, development, and production of hydrocarbon and oil and gas properties.

We met with the company three times between the 2022 and 2024 AGMs, providing suggestions and highlighting gaps in the company's climate plan, notably the overreliance on the use of offsets, the relatively limited ambition on emissions reduction targets, the absence of actions to address Scope 3 emissions, and limited evidence of the economic resilience of its hydrocarbon strategy.

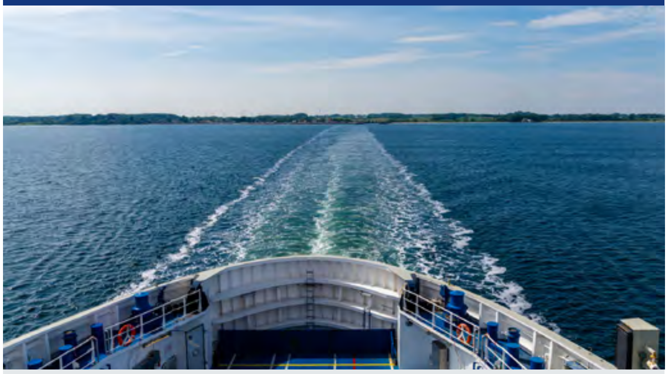
Unfortunately, the release of the company's updated 2024 climate transition action plan did not demonstrate material progress in addressing these concerns

After our AGM recommendations, we wrote to the chair to explain our recommendation and highlight the remaining gaps in the energy transition strategy, focussing in particular on plans for how the company is positioning itself for long-term cost and emissions competitiveness. We explained that it remains challenging to assess business resilience and pipeline outlook without transparent, quantitative investment guardrails, such as maximum break-even prices, cost disclosures, and pre-final investment decision stress testing assumptions.

In 2025, we met the chair and he thanked us for a constructive letter raising concerns on the company's management of climate-related financial risks and opportunities. We continued to reiterate our concerns that investors find it challenging to ascertain unit economics and the resilience of the business through different energy transition scenarios, especially considering the scale of expansion.

CASE STUDY

Scandlines



Health and safety (H&S) has been a particular focus at Scandlines, a ferry business, in recent years due to an ongoing high number of incidents and Lost Time Injury Frequency Rate relative to peers.

While these are primarily relatively minor injuries, we assess this to be symptomatic of a H&S culture with room for improvement. As Chair of the Safety and Sustainability Committee, during 2023 we escalated our H&S concerns to the Board and advocated for a third-party expert review of practices and procedures. Alongside the Chief Operating Officer, we were actively involved in selecting Tomassen Safety, a boutique consultancy, to conduct a review. This recommendation was ratified by the Board.

Tomassen's report, which concluded in 2024, identified a number of recommendations that Scandlines are now working to implement. One priority recommendation was the formulation of a coherent policy and strategy for H&S that resonates throughout the business. Subsequently, since the appointment of a new Chair and CEO in 2024, we have engaged to ensure H&S is a key board-level priority and fully integrated with management's 3-year business plan. We continue to be actively involved in the refreshment of Scandlines' approach and expect this to translate into improved performance in the coming years.

to investing to ensure that the firm and its shareholders are willing to work with us to drive positive change. At this point, positive behavioural changes in relation to sustainability risks can be included as a requirement in the documentation to ensure progress. However, it is not always possible to envisage all sustainability risks that could arise during the life of the investment. In these situations, our **private debt** and **real estate** teams would engage with the appropriate stakeholders such as the borrower or the occupier, potentially with the help of EOS, to escalate and resolve any issues through dialogue. Our **direct lending** team may also involve the private equity shareholder. There can be additional instances during the life of a loan when we have an ability to influence the company's behaviours. This is primarily when the borrower needs to amend the terms of the loan. As described under Principle 12, while we have enforcement rights when a borrower breaches the agreed terms or defaults on a loan, we use these rights only as a last resort. In the first instance, we seek to negotiate a positive outcome for all parties involved, although we will always act in our investors' best interests in line with our fiduciary duty.

As a direct investor in portfolio companies, our **infrastructure** team progresses from asset management (operational) level, to committee, then board, then shareholder level discussions frequently, as required.

Due the nature of the asset class and our position as a co-investor, our **private equity** team aims to identify ESG risks at the point of investment due to the difficulties faced in escalating activities during the investment hold.

Principle 12

Signatories actively exercise their rights and responsibilities.

Our rights and responsibilities as an investor

As we set out under Principle 1, we believe that the purpose of investment is to create wealth responsibly over the long-term. Intertwined with this is the belief that, consistent with client objectives and applicable requirements, investors must be responsible stewards of capital in order to contribute to positive outcomes for our clients and beneficiaries, as well as society and the environment. Throughout this report, we have sought to demonstrate how we have responded through active stewardship across all of our products and asset classes. Investor rights are themselves an asset, and we view the exercise of these rights as part of our fiduciary duty and a responsibility of effective stewardship.

For listed equities, our voting and engagement are aligned as part of our overarching approach to stewardship. As such, our voting decisions – as well as EOS' recommendations to third-party clients on voting decisions – are, where practicable, aligned with the insights and experience of engagement with the investee company. We may attend the AGMs of investee companies or arrange for representation at the AGMs by the EOS team. This can include asking questions or making statements to the board. We may also file or co-file shareholder resolutions where it is in line with our fiduciary duty. The exercise of all such rights is based on an evaluation of materiality and an analysis of costs and value. EOS engagement professionals go through a training and onboarding process which involves shadowing more experienced colleagues to ensure they sufficiently understand the voting policies and how shareholder rights differ according to the markets involved. Senior engagement professionals dedicate time to handling certain material votes and discuss market developments. We set out in more detail how we have exercised our shareholder rights for listed equities, including voting rights, in the following section.

For our fixed income products, the rights we hold vary between the type of assets we invest in and even between individual investments. We seek to achieve mutually beneficial outcomes while protecting our clients' interests, in line with our fiduciary duty. For our Credit team, documentation is a governance factor, and the quality of the documentation can be used to determine how a company's management thinks about its stakeholders. As part of the investment process, we therefore see both the covenants and the quality of bond and loan documentation as indicators of governance strength or weakness.

Throughout this report, we have sought to demonstrate how we have responded through active stewardship across all of our products and asset classes.

As investment managers, we use the rights granted to us by our **real estate** client mandates to improve the value of the assets in our portfolios in line with our fiduciary duty. The rights and responsibilities we hold vary between mandates and depend on the level of client involvement in the decision-making process. Our investment strategies reflect market conditions and consider material ESG factors. Our asset management activities seek to improve the assets – by improving their ESG profiles and through tenant engagement – and thereby deliver positive social and environmental outcomes, which benefit our clients and their end beneficiaries.

Our **infrastructure team** invests directly in assets as a minority (and sometimes majority) shareholder with proportionate governance rights. Shareholder rights, including reserved matters and the right to board representation, enable downside protection and strategic influence over value-impacting topics, in both cases including sustainability/ESG considerations. Our expectation is to have at least one board member at each portfolio company. We also have representation at various committees, including four sustainability committees at Cadent Gas, Eurostar, Viridor and Scandlines Information rights are essential to ongoing monitoring and management and should cover all information needed by us for our day-to-day asset management, valuation and investor reporting.

Due to the nature of the asset class and holding the position of co-investors, direct investments are very limited for our **private equity** team and our formal investor rights tend to be focused on information rights and minority protection rights. Lead GPs have significantly more rights than we typically do as a minority co-investor. They are able to make decisions that impact the company, such as deciding on company strategy. Whilst we do not have contracted expectations around how they use such rights; we select managers based on their previous experience and demonstrated capabilities in managing such rights appropriately.

Listed equities: voting approach

We, as shareholders, are granted a wide range of rights which both offer us a level of protection and enable us to fulfil our stewardship responsibilities effectively. In particular, we consider the vote as part of the asset and accept that we have a responsibility to exercise this right in a considered fashion.

Our voting policies

EOS' Global Voting Guidelines act as a policy to inform EOS' voting recommendations to our investment teams, as well as to EOS clients who request to receive EOS' voting recommendation service, and who have elected to adopt such Voting Guidelines. FHL's Global Voting Policy and Guidelines, which are aligned with EOS' Global Voting Guidelines, inform the voting decisions made by our investment teams. Our Guidelines are informed by a hierarchy of external and internally developed global and regional best practice guidelines. The most important of these are our EOS-developed regional voting guidelines and Corporate Governance Principles, which are available on our website. The three regional voting guideline groupings are 1) UK, Europe and Australia, 2) North America, and 3) Asia and Global Emerging Markets. Our Public Vote Guidelines place a stronger emphasis on these policies, which more directly inform the voting recommendations we issue to our clients. EOS also publishes a set of Global Corporate Governance Principles to provide more information on what EOS considers to be governance best practices, not limited to issues with direct vote policy implications.

Some of the updates made to our voting policies in 2024 included: introducing a voting policy to identify and address potential corporate governance concerns in companies where the equity persistently trades at a price-to-book valuation of below one; increasing director independence expectations across Asia and Global Emerging Markets; and further enhancing our approach to voting on climate and natural resource stewardship topics.

The policy development cycle for our voting guidelines runs annually, in conjunction with the policy review process at ISS, which informs its benchmark research.

The policy development cycle for our voting guidelines runs annually, in conjunction with the policy review process at ISS, which informs its benchmark research. EOS considers changes made at ISS in view of resolution-level data for past voting seasons in order to consider what additional changes are warranted. This includes integrating feedback from clients and evolving best practice in each market. EOS' Engagement Plan provides further input and identifies thematic priorities for engagement. This can often be boosted by enhanced vigilance. EOS completes its major policy changes before the main voting season in each market. Once changes are applied, the policy is monitored and is adjusted further, where appropriate.

Voting decisions

Voting rights are exercised with a view to achieving best practice standards of corporate governance and equity stewardship and with the aim to support the delivery of long-term value in our funds. Ultimately our investment teams make all voting decisions, based on EOS recommendations. EOS engagers, who are well versed in the voting policies, make recommendations to our investment teams based on our voting guidelines, as well as any further information that they receive through their research, engagement and specialist knowledge of the company.

While it is difficult to provide a general description, EOS will typically recommend a vote against management when it considers that a vote with management would not serve the best long-term interests of shareholders. For example, this may be either with respect to a proposed remuneration policy or when EOS believes the board does not have the skills to govern the company effectively. There may also be specific instances when a vote in favour of management would be actively detrimental to the company – for example, in the case of a proposed merger or acquisition that does not look to be in the long-term interests of the firm.

EOS uses ISS to provide research on all the companies for which it provides voting recommendations, which comes to over 14,500 meetings a year. The recommendations that our investment teams and EOS third-party clients receive are, in the first instance, based on ISS's research using our voting guidelines. This is then overlaid with our intelligent voting approach.

EOS has a value-add and cost-effective mix of automated and manual voting recommendations, which focuses resources on key topics and companies with significant holdings and/or key issues or ongoing engagement objectives. Engagers add insight and value to a specific subset of these meetings – those on EOS' watchlist – by considering the voting recommendation approach in light of the specific company context and the engagement. A shortlist of high priority equity holdings are added to the EOS watchlist each year, based on size of holding and insight into the potential level of complexity of vote. EOS recommendations are applied to FHL's remaining equity holdings and if the investment teams disagree with the proposed recommendation, then EOS will manually review the recommendation. EOS endeavours to engage around the vote with all companies on the watchlist for which it is considering recommending a vote against – this comprises 900 companies, including around 315 in the core engagement programme. EOS will also discuss such cases with the relevant portfolio manager. We receive research from ISS, but also have access to our own information on our electronic platform, which captures meeting notes and documentation relevant to the company's engagement history and objectives.

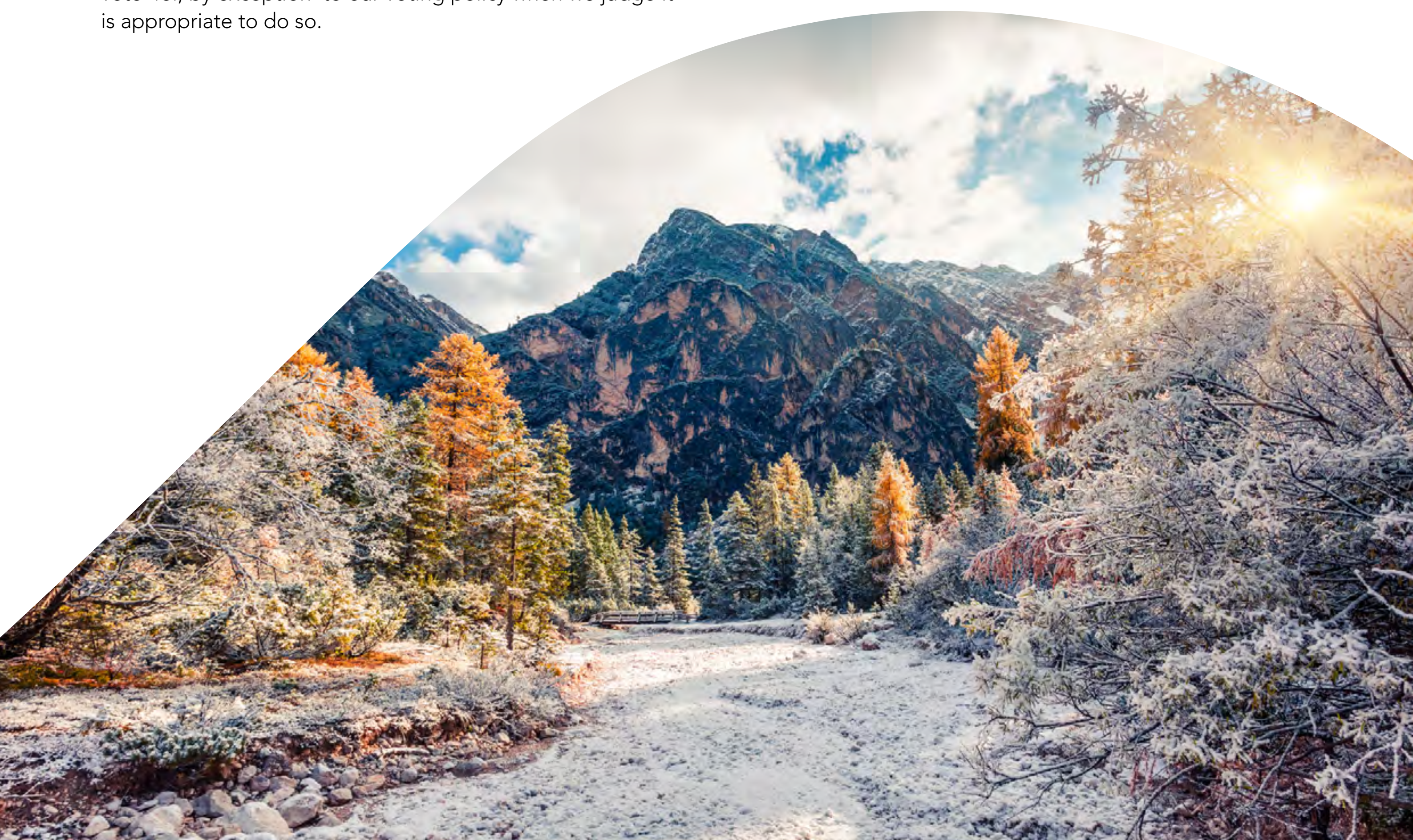
EOS will also engage to identify any further relevant information that might inform the voting recommendation and has regular conversations with our investment teams about the reasons for their views on particular votes. We will vote 'for, by exception' to our voting policy when we judge it is appropriate to do so.

Votes are considered more carefully when especially important for the company or particularly complex, or when a disagreement or potential conflict of interest arises with the recommendation received from EOS. For our investment teams, the voting recommendation provided by EOS will inform their assessment, but they will make their final judgement independently. On the rare occasion that there are disagreements between investment teams and/or EOS on the appropriate voting recommendation or decision, the matter is logged and escalated for consensus to be reached at the director level. We expect votes cast by our investment teams to be consistent with the voting recommendations we provide to our stewardship clients, who request to receive voting recommendations. In such cases, the rationale for divergence will be documented. As described under Principle 3, we have escalation processes in place when there are different views between EOS and our investment teams, or when conflicts of interest arise in the course of fulfilling our commitment to acting as good stewards of those companies in which we invest.

Clients with segregated mandates have the option to carry out the voting themselves, or to benefit from the voting recommendations and decisions of the relevant investment team, based on EOS' recommendations. Underlying clients of our pooled funds are not able to override the investment team's vote or to vote their share separately.

Securities lending

We do not, as a matter of course, participate in securities lending transactions. We endorse best practice principles, such as the Securities Lending Code of Best Practice issued by the ICGN.



Listed equities: 2024 voting

Our 2024 voting records and rationale

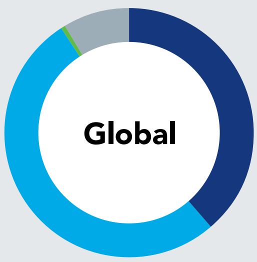
Across Europe, climate engagement around the vote at financial institutions were more frequent, and biodiversity-related resolutions gained traction, focusing on chemicals, pesticides, deforestation, deep-sea mining, plastics, antimicrobial resistance (AMR), and animal welfare. In developed Asia and emerging markets, the voting season showed signs of improvement in board gender diversity and independence, although some concerning practices persisted. Votes against management continued for climate change issues, including disclosure practices and deforestation. Additionally, new voting policies were deployed in Japan and South Korea, focusing on low price-to-book valuations.

Our voting records are published online in arrears. This ensures that we are transparently accountable, but that our dialogue with companies around voting issues is not compromised. The records include all voting decisions of FHL. These records relate to the voting decisions of the FHL teams on behalf of FHL funds and clients. Information on the voting recommendations made by EOS to EOS voting service clients can be found in the EOS Stewardship Report. Company meetings where we have recommended voting in line with management on all resolutions are condensed. In 2024, we cast votes at 674 meetings involving 7,514 resolutions.

Votes against the board: We provide the rationale behind our decision when we have voted against management on one or more resolutions. We seek to be supportive of boards and to recommend votes in favour of proposals unless there is a good reason not to do so. This is in accordance with our voting policies and global or regional governance standards. We will vote against management if, by doing so, we are striving to protect long-term shareholder interests.

Votes not in line with our policy: We retain the ability to vote differently to that indicated by our high-level policy when warranted. This is on the basis of particular company circumstances or engagement insights, to best serve the interests of long-term shareholders. If EOS engagers are considering whether to recommend a vote that is not in line with our policy, this will generally be escalated to a more senior team member or otherwise follow an established and agreed precedent that was earlier escalated. In these cases, engagers record in our Engagement Management System that they have consulted a senior engager. When a potential conflict is identified, the matter is escalated in line with our Conflicts of Interest policy, following the process outlined earlier under Principle 3.

Figure 44. Global 2024 voting statistics



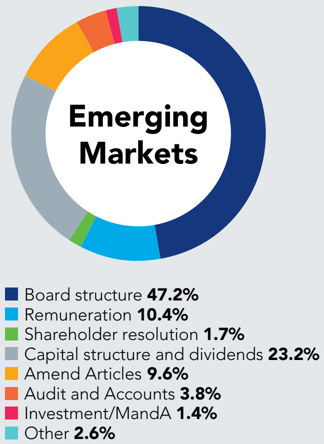
- Total meetings voted in favour **38.7%**
- Meetings where voted against (or voted against AND abstained) **52.4%**
- Meetings where abstained **0.4%**
- Meetings where voted with management by exception **8.5%**

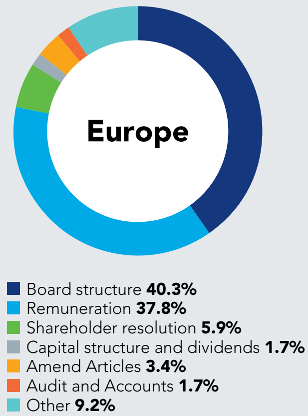
Figure 45. Breakdown of votes against by region

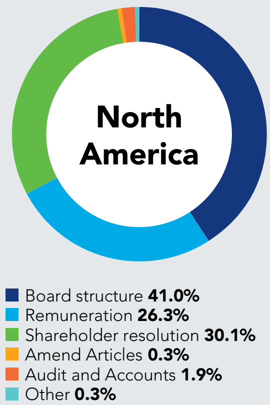
Global:
- Board structure **47.4%**
- Remuneration **20.6%**
- Shareholder resolution **11.1%**
- Capital structure and dividends **8.4%**
- Amend Articles **4.3%**
- Audit and Accounts **5.4%**
- Investment/MandA **0.5%**
- Poison Pill/Anti-Takeover Device **0.1%**
- Other **2.2%**

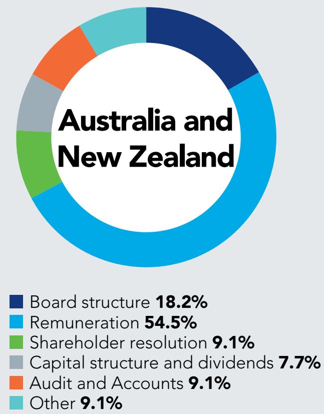
Developed Asia:
- Board structure **68.1%**
- Remuneration **7.6%**
- Shareholder resolution **2.2%**
- Capital structure and dividends **1.6%**
- Amend Articles **2.7%**
- Audit and Accounts **17.3%**
- Poison Pill/Anti-Takeover Device **0.5%**

United Kingdom:
- Board structure **30.6%**
- Remuneration **69.4%**









Source: FHL, as at 31 December 2024.

On occasion, our policy may suggest a vote against management, but engagement insight suggests otherwise – for example, a company may have committed to making a change, with a view to implementing this the following year leading us to vote for, by exception to our policy. These instances are highlighted in our voting disclosures and are within the scope of our overall voting policy.

- At Hong Kong life insurance group **AIA**, we supported the election of two directors by exception to our policy on independence. Although their tenures exceeded our threshold, we recognised the meaningful steps taken to refresh the board in recent years, leading to improvements in independence and gender diversity. These received 88.9% and 86.8% support respectively.
- At Japanese food retailer **Yaoko Co.**, we supported the president by exception to our policy. Despite the board gender diversity falling below our threshold, we recognised that a successful engagement resulted in the company strengthening its target for female managers and other diversity initiatives. In our engagement with an independent director, the company also mentioned its commitment to an additional female board director. This vote received 98.8% support.

Shareholder resolutions: We support the selective use of shareholder resolutions, as they can be a useful tool for communicating investor concerns and priorities, asserting shareholder rights or supplementing or escalating direct engagement with companies. We consider such resolutions on a case-by-case basis and encourage boards to engage with serious, committed long-term shareholders like ourselves. When considering whether or not to support resolutions, we consider factors which help to ensure that the proposal promotes the interests of long-term shareholders, in line with our fiduciary duty.. These include what the company is already doing or has committed to do, the nature and motivations of the filers (if known) and what potential impacts – positive and negative – the proposal could have on the company if implemented. When boards interact in an active and engaged way with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions.

In our experience, shareholder proposals can facilitate a dialogue with issuers, and we welcome these opportunities, where appropriate, whether we vote in favour of the resolution itself or not. We expect boards to address the issues raised by shareholder proposals, which receive significant support, or where they are material to the company. In addition, we view any failure to implement a shareholder proposal that has received majority support as a clear indication that the board of directors is not fulfilling its obligations to the owners of the company.

We support the selective use of shareholder resolutions, as they can be a useful tool for communicating investor concerns and priorities, asserting shareholder rights or supplementing or escalating direct engagement with companies.

When we vote in favour of a shareholder resolution and there is no management recommendation, this is classed as a vote against management in our disclosures. This is to ensure that we do not under-report conflicts, although in some instances it may not be voting against what management would have wanted.

We also initiate shareholder proposals in markets where it is relevant to do so and have done so in Germany, the UK and the US, either as lead filer or as co-filer alongside other investors. Consistent with our intelligent voting approach, this typically forms part of a wider engagement with the company and is used as a tool for leverage in EOS' dialogue with management.

Examples from 2024 shareholder meeting season include:

- At energy company **Phillips66**, we supported the shareholder proposal requesting to test the company's portfolio against the risk of reduced demand for plastic in the future, using the Pew/Systemiq Breaking the Plastic Wave scenario.[70] This calls for a 55% reduction in virgin plastic demand by 2040, relative to business as usual. The proposal received 11.6% support.
- At car manufacturers **General Motors** and **Tesla**,[71] there were shareholder resolutions on sourcing minerals from deep-sea mining for the first time. We supported both, as a commitment to a moratorium on deep-sea mining or a clarification on the companies' positions, would signal that they acknowledge the importance of supply chain oversight as vehicle electrification accelerates. Many EV auto manufacturers have already signed up to the moratorium. The resolutions received 12.5% and 7.5% support respectively.
- We also supported a resolution on antimicrobial resistance (AMR) at **Yum! Brands**. We think the company could reduce the risks in its animal supply chain and protect its returns by adopting a stronger AMR policy in line with the World Health Organization's Guidelines on the use of Medically Important Antimicrobials in Food-Producing Animals. The resolution received 11.8% support.
- At Japanese car manufacturer **Toyota**, we supported a shareholder resolution relating to its climate lobbying disclosures, which attracted around 9% support overall. Our support was in the hope that it would encourage Toyota to enhance its disclosure in line with investor expectations and narrow the gap versus some its international peers.

Other notable votes: There are other instances when votes are notable due to the outcome of the resolution, the level of dissent or the subject matter of the vote. The shareholder resolutions described above are examples of this, as is the following example:

- At American entertainment company, **The Walt Disney Company**, we voted for the incumbent board nominees. EOS met with Trian Group's nominees, Nelson Peltz and Jay Rasulo, and agreed with some of their views on company issues. However, we felt Peltz lacked experience in critical areas, and Rasulo was not a good fit for the board. Trian's plan also lacked specificity. We did not engage with Blackwells Group but found their reasoning similar to Trian's, with a focus on technology. However, their vision and candidates were unconvincing.

  In later discussions with Disney, we had noted improvements in their compensation structure and succession planning but still had concerns. We appreciated the appointment of directors Gorman and Darroch but remained wary of some directors' skills. After considering all factors, we voted in support of the incumbent directors, believing the company had made credible progress on key issues. We felt neither dissident group provided enough evidence that their nominees would add more value. We acknowledged that activist-appointed directors could disrupt current plans and decided to support the incumbent board's proposals. The management nominees received majority approval from shareholders, with the highest level of approval for a dissident nominee being approximately 31% for Peltz.

[70] Pew Trust, 'Breaking the Plastic Wave' (2020)
[71] At time of reporting, Tesla was not an FHL holding.

- At **Mizuho Financial Group**, a Japanese bank holding company, we voted against the chair, president and independent director. EOS had implemented our voting policy for cross-shareholdings since 2022. The policy determined that we vote against the chairman and president of the board when we believed the company's actions were materially misaligned with appropriate capital allocation and minority shareholders' rights, and where company disclosures or responsiveness were insufficient.

  We had been engaging with the company to reduce cross-shareholdings and we voted against the 'top directors' of the board for failing to reach below 10% of net assets for cross-shareholdings in 2023. We reiterated our concern about cross-shareholdings in October 2023 in person at the company's office and again in June 2024. However, the company had allocated around 35.1% of its net assets to cross-shareholdings. Therefore, we voted against the chairman and president of the company. We also voted against the independent director Mr. Uchida, due to his allegiant shareholding relation with Mitsui & Co., Ltd. These votes gathered 84% and 75% support respectively.

The proportion of shares voted and votes withheld

We aim to vote either in favour or against a resolution and only to abstain in exceptional circumstances, such as when our vote is conflicted, a resolution is to be withdrawn or there is insufficient information upon which to base a decision. In 2024, we voted 98% of all votable shares.[72] There were a number of technical reasons we were not able to successfully execute votes, such as share blocking.

Monitoring our shares and voting rights

As highlighted previously, EOS' approach is to focus engagement resource on the meetings of greatest interest and materiality to our investment teams and third-party stewardship clients. Each year we compile a list of the highest-priority companies where we want to ensure that our engagers are manually reviewing each agenda item for any vote that comes up. These are known as watchlist companies and are comprised of our engagement programme firms, companies of particular interest/sensitivity or those where our investment teams or EOS third-party clients represent significant holdings (in absolute terms or as a percentage of the company's voting rights). The voting watchlist represents a majority of EOS' AUA by value. EOS uses ISS to identify the meetings for which we have voting rights. EOS ensures that these accounts are suitably set up for voting.

> **We aim to vote either in favour or against a resolution and only to abstain in exceptional circumstances e.g. when our vote is conflicted, a resolution is to be withdrawn or there is insufficient information upon which to base a decision.**

> **The recommendations that our investment teams and EOS third-party clients receive are, in the first instance, based on ISS' research using our voting guidelines.**

Monitoring service providers

We use the services of ISS to provide research on all companies for which EOS makes voting recommendations. EOS leverages and builds on ISS research and infrastructure (including the ISS ProxyExchange platform) and seeks to add value primarily by selectively highlighting the most important or difficult voting recommendations (based on the materiality of holdings and the nature of the issues under consideration), engaging with companies and operating voting policies and approaches that more closely align to our views than ISS's benchmark policy.

The recommendations that our investment teams and EOS third-party clients receive are, in the first instance, based on ISS' research using our voting guidelines. This is then overlaid with our intelligent voting approach. Engagers are deployed to add insight and value to a specific subset of these meetings – those on EOS' watchlist – by considering the voting recommendations approach in light of the specific company context and the engagement. As described earlier, our equity holdings are added to the EOS watchlist at the beginning of each year. As a result, the majority of the voting recommendations made to our investment teams are manual. ISS services are monitored by EOS through daily communication, ISS scheduled reports providing oversight of voting performance, regular service meetings, client voting account reconciliation and audit reviews conducted periodically by EOS on automatic voting instructions submitted by ISS across EOS client accounts.

[72] Individual shares may be double counted where there were multiple meetings during 2024.

Fixed income: how we use our investor rights

Fixed Income

Our real estate debt team does not habitually buy into deals that have already been structured. As a result, we have the opportunity to negotiate transaction documents ourselves. We seek to find mutually beneficial outcomes, while protecting the interests of our clients. Our approach to seeking amendments differs case-by-case, depending on the nature of the amendment. We aim to embody the values captured in the Federated Hermes Pledge in all of our dealings.

Meanwhile, our direct lending loan agreements are bespoke, and negotiated between ourselves and the borrower after we have conducted our due diligence. We construct the loan documentation to align it to the specific borrower and their behaviours, including issues identified in our sustainability due diligence. Each loan contract is different, and we may require the borrower to change certain behaviours (including in relation to E, S and G risks) as part of the conditions of the loan. While we are not able to initiate an amendment of the loan terms once the financing has been provided, key opportunities where we can seek to influence the company's behaviour after the contract has been agreed can arise when the borrower seeks our permission to alter the loan terms – for example, because the company wishes to make an acquisition. Outside of these amendment events, we will engage with management or the private equity shareholder to influence behaviours via the resources we have internally.

For credit and structured credit markets, the chance to influence such documentation comes at the time of primary issuance. If the documentation is unfavourable to the interests of creditors, this is a risk factor and we may engage with the company, as well as the originator of the assets and arranging bank for structured credit, to improve it. If we are unable to achieve these changes, they will become a factor in our investment decision and will influence how we choose to allocate our risk.

Within structured credit, an essential part of the due diligence process is to review the prospectus and transaction documents. These govern the noteholders' relationship to the special purpose vehicle (SPV), the assets within and the related counterparties. We pay particular attention to the ability of the SPV to pay interest and the principal on notes under multiple stress scenarios, which includes an assessment of the triggers and covenants in the deal and our enforcement rights over the assets in the collateral pool. We also ensure the transaction complies with all relevant regulation and any appropriate safeguards for future changes to regulations. Once the prospectus and transaction documents have been thoroughly reviewed, we work alongside the issuers, originators, sponsors and/or arranging banks to secure any amendments in the documentation that we feel are necessary to protect our position as a noteholder in the capital structure.

We seek access to information provided in all documentation through engagement with the company, as well as the originator of the assets and arranging bank for structured credit. The more information we have, the less uncertainty there is. This, in turn, may increase our willingness to take on more risk.

Impairment and enforcement rights

The relevant rights for real estate debt are the control over cash flows within the Borrower structure and enforcement rights, which are available when there is a breach of covenants. We only use enforcement as a last resort – in the first instance, we seek to engage and agree an alternate approach with the party in breach. As we are often the sole lender, we are able to hold these bilateral conversations directly with the recipient of the loan. We continue to manage our loan portfolio with the long-term interests of our clients in mind. Refinancing risk increases in times of rising interest rates, but we are pleased to report that all loans that matured in 2024 were repaid in full and on time.

As each of our direct lending loan agreements is bespoke, our specific rights can vary. If a borrower defaults on a loan – for example, if an interest payment is missed or the borrower fails a covenant test – our direct lending team will enter into a negotiation with both the shareholder and the management team of the borrower. We will seek a positive outcome for all parties involved in the negotiation, although we will always act in our investors' interests in line with our fiduciary duty and applicable requirements. We have a right to take security over the shares and other assets of the borrower in such circumstances but will always seek to find other solutions before taking this action.

In a distressed situation, value is impaired and will be redistributed among financial stakeholders. When we invest, we seek to understand the recovery risks associated with the impairment of assets. If a company is in distress, an organised group of bondholders can decide whether to enforce their rights or not, although this is very rare. We want the appropriate right to recovery of a failed business. In some cases, bond documentation is written so that there is a carveout or 'trap door', meaning that the assets that support the bond we are buying can be transferred outside of the restricted group. This would be a disincentive to invest, and we would communicate this to the bank or company. Under certain situations we would not invest, as we would not have what we deem to be appropriate rights under a distressed scenario.

We seek access to information provided in all documentation through engagement with the company, as well as the originator of the assets and arranging bank for structured credit.

Sustainability and investment glossary

Active Management
Actively selecting investments based on an investment team's own judgment, research and experience rather than an asset's index weighting. An actively managed fund is not a tracker fund.

Active Ownership
Actively exercising shareholder rights by voting at meetings and engaging with companies to encourage responsible corporate behaviour.

Active Share
A measure of the percentage of a fund that is invested differently than it benchmark. It expresses how active the fund manager is.

Advocacy
Actively seeking to influence change in public policy in the interests of investors and the wider society by engaging with policymakers, regulators and industry bodies on a range of issues. These include: the financial system and investment industry, corporate governance, business purpose, climate change, inequality and inclusion.

Carbon footprint
A measure of a group, individual or a company's total greenhouse gas emissions.

Carbon pricing
The economic cost of emitting CO_2 into the atmosphere, either in the form of a fee per unit of emissions or an incentive for reducing emissions.

COP
An annually held UN conference. The Paris Agreement was negotiated at the 21st conference in 2015.

Corporate governance
The system of rules, practices and processes by which a company is managed, directed and controlled.

Corporate responsibility
A company's duty to operate in a manner that does not harm the environment or society, and to take responsibility for its actions and their impact on employees, stakeholders and communities.

Divestment
A form of negative screening through the process of selling investments that are not aligned with ESG or other objectives.

Engagement
A purposeful, long-term dialogue between a company and its shareholders that aims to change or influence the way in which a company is run, in order to enhance the value of the company and generate positive environmental and social outcomes.

ESG
Environmental, social and governance issues, which constitute the three pillars of responsible investing.

ESG integration
A responsible investing approach which systematically and consequentially integrates financially material ESG factors and engagement insights alongside traditional performance factors in investment analysis and investment decisions.

ESG leaders
A responsible investing approach which invests in assets with an above-average ESG performance, thereby creating a portfolio with a better ESG performance than the benchmark.

Exclusions Policy
An investment firm or team's policy to exclude investments from specific sectors, business activities and/or behaviours from their investment universe.

Exclusions Investing
A responsible investing approach which excludes investments from specific sectors, business activities and/or behaviours from the investment universe.

Fiduciary duty
Fiduciary duties ensure that those who manage other people's money act in the interests of beneficiaries, rather than serve their own interests.

Green bond
Debt securities which are used to fund projects with environmental benefits.

Greenwashing
The act of making a product, service or organisation seem more environmentally friendly than it actually is.

Impact investing
Investing in order to achieve a measurable, positive impact on the environment or society, in addition to generating financial returns.

Integrated reporting

Company reporting that integrates both sustainability and financial information in one source.

Negative screening

An investment approach that excludes some companies or sectors from the investment universe due to their policies, actions, products or services.

Paris Agreement

An international accord, agreed at COP 21 in Paris in 2015, that aims to keep the rise in global average temperatures below 2°C compared to pre-industrial levels, while pursuing efforts to limit the increase to 1.5°C.

Principles for Responsible Investment

Developed by investors, the six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a set of possible actions for incorporating ESG issues into investment practices.

Positive screening

An investment approach that seeks to include companies from the investment universe due to their policies, actions, products or services.

Proxy voting

A ballot cast by one person on behalf of the others. As many shareholders cannot attend annual and special meetings, companies allow shareholders to cast proxy votes.

Responsible investing

An investment approach that considers ESG related factors and incorporates engagement and stewardship activities to better manage risk, create positive societal impacts and generate sustainable, long-term financial returns.

Shareholder activism

A form of public engagement by which investors use their shareholdings to promote change at a company and achieve certain goals.

Shareholder Rights Directive II

A directive from the European Union that aims to strengthen the position of shareholders and to ensure that decisions are made for the long-term stability of a company.

Stewardship

A dialogue between shareholders and boards that aims to ensure that the company's management and strategy are effective and aligned with shareholders' interests. A focus on ESG issues helps to mitigate risk and produces positive outcomes for society and the environment.

Sustainable investing

A long-term, active approach to investing that is efficient and intergenerationally fair to all beneficiaries and stakeholders, combining an analysis of ESG factors and active ownership.

Stewardship codes

Codes that offer guidance on investor engagement and transparency about how investors should exercise their ownership and governance responsibilities. The first stewardship code was introduced in the UK in 2010 and almost all OECD jurisdictions now have national codes or principles.

Sustainable Development Goals (SDGs)

Convened by the UN, the Sustainable Development Goals (SDGs) are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice. There are 17 goals, 169 targets, and progress towards these targets are tracked by 232 indicators inherent in the goals.

UN Global Compact

A global corporate sustainability initiative that calls on companies, investors and other participants to align their strategies and operations with universal principles on human rights, labour, the environment and anti-corruption.

Voting

Exercising the rights given to equity holders in companies to vote on business matters and director elections during annual and extraordinary general meetings.

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Federated Hermes
Limited

Federated Hermes

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

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

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

Our investment and stewardship capabilities:

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

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