Climate- and Nature-related Financial Disclosures Report 2024

Federated Hermes Limited

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Contents

Climate change has become a key factor in the long-term prospects of the global economy and the companies within it.

As an investment manager, Federated Hermes Limited ("Federated Hermes") has a duty to its clients and their investors to take action to address systemic risks and opportunities – and the Task Force on Climate-related Financial Disclosures' focus and guidance on the financial impact of climate change are of particular importance as the world collectively strives to limit the temperature increase to 1.5°C in accordance with the Paris Agreement.

This Climate and Nature-related Financial Disclosures Report 2024 (the "Report") sets out climate and nature-related financial disclosures for Federated Hermes Limited and certain of its investment advisory subsidiaries, Hermes Investment Management Limited and Hermes GPE LLP. The contents of this report are intended to be aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.[2] This report also includes voluntary disclosures on nature-related dependencies, impacts, risk, and opportunities following our early adoption of the recommended disclosures developed by the Taskforce on Nature-related Financial Disclosures.[3]

[1] Including Hermes Investment Management Limited and Hermes GPE LLP

[2] The Task Force on Climate-related Financial Disclosures was established by the Financial Stability Board to develop a framework to help public companies and other organizations disclose climate-related risks and opportunities.

[3] TNFD, "Taskforce on Nature-related Financial Disclosures (TNFD) Recommendations"

Foreword

The unmistakable signs of human-induced climate change reached new heights in 2024. 2024 was the first calendar year on record to reach global average temperatures of more than 1.5˚C above pre-industrial levels, making it the hottest year on record.[1] In a study published in February 2025, scientists indicated that if the 1.5°C anomalies continue beyond 18 months "breaching the Paris Agreement threshold is virtually certain".[2] The urgent need for climate solutions has never been more apparent.

The 2024 United Nations Climate Conference ("COP29") underscored the critical importance of climate finance in addressing the global climate challenges. Representatives at the conference agreed to triple climate finance to developing countries to $300 bn by 2035, with an aspirational goal of securing finance from public and private sources of $1.3tn per year by 2035. Positively, investment in the low-carbon energy transition soared in 2024, exceeding $2tn for the first time and growing 11% on 2023 levels.[3]

Significant capital expenditure and collaboration amongst multiple actors will be needed to finance and secure the development of the green solutions. Concerted efforts between public and private actors are critical in financing and expanding the development of such solutions.

Nature continued to be a focus of attention from both the public and private sector in 2024, as exemplified by the United Nations Biodiversity Conference ("COP16") held in Cali, Colombia. The conference concluded by recognising Indigenous and local communities as vital for biodiversity conversation and established the Cali Fund to share benefits from digital genetic information. Additionally, many countries submitted national biodiversity targets and strategies to support conversation and restoration efforts. 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.[4]

The transition to a low-carbon and nature-positive economy faces significant social challenges, including economic disruption and social inequality. Successfully addressing climate change requires considering equity and justice to ensure that all communities benefit fairly from the transition. The launch of the new global target that will triple climate finance for developing countries at COP29 was a positive indication of progress. Nations in the Global South will require considerable funds to facilitate a transition to cleaner economies and protect their populations from climate change.

Federated Hermes and other investment managers can play an important role in facilitating the development of solutions. Federated Hermes fulfils this in several ways including through our engagement and voting activities[5] and our client-led, product innovations in the climate and nature space. We also achieve this through our investment in solutions, for instance our investment in ferry company Scandlines in our infrastructure portfolio, which is constructing one of the world's first electric freight ferries, and our real estate solutions, such as the solar and green roofing at our Milton Keynes shopping centre, Centre:MK. We also advocate for governments to foster conditions that drive corporate action and engage with asset owners to leverage their influence in addressing these systemic risks.

In accordance with the recommendations of the Task Force on Climate-related Financial Disclosures, this document outlines how we are assessing, monitoring, and mitigating our exposure to climate risk. It also sets forth how we are identifying opportunities which may arise through the transition to a low-carbon economy, to both meet the needs of our investors and satisfy our fiduciary duty. The disclosures in this document also address the recommendations of the Taskforce on Nature-related Financial Disclosures.

Saker Nusseibeh, CBE
Chief Executive

[1] Copernicus, "Global Climate Highlights 2024" (January 2025)
[2] Nature, "Twelve months at 1.5°C signals earlier than expected breach of Paris Agreement threshold" (February 2025)
[3] BloombergNEF, "Global Investment in the Energy Transition Exceeded $2 Trillion for the First Time in 2024, According to BloombergNEF Report" (January 2025)
[4] Carbon Brief, "COP16: Key outcomes agreed at the resumed UN biodiversity conference in Rome" (February 2025)
[5] Where local law and applicable requirements allow.

Scope of this report

Federated Hermes is a leading investment management group headed by Federated Hermes, Inc. ("FHI"). At Federated Hermes we take an integrated approach to the management of climate- and nature-related risks and opportunities across our business.

This report relates to Federated Hermes Limited ("FHL"), a subsidiary of FHI, and certain of FHL's subsidiaries providing investment management services to our clients - Hermes Investment Management Limited ("HIML") and Hermes GPE LLP ("HGPE"). Please be aware Federated Hermes (UK) LLP ("FedHUK") is also part of FHL but is not included in this consolidated reporting. Engagement activities are also conducted through Hermes Equity Ownership Services Limited ("EOS"), a subsidiary of FHL.

Those investment portfolios managed by HFMIL where discretionary investment management has been delegated to Federated Investment Counseling and/or Federated Global Investment Management Corp. (with the exception of those investment portfolios within Federated Hermes Investment Funds ("FHIF") plc) are not in scope of this report.

In this report, references to "Federated Hermes", "we", "us" and "our" refers to FHL, HIML, HGPE and/or EOS as appropriate, unless otherwise indicated.

The approach described in this report for our public markets strategies applies to our active fundamental strategies. Active quantitative strategies launched after 31 December 2024 are not in scope of this report. Information will be provided on the approach of active quantitative strategies where applicable in future reporting.

This report is produced on a consolidated basis for FHL, HIML and HGPE. It is supplemented by entity reports for each of HIML and HGPE, which are our regulated entities providing investment management services that are required by the Financial Conduct Authority in the UK to make entity-specific disclosures in accordance with the TCFD. The TCFD entity specific disclosures for HIML and HGPE can be found in Appendix I and II respectively. The entity reports for HIML and HGPE provide information that is specific to each particular entity.

Federated Hermes had assets under management ("AUM") of £40.5bn as at 31 December 2024. The approach set out in this report may vary for different asset classes, investment strategies and products. The following table shows the breakdown of AUM by asset class.

Figure 1. The breakdown of AUM by asset class

Core Asset Class	AUM %
Equity	39.21%
Fixed Income	11.02%
Infrastructure	5.41%
Liquidity[1]	21.68%
Multi Asset	0.00%
Private Equity	9.17%
Real Estate	13.43%
Grand Total	**100.00%**

Source: Federated Hermes, as at 31 December 2024.

[1] The liquidity AUM managed by Federated Hermes (UK) LLP is out of scope of this report. Federated Hermes (UK) LLP is covered by a separate report.

Background

2024 was the first full year where average global temperatures surpassed the internationally agreed 1.5°C target, making it the hottest year on record.[1] While the El Niño phenomenon contributed to high global temperatures early in the 2024, temperatures persisted throughout the year with more records being broken for greenhouse gas levels, air temperature and sea surface temperature.

This is of serious concern as according to research, even with the issuance of a 1.5˚C-aligned policy, a one-year breach of 1.5˚C – such as we saw in 2024 – implies a ~70% chance that we will breach 1.5˚C over the 20-year average for 2024-44.[2]

Extreme weather events also increased in scale and frequency as a result in 2024. From the hurricanes in the Americas to the floods in China and Brazil and the droughts in Zambia, extreme weather events caused widespread devastation in 2024, resulting in over $229bn in global damages and thousands of lives lost.[3] In addition to these extreme events, more gradual and persistent impacts are becoming increasingly evident, including rising sea levels, ocean warming, biodiversity loss, food and water insecurity, and heightened vulnerability to poverty and displacement.

In tandem with climate change, nature loss leads to the extinction of species, the collapse of habitats, and significant and increasingly irreversible damage to ecosystems. This results in reduced biodiversity, soil erosion, and increased vulnerability to natural disasters, impacting both wildlife and human communities. The current risk of global biodiversity loss is extremely severe; according to the WWF's Living Planet Report 2024, there has been a catastrophic 73% decline in the average size of monitored wildlife populations since 1970.[4]

Investments are likely to be impacted by these systemic risks, which can manifest as transition risks – such as the need to adapt to new regulations and technologies - and physical risks – such as extreme weather events and rising sea levels. Aligning financial flows to mitigate the worst effects of climate change and nature loss and adapt to inevitable impacts will necessitate substantial structural changes in the economy, both globally and nationally.

However, mitigation of climate change and nature degradation also presents an unprecedented growth opportunity.

For example, the positive financial flows for nature-base solutions (NbS) are currently valued at $200bn. By redirecting just 7.7% of the negative finance flows, the funding gap for NbS could be met, delivering nature, climate and social benefits.[5] Commitments made at COP29 and COP16 during 2024 demonstrate governments' intentions to redirect finance towards climate and nature action, supported by policy change and financing strategies to create attractive investment opportunities and incentivise green investments, such as through blended finance.

To help do our part to change this course and protect and grow the value of the investments we make on behalf of our clients, Federated Hermes made a commitment to the Net Zero Asset Managers Initiative, and in 2022 set interim targets covering public markets, real estate, real estate debt, and infrastructure assets, as discussed further in our Climate Action Plan.[6]

Our enhanced focus on climate action aligns with the growing global momentum towards a low-carbon transition. Federated Hermes leverages its stewardship and advocacy capabilities to support this transition, recognizing it as part of our fiduciary duty to our clients. We recognise that climate change mitigation and the opportunities that arise from the transition to a low carbon economy can be crucial considerations when managing our clients' assets.

This document sets out how Federated Hermes incorporates climate-related risks and opportunities into our governance, strategy, and risk management, accompanied by relevant metrics and targets, in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), and how we are responding to the rising expectations of our clients and changing regulatory environment. In addition, we have also addressed nature-related dependencies, impacts, risk, and opportunities following the recommendations from the Taskforce on Nature-related Financial Disclosures ("TNFD").

There may be differences in how climate-related risks and opportunities, and nature-related dependencies, impacts, risks, and opportunities, are taken into consideration for particular investment strategies and products. If the climate-related governance, strategy or risk management for an individual product managed by HIML or HGPE is materially different to the overall entity-level approach described in this report, information shall be identified in the literature for the relevant product, including in Appendix III to this report and in the relevant TCFD product report, which is available on request.

[1] World Meterological Organisation, "WMO confirms 2024 as warmest year on record at about 1.55°C above pre-industrial level" (January 2025)
[2] Nature, "A year above 1.5 °C signals that Earth is most probably within the 20-year period that will reach the Paris Agreement limit" (February 2025)
[3] Christian Aid, "What climate disasters cost the most in 2024?" (December 2024)
[4] WWF, "2024 Living Planet Report: A System in Peril" (2024)
[5] WWF, "2024 Living Planet Report: A System in Peril" (2024)
[6] Federated Hermes,"Climate Action Plan" (2024)

Mapping against TCFD Entity-level Disclosure Requirements

In this document, we report in line with the recommendations of the TCFD. Our report first covers governance disclosures, followed by our overarching strategy and targets. It then goes more specifically into our strategy, risk management approach, and metrics and targets at the corporate entity-level, and then covers the same topics for each of our asset classes (where applicable). This is to make the report more readable and suitable for our business model by enabling readers to find the relevant information about us as a business or about each of our asset classes in one place. The below table maps the key TCFD disclosure recommendations to the relevant sections of our reports.

Pillar	Recommended Disclosures	Key Report Sections
Governance: Disclose the organisation's governance around climate-related risks and opportunities.	a. Describe the board's oversight of climate-related risks and opportunities.	*Governance* (pages 10-13).
	b. Describe management's role in assessing and managing climate-related risks and opportunities.	*Governance* (pages 10-13), including *Key functions supporting board oversight and management.*
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	*Describing climate- and nature-related risks and opportunities* (pages 14-21) and *The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning* (pages 25-27).
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	*Climate Action Plan* (pages 21-23); *The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning* (pages 25-27); *Managing corporate environmental impacts* (pages 28-35); and *Our Investments - Strategy & Risk Management* (pages 39-72)
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	*Impacts of risks and opportunities on our financial planning* (page 26); *Assessing the resilience of our strategy under different scenarios* (page 43); *and the Scenario analysis sections for each asset class of Our Investments* (pages 63-64, 66-67), *supported by Climate Action Plan* and *The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning.*
Risk Management: Disclose how the organisation identifies, assesses, and manages climate-related risks.	a. Describe the organisation's processes for identifying and assessing climate-related risks.	*Corporate Strategy & Risk Management* (pages 25-35), in particular *Risk management function and Sustainability-related standards and regulation; Our investments – Strategy & Risk Management* (pages 39-72), in particular *Investment risk management* and the *Assessment, integration and engagement sections* for each asset class.
	b. Describe the organisation's processes for managing climate-related risks.	*Climate Action Plan* (pages 21-23); *Corporate Strategy & Risk Management* (pages 25-35), in particular *Impacts of risks and opportunities on our financial planning, Risk management function, Sustainability-related standards and regulation and Managing corporate environmental impacts; Advocacy (pages 36-38); Our investments – Strategy & Risk Management* (pages 39-72), in particular *Investment risk management* and the *Assessment, integration and engagement* sections for each asset class.
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	*Corporate Strategy & Risk Management* (pages 25-35), in particular *Risk management function; Our investments – Strategy & Risk Management* (pages 39-72), in particular *Investment risk management* and the *Assessment, integration and engagement* sections for each asset class.
Metrics and Targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	*Climate Action Plan* (pages 21-23); *Managing corporate environmental impacts* (pages 28-35); *Our Investments - Strategy & Risk Management* (pages 39-72), in particular *the Assessment, integration and engagement sections and the Metrics and Targets* sections of each asset class.
	b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	*Operational environmental metrics* (pages 32-34); *Travel emissions metrics* (page 34); *Travel & operational emissions metrics* (page 34); *Our Investments - Strategy & Risk Management* (pages 39-72), in particular *the Metrics and Targets* section of each asset class.
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	*Climate Action Plan* (pages 21-23); *Managing corporate environmental impacts* (pages 28-35), *in particular Corporate emissions target; Our Investments - Strategy & Risk Management* (pages 39-72), in particular *the Metrics and Targets* section of each asset class.

Key Terms

Biodiversity: The variability among living organisms from all sources, including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.[1]

Climate: Refers to the long-term regional or global average of temperature, humidity and rainfall patterns over seasons, years, or decades.[2]

Climate change: Refers to the significant variation of average weather conditions becoming, for example, warmer, wetter, or drier—over several decades or longer. It is the longer-term trend that differentiates climate change from natural weather variability.[3]

Financed emissions: Refers to absolute emissions that banks and investors finance through their loans and investments.[4]

Nationally Determined Contributions ("NDCs"): Refers to countries' self-defined national climate pledges under the Paris Agreement, detailing what they will do to help meet the global goal to limit the temperature increase to 1.5°C, adapt to climate impacts, and ensure sufficient finance to support these efforts.[5]

Nature: The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment.[6]

Scope 1 emissions: Direct greenhouse gas ("GHG") emissions that occur from sources owned or controlled by the reporting company—i.e., emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.[7]

Scope 2 emissions: Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated.[8]

Scope 3 emissions: All other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions that occur in the supply chain (for example, from production or extraction of purchased materials) and downstream emissions that occur as a consequence of using the organisation's products or services. The emissions resulting from a reporting company's loans and investments fall under Scope 3 downstream emissions.[9]

Sustainable Development Goals ("SDGs"): Also known as the Global Goals, the 17 SDGs were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.[10]

Task Force on Climate-Related Financial Disclosures ("TCFD"): Refers to a global organisation formed to develop a set of recommended climate-related disclosures that companies, and financial institutions can use to better inform investors, shareholders and the public of their climate-related financial risks. The goal of these disclosures is to bring transparency to companies' climate-related risks.[11]

Taskforce on Nature-Related Financial Disclosures ("TNFD"): Refers to an international initiative that builds on a model developed by the TCFD. Its mission is to provide a framework for how organisations can address environmental risks and opportunities with the ultimate goal of channelling capital flows into positive action.[12]

The Net Zero Asset Managers ("NZAM") initiative: Refers to an international group of asset managers committed, consistent with their fiduciary duty to their clients and beneficiaries, to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5˚C; and to supporting investing aligned with net-zero emissions by 2050 or sooner.[13]

The Paris Agreement: Refers a legally binding international treaty on climate change, which was adopted by 196 Parties at the UN Climate Change Conference ("COP21") in Paris, France, in 2015. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."[14]

[1] United Nations, "Convention on Biological Diversity" (1992)
[2] World Bank Group, "What is Climate Change?" (2025)
[3] World Bank Group, "What is Climate Change?" (2025)
[4] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[5] UNDP Climate Promise, "What are NDCs and how do they drive climate action?" (May 2023)
[6] S. Diaz, et al., "The IPBES Conceptual Framework - connecting nature and people" (June 2015)
[7] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[8] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[9] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[10] UNDP, "Sustainable Development Goals"
[11] IBM, "What Is the Task Force on Climate-related Financial Disclosures (TFCD)?"
[12] Deloitte, "TNFD and nature-related financial disclosures" (August 2021)
[13] Net Zero Asset Managers, "Home"
[14] UNFCC, "The Paris Agreement"

Governance

We have governance structures in place to provide oversight of our approach to climate- and nature-related risks and opportunities and progress against our targets.

Board oversight. The Board of FHL, and the Boards of HIML and HGPE[1] (the "Boards"), are responsible for the governance of the organisation and individual entities and ensuring their effective operation. These Boards also endeavour to consider all stakeholders when establishing objectives and policies. In addition to FHL's historic receipt of our Climate-related Financial Disclosures Report, with the implementation of new governance enhancements in 2024, we now intend to provide each of FHL, HIML and HGPE's Boards with an annual update on the implementation of our climate and nature investment and engagement activities, progress against our investment, engagement and – for FHL – operational targets and any changes to existing targets or our Climate Action Plan. To the extent there are any material changes, the Boards are updated. This information is reported to the Boards by Federated Hermes' Responsibility Office, whose role is described below. In 2024, the FHL Board did not receive an update due to a move in the second half of the year towards a single annual meeting of the Board. This update was therefore rearranged and took place at the annual meeting in 2025. HIML, HGPE, Hermes Fund Managers Ireland Limited ("HFMIL"), Hermes Alternative Investment Management Limited ("HAIML") Boards all received annual updates in 2024.

HIML and HGPE, as UK-based investment managers required by the Financial Conduct Authority in the UK to comply with the TCFD disclosure requirements, receive and approve the Climate- and Nature-related Financial Disclosures Report and various underlying environmental, social and governance policies impacting the way those perform investment management activities. Prior to a Board's final review and approval, policies and procedures are reviewed and approved by the Sustainability Regulations & Stewardship Oversight Committee ("SRSOC") and the Governance Oversight Committee ("GOC"), whose roles are described below.

With respect to the integration of climate-related issues in the overall determination of strategy, plans of actions (acquisitions/ divestitures), budgets and business plans, the Board of FHL considers material risks and opportunities in making its decisions, which includes climate-related risks and opportunities if appropriate. For example, the Board of FHL has approved a carbon-offsetting programme to mitigate operational emissions and emissions derived from employee travel.

Governance Oversight Committee ("GOC"). The GOC is the formal oversight committee appointed by each of FHL, HIML and HGPE 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 a quarterly update on the activities of the SRSOC, whose role includes ensuring material climate-related matters are escalated.

Sustainability Regulations and Stewardship Oversight Committee ("SRSOC"). 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. The Committee also (i) approves our Climate- and Nature-Related Financial Disclosures Report prior to such reports being presented to the relevant Boards for approval; (ii) reviews new climate- and nature-related targets relating to investment or engagement activities; and (iii) monitors our Climate Action Plan and reviews any changes proposed by the Responsibility Office. The SRSOC will receive reports from our Responsibility Office and our stewardship team, EOS. The responsibilities of the Responsibility

[1] HGPE is a limited liability partnership and has established a Governing Body. For convenience, in this report the term "Board" is also used to refer to HGPE's Governing Body.

Office include providing updates to the SRSOC on the Climate Action Plan, informing the SRSOC of new or updated climate-or nature-related targets, and co-ordinating the Climate and Nature-Related Financial Disclosures Report. In 2024, the SRSOC reviewed updates to our public markets interim climate targets and our updated Climate Action Plan. It also reviewed and approved our 2023 Climate- and Nature-Related Financial Disclosures Report. EOS provides information to the SRSOC on engagement and voting activities for public markets and propose updates to the Federated Hermes voting policy for approval by the SRSOC.

Investment oversight (all asset classes). In private markets, investment decisions are taken by or overseen by an asset class specific investment committee. For example, the Co-Heads of Infrastructure and the Infrastructure Investment Committee are ultimately accountable for sustainability matters related to infrastructure at an operational level. Any material sustainability matters are escalated to the HGPE Governing Body. In the private equity team, the Private Equity Investment Committee ("PEIC") is responsible for all investment risks, including climate change risk. The Private Equity Portfolio Review Group, a sub-committee of the PEIC, assesses portfolio-level ESG risks including climate change risks quarterly to inform general partner ("GP") engagement. These Committees and the Federated Hermes Private Equity Governing Body and the Board of any management company (if any), are ultimately accountable for all sustainability matters related to private equity. For public markets, these matters are discussed at an equivalent meeting of the investment team.

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.

Responsibility Working Group ("RWG"). The RWG is a communication forum made up of senior representatives from across the business and is chaired by our Head of Responsibility. This group discusses a comprehensive range of topics that relate to the delivery of enduring, responsible wealth creation for our clients and beneficiaries, and shares best practice across the organisation.

Climate and Nature Working Group ("CNWG"). The CNWG provides feedback and recommendations on climate and nature related issues to the relevant business functions. Its aim is to inform the development and implementation of a business-wide climate-change and nature strategy and risk-management approach, including in relation to our commitments on climate and nature. The CNWG covers our operational, investment and engagement activities, and intends to meet quarterly to receive updates on progress towards our operational, investment and engagement targets. The Responsibility Office, whose role is described below, chairs the CNWG and coordinates the approach to climate and nature for Federated Hermes, leading on implementation and delivery of our respective climate change and nature strategies.

The CNWG met four times during 2024. Key topics within the remit of the CNWG during 2024 included progress against our commitments on climate and nature, the implications of COP29 and the results of our deforestation risk assessment of public markets. Three subgroups continued to drive progress in particular areas: biodiversity impact and dependencies assessment; biodiversity target setting; and enhancing our Paris-alignment methodologies.

Key functions supporting board oversight and management

In addition to the structures outlined above, the following key business functions are particularly involved in delivering our climate and nature approach, monitoring and, where appropriate, assessing climate and nature related issues, and reporting such information to the appropriate Boards or governance bodies identified above:

Responsibility Office. Established in 2014, our dedicated Responsibility Office reports through the Head of Responsibility to FHL's CEO and acts as a hub of expertise and support available to assist every employee in our business to work towards our core purpose of delivering enduring, responsible wealth creation.

The ESG Integration team within the Responsibility Office also works closely with the investment teams to support the investment analysts in identifying material environmental, social and governance issues, including climate and nature, that may be specific to the investment manager's strategy.

This team considers the range of risks described in the strategy section of this report, including regulatory risks, legal risks and physical risks. The support provided to the investment teams includes building out ESG analytics and tools, deep dives on portfolio holdings, and sharing progress updates linked to Federated Hermes commitments such as progress against Federated Hermes net-zero interim targets. The team obtains data from third-party providers to help the investment and stewardship teams analyse sustainability related risks and opportunities including relating to climate and nature. Some of these datasets are overlaid in our proprietary tools by insights gleaned from our engagement with investee companies and are also used by our investment teams and 'engagers'[2] in their company research and portfolio analysis. For example, the ESG Integration team co-ordinate the procurement of climate scenario analysis tools and deforestation data which are made available to the public markets investment teams. The ESG Integration team also organises sector-level knowledge-share sessions between EOS (our public markets stewardship team) and the investment teams and works with the investment teams to develop frameworks which assess the materiality of environmental, social and governance risks at the investee company level.

The ESG Integration team also conducts assessments using our proprietary ESG Assessment Matrix on an annual basis to determine where each of the investment teams are in their ESG and stewardship integration journey. The matrix contains 30 indicators across four key areas of assessment and aims to assess the teams on the following: investment process and philosophy; sustainability commitments; communication and advocacy. The sustainability commitments section assesses how actively the relevant team is monitoring their progress in meeting Federated Hermes' various commitments as well as how well they are progressing towards meeting them, such as our net-zero commitment. The results of this assessment are shared with senior management.

Our Policy and Advocacy team within the Responsibility Office engages with regulators and policymakers to advocate for an enabling environment that supports and incentivises the achievement of the goals of the Paris Agreement and the Global Biodiversity Framework, in recognition of the systemic risks posed to our clients' assets by climate change and nature loss.

Portfolio Managers and Investment Analysts. Each of our investment teams in scope of this report has formulated their own approach to responsible investing that explain how, in the context of their particular strategy and investment universe, they incorporate ESG factors and engagement into their investment process. Each team is responsible for undertaking its own fundamental ESG research and the team members are accountable through the performance appraisal system for their part in delivering on their client investment mandates.

The investment teams can also carry out engagements themselves, and some have dedicated engagers, such as our SDG Engagement funds[3] (described in 'Our investments – Strategy & Risk Management' section). All investment teams use a variety of data sources to obtain information to analyse their investments or potential investments. They use a combination of third-party sources, stewardship insights and data obtained directly from the investee company. As described above, the Responsibility Office helps to source and integrate third-party data that is relevant across the investment teams. Due to the complexity of procuring data at scale for private markets, this is managed directly by the private markets investment teams, with guidance from the Responsibility Office where needed.

Stewardship Team ("EOS"). Our stewardship team for public markets, EOS, provides services in relation to Federated Hermes' public markets strategies and external clients, with assets under advice ("AUA") of approximately £1.7tn as at 31 December 2024. EOS engaged with around 570 companies on behalf of its clients during 2024. EOS has a Client Advisory Board ("CAB") which consists of third-party client representatives. They provide insight, advice and guidance on EOS' business strategy and service offering to ensure that the EOS service is and remains a client-focused offering. The EOS team comprises individuals with a diverse mix of backgrounds, skills, and perspectives, and has been at the forefront of the development and evolution of responsible investment practices globally. The EOS team leads our public markets engagement activity, as described further in the other sections of this report.

Risk. Replacing the Investment Office, 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.

[2] Refers to Federated Hermes personnel involved in engagement activities relating to investee companies, which may include members of EOS and the investment teams.

[3] The name of these funds have changed following the reporting period but prior to publication of this report. The SDG Engagement Equity Strategy is now referred to as the Global SMID Equity Engagement Fund and the SDG Engagement Credit Strategy is now referred to as the Global High Yield Credit Engagement Fund.

Employee performance management

Our performance management process and behaviour framework is the practical application of our Federated Hermes Pledge, and seeks to ensure that our cultural aspirations are reinforced. Our philosophy is to reward individual contribution, as demonstrated by the delivery of enduring, responsible results (the 'what') aligned with our business strategy, values and behaviours (the 'how'), which serve the best interests of our clients, their investors and our shareholders while enabling the business to grow to its potential.[4]

As part of the process, performance objectives are set at the start of the performance year and reviewed regularly to assess progress, achievements, and areas for development and growth. This ultimately supports improved organisational performance. To encourage a focus on meeting the needs of clients, their investors, and our shareholders, all individuals are rated equally on their technical performance and their behaviours. We are committed to our business purpose of creating enduring wealth responsibly that enriches investors, and, where possible, society and the environment while being at the forefront of developing industry best practice. Part of this is ensuring that our performance management process, behaviour framework and Remuneration Policy incorporates consideration of stewardship and the integration of enduring, responsible performance and risk in both our firm's investment activities and its wider operations. This is further supported by the co-investment of deferred bonuses in funds to align employees to longer term investment performance after the bonus has been awarded. In particular we aim for the following:

- To incentivise senior management to drive our strategy and initiatives in line with our business purpose of enduring, responsible wealth creation and ensure that through appropriate stewardship it informs all of our firm's key business and operational processes.
- To promote best practice integration of investor stewardship and material ESG factors including the delivery of sustainable outcomes in the investment process and decision making.
- To encourage all employees to develop responsibility objectives as appropriate for their role.
- To ensure that adjustments can be made to bonus pools and individual outcomes if the company is operating outside of its risk appetite.

[4] For more information, please see our Remuneration Policy: https://www.hermes-investment.com/ukw/remuneration-policy

Strategy

Our approach to responsible investing

Our climate strategy is driven by a focus on delivering enduring wealth creation, responsibly for our clients and their investors. Successful enduring, responsible wealth creation should provide investors with income to spend as they get older, an ability to buy goods and services and help to build a world in which investors are happy to live.

Federated Hermes views responsibility through three lenses and intends to act as a:

1 **Responsible Investor** – how we integrate material ESG considerations and, where applicable, engagement insights including climate- and nature-related risks and opportunities into our investment decisions.

2 **Responsible Owner** – our stewardship activities: engagement, voting, public policy and screening.

3 **Responsible Firm** – ensuring we lead by example, through 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.

These three lenses underpin our climate strategy, which informs our investment approach, our engagement and advocacy activities, and how we conduct our own operations.[1]

Describing climate – and nature – related risks and opportunities

Federated Hermes recognises that climate change and nature loss present serious risks to the world at large and to our business – both as a corporate entity and as an investment manager – and that action is needed by governments, companies and investors to mitigate these risks. Our assessment of and response to the risks posed by climate change and nature spans our asset and portfolio level analysis across the asset classes in scope of this report; our corporate and public policy engagement activities; and our operational risk management.

As an investment manager, understanding and responding to the range of potential risks and opportunities and generating performance for clients is fundamental for our business, and is the major focus of our efforts. At Federated Hermes, we understand these climate and nature risks do not exist in isolation. Climate change is a major driver of nature loss, whilst nature plays a crucial role in mitigating and adapting to climate change. They also interact with other changes happening at the same time, such as technological innovation; changing consumer behaviour and demand; and the effect of local regulation versus geopolitical dynamics on infrastructure and supply chains. This informs how we integrate assessment of such risks into our investment processes and wider business strategy.

We use a range of sources to identify which risks and opportunities could have a material financial impact on our organisation and in particular the companies and other assets we invest in for our clients, including insights from third-party studies, data providers, scenario analysis tools and internal expert knowledge. A description of the processes used to identify and prioritise climate-related risks which could have a material financial impact on the organisation and the investments we make on behalf of clients is described in the 'Our Investments – Strategy & Risk Management' section.

We consider a range of climate-related risks, including:

- **Transition risks** such as risks related to (i) legal, regulatory and policy matters, (ii) technology, (iii) markets, whether for goods or services, or the financial markets, and (iv) reputational matters and how this may impact consumer and stakeholder behaviour.
- **Physical risks** which may be acute (for example, increased severity and frequency of extreme weather events) and/or chronic (for example, increases in average temperatures and rising sea levels).

We apply a similar approach to categorising nature-related risks. Companies' relationship with nature can be characterised by impacts and dependencies on biodiversity and ecosystem

[1] We adjust our approach in different jurisdictions to accommodate differences in local laws and regulation.

services.[2] We seek to understand the ways in which biodiversity and ecosystem services are relevant to companies, be this through their sourcing practices and supply chains, through their products and services, in the construction of new sites on land, especially if this is an ecologically important habitat, or through the way their operations interact with surrounding ecosystems. A company's impacts and dependencies on biodiversity may lead to physical and transition risks across the short, medium, and long term.

In terms of time horizons, we consider these risks in the short (0-2 years), medium (2-5 years), and long term (5 years and beyond). Transition and physical risks are assessed on a qualitative and quantitative basis and vary asset to asset depending on factors such as the sector, geography, and business model.

The Federated Hermes investment and stewardship teams in scope of this report look at these issues in detail. The implications of climate change and nature for investment decisions will differ depending on the sector, geography, and business model. That consideration focuses not just on the risks, but associated opportunities and differences in local laws and regulations.

Risks and opportunities facing the companies and assets we invest in

Legal, regulatory and policy: In the short term, this relates to regulatory changes and legislation that may affect the demand for a company's products or services, or affect the competitiveness of assets, supply chains and/or management practices in certain sectors that are highly exposed or geographies. These risks will be more material in those regions where climate policy is tightening faster (for example, the European versus Asian markets), or where policy agendas are not supportive of climate action.

In the medium term, we could see higher operating costs from carbon pricing or taxes, or the costs of implementing new regulatory standards, as well as greater insurance premiums. Disclosure standards are increasing in a large number of jurisdictions, in many cases where the International Sustainability Standards Board (ISSB) standards are being adopted,[3] which includes a climate-related disclosure standard. Companies which do not already have climate risk management processes will be less well placed to meet these incoming regulations. In the longer term, regulatory changes alongside market transformation may create stranded assets.

Companies may also face nature-related regulatory and litigation risks in the short term. This relates to regulatory changes and legislation that may impact a company's competitiveness, supply chain, or increase its operating costs. In the UK, Biodiversity Net Gain regulation requires certain real estate developments to have a positive uplift on the existing levels of biodiversity. 2023 saw the EU's Regulation on deforestation-free products come into force, with implementation now due from December 2025 for some companies in scope.[4] This regulation aims to address the demand-side drivers of deforestation by setting clear rules for companies that trade in specific commodities and products, ultimately contributing to the preservation of forests and the protection of the environment. The regulation will impose due diligence requirements for companies that trade products linked to forest-risk commodities (for now, this covers cattle, cocoa, coffee, palm oil, rubber, soya and wood) on the EU market and require them to demonstrate there are no links to deforestation. Mandatory disclosures on nature-related topics are also increasing in a number of jurisdictions, such as in France where large companies and financial institutions are required to disclose their biodiversity risks and impacts.

These risks are likely to continue to increase over the medium term in line with the increasing regulatory focus on nature-related issues.

Technological development, markets and consumer demand: In the short to medium term, there are also considerable risks associated with market transformation, which will occur as new markets and technology development continue to open up during the transition to a resilient and net-zero/nature positive economy requiring a significant amount of capital to be reallocated towards new growth markets. The availability of raw materials may also pose challenges for some companies. Changes in market demand, the cost of goods or services and consumer preferences mean some products and services in certain sectors may become less competitive or possibly obsolete increasing the risk of asset underperformance and possibly resulting in asset impairment in extreme cases. Companies may face reputational risks, on top of the regulatory and litigation risks described above, in relation to negative impacts on the climate and nature, which may impact the behaviour of consumers, investors and other stakeholders. These risks have already become material in the short term for some companies linked to deforestation in the Amazon. As consumer interest in the issue grows, these risks are likely to become more prevalent. The risks of underperformance or obsolescence of certain products or services due to changes in market conditions and consumer behaviour may further impact the availability of finance.

Acute and chronic physical risks: As an investor, acute physical risk is an ever-present consideration. Acute and chronic physical risks are expected to intensify as the climate changes – and affect all asset classes, as well as our own operations. In the short term, assets may face acute physical risks due to extreme weather events, including flood, drought, heat waves and storms that cause disruption to business operations and supply chains.

Another risk already beginning to materialise is that companies may increasingly have to pay higher insurance premiums or find some assets are uninsurable in certain locations exposed to physical risk.

[2] As per the TNFD Glossary, an ecosystem is 'a dynamic complex of plant, animal and microorganism communities and the non-living environment, interacting as a functional unit.' Ecosystem services are 'contributions of ecosystems to the benefits that are used in economic and other human activity.' Dependencies on nature are 'aspects of environmental assets and ecosystem services that a person or an organization relies on to function'. Impacts on nature are 'Changes in the state of nature (quality or quantity), which may result in changes to the capacity of nature to provide social and economic functions. Impacts can be positive or negative.'

[3] S&P Global, "Where does the world stand on ISSB adoption?" (December 2024)

[4] European Commission, "Regulation on Deforestation-free products" (March 2024)

In the long term, extreme climatic events are expected to become more frequent. Extreme weather events could affect defined geographical locations or, in some cases, whole regions, and significantly disrupt the core assets and supply chains of a large number of sectors in the economy. In addition to these acute physical risks, chronic physical risks may arise due to long-term changes in climate patterns (for example, rising sea levels and changes to regional weather patterns). The materialisation of these risks may cause assets to become stranded across a whole range of industries, assets and geographies. Supply chains of a large number of sectors in the economy may be disrupted. This will have implications across asset classes. For infrastructure and real estate assets, investors may see business discontinuity costs, refurbishments and rebuilding costs, and potentially even obsolescence and destruction in severe cases. Even if the average global temperature increase is limited to 1.5°C, significant adaptation will still be required to deal with the increased physical risks this temperature increase will bring.

Nature-related physical operational risks can become acute when companies face direct challenges in sourcing raw materials due to disruptions to ecosystem services. Physical climate change may exacerbate these risks. This is already a risk that is materialising for some companies with direct or indirect exposure to impacted regions, for example where agricultural production is impacted due to a lack of water availability or degraded soils. In the scenario that nature loss is not halted and reversed, ecosystem service disruption will become more widespread, which may create additional costs for companies that rely on nature-based inputs. Furthermore, there will potentially be systemic risks to whole sectors or geographies due to the disruption to supply chains and operations. If nature loss is not halted, we can therefore expect the magnitude and probability of nature-related physical risks to increase.

Opportunities: Whilst action on climate change and nature must be significantly scaled up in order to meet the goals of the Paris Agreement and Biodiversity Plan, we are already seeing climate- and nature-related opportunities that the companies we may invest in on behalf of our clients may be able to leverage. The need to transition to a more sustainable economy has created new markets for solutions, which are becoming more cost-competitive over time. As an increasing number of companies set net-zero targets or increase the ambition of their Nationally Determined Contributions (NDCs) and National Biodiversity Strategy and Action Plans (NBSAPs), we expect the availability of these opportunities to increase.

- Products and services that support the transition to a net-zero/nature-positive economy, for example the provision of renewable energy by the energy sector, low-emission construction products by the materials sector or deforestation- and conversion-free food and beverage products. This may allow companies to tap into new markets by meeting the needs of businesses wishing to improve their own environmental impact or meet new regulatory standards. Similarly, companies have the opportunity to meet the increasing demand from consumers for products that minimise harm to the environment and support the transition. Finally, some climate technologies are already – or are expected to become – cost competitive versus traditional technologies, further enhancing the demand outlook for related products and services.
- Greater resource efficiency, for example companies that reduce their own water usage or develop technology that facilitates reductions in water usage, which has the potential to reduce operating costs and increase production capacity.
- Improved business resilience, for example through adaptation to physical climate impacts in a company's supply chain and operations, or use of low-emission energy sources reducing the company's exposure to rises in fossil fuel prices or the cost of abatement.
- Available benefits from supportive policies and climate-related finance, for example government funding or other financial support for renewable energy technologies.

The above opportunities have the potential to offer increased revenues and enhance the resilience of a business.

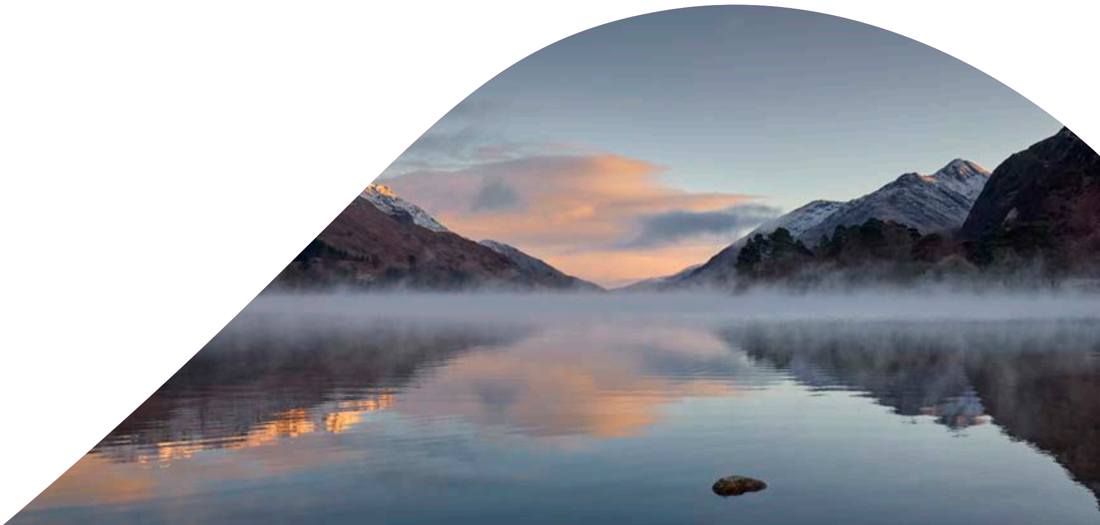
The extent to which these risks and opportunities may impact on a company and how they will manifest will vary depending on a company's sector, geography and individual business context.

The automotive and power sectors, for example, both have significant value at risk from the transition to a more sustainable economy, but also significant opportunities – from electric vehicles and renewable energy, respectively.

Figure 2. Key climate-related risks and opportunities across sectors

Sector	Climate opportunities	Transition risk	Physical risk
Chemicals	• Innovation-led market opportunities e.g. increasing demand for green and circular chemicals • Efficiency gains in production • Increasing demand for high-value chemicals constituent in climate solutions, e.g. coatings for wind turbines, low-carbon hydrogen	• Local and national environmental regulation and policy, including carbon pricing and border adjustments, increasing operating and input costs • Market competition and innovation risks associated with technological change • Demand headwinds for key chemical groups, e.g. petrochemical refining • Access to quality alternative feedstocks e.g. recycled hydrocarbons	Large chemicals complexes are significant infrastructure assets and can be exposed to physical climate risks: • Acute: Flooding, extreme storms, supply disruption • Chronic: Drought and loss of water supply to water-intensive facilities
Transport	• Innovation-led market opportunities e.g. increasing demand for electrified or renewable energy fuelled transport • Efficiency gains in production e.g. automation • Enhanced recycling can reduce upstream costs for materials • New business opportunities e.g. charging infrastructure deployment	• National and international environmental regulation and policy, including carbon pricing, border adjustments • Market competition and innovation risks associated with rapid technological change • Demand headwinds for emissions intensive products and access to economically viable fuels • Increased operating and distribution costs through increased input costs • Increased capex requirements to develop and produce lower-carbon models	Production assets and supply chains can be exposed to significant physical climate risks: • Acute: Flooding, extreme storms, supply disruption • Chronic: Drought and loss of water supply can limit product distribution and impact logistics, potentially posing a risk to the direct business (e.g. shipping) or indirectly through delays in the supply chain
Oil & Gas	• Increasing demand for low-carbon molecules and transition solutions • Efficiency gains in upstream production and refining	• Demand and price headwinds for oil and gas products over the medium and long term, driven by national policies and competition from alternative energy sources • Local and national environmental regulation and policy, including carbon pricing increasing operating and input costs • Reputational and legal risks • Greater capacity-building and capex requirements to enter new technologies and markets	• Upstream production and midstream assets may be exposed to acute physical impacts, including storm surges for offshore assets and coastal terminals • Delivery of products may be disrupted by chronic physical impacts, for example the increased incidence of storms disrupting distribution channels

Sector	Climate opportunities	Transition risk	Physical risk
Mining & Materials	• Increasing demand for metals and minerals, particularly those required for the energy transition, so-called "critical energy transition minerals" • Efficiency gains in operations, e.g. through electrification of operations • Innovation-led market opportunities	• Environmental regulation and policy, including carbon pricing, phaseout of fossil fuel subsidies, and border adjustments, increase operating and input costs, and shift market demands away from certain minerals, e.g. coal • High upfront capital investments and investment in R&D required to develop and implement cleaner technologies • Higher costs associated with fuel switching	Production assets and supply chains can be exposed to significant physical climate risks: • Acute: Flooding and heatwaves can cause damage to infrastructure, disrupt operation, contaminate water supplies and safety risks • Chronic: Extreme heat can increase cooling costs and affect productivity; water scarcity can affect mining processes, material production processes and can increase costs for water procurement; sea level rise can pose risk for coastal operations.
Utilities	• Increasing demand for electricity as heating, transport, and heavy industry electrify • Greater opportunities for capital deployment, including in regulated asset models such as grids, driven by market, policy, and regulatory appetite to expand transmission capacity • Increasing demand for low-carbon molecules in heat networks	• Local and national environmental regulation and policy, e.g. carbon pricing and border adjustments can increase operating and input costs related to fossil fuels products • Uncertainty related to future of regulated asset models, including heat networks • Greater capacity-building and capex requirements to enter new technologies and markets • Increased input costs for infrastructure projects e.g. steel, aluminium, batteries, and/or as suppliers require capital investments for reduced emissions	Utilities are fundamental infrastructure assets but are susceptible to both acute and chronic physical risks, in particular related to: • Transmission infrastructure • Power generation units, especially large-scale projects, exposed to storm risks or nuclear facilities exposed to drought risks • Gas transmission and distribution assets, in particular gas terminals and storage assets
Financial Services	• Increasing financing opportunities in climate solutions, including renewable energy project finance, transition finance, and early-stage investments in the development of novel climate solutions • Opportunity to gain future market share through customer retention in emerging sectors	• Financial risks will emerge through financing and investment exposure to real economy sectors that face transition risks • Market, technology, regulatory, and legal risks may impact loan book customers and investee companies, increasing expected credit losses, credit risks and provisioning costs, and/or negatively impacting the valuations of securities • Consumer and mortgage finance businesses are particularly exposed to just transition risks e.g. geographically concentrated exposure to industries particularly impacted by the energy transition	• All financial services firms exposed to physical climate risks manifesting at loan book customers' or investee companies' sites • Financial services firms lending on the basis of collateral in the form of real estate will be particularly exposed to chronic physical climate risks, for example mortgage books highly concentrated in increasingly flood, cyclone, sea level rise, or bushfire areas without adequate levels of insurance



Sector	Climate opportunities	Transition risk	Physical risk
Industrials	• Operational energy efficiency gains can reduce costs • Innovation-led market opportunities • Circular economy practices can lower raw material costs and increase resource efficiency	• Introduction of national and international legislation, e.g. carbon pricing and border adjustments can lead to higher production costs, reduced profitability, and legal risk • Strained financial resources in short-term caused by high upfront capital investments in renewable energies and other low-carbon technologies • Demand shifts resulting from shifts in regulation and consumer preference for lower-carbon products • Increased cost of lower-carbon input materials	Production assets and supply chains can be exposed to significant physical climate risks: • Acute: Flooding, extreme storms, and heatwaves can cause damage to infrastructure, disrupt operation, contaminate water supplies and pose safety risks to workers • Chronic: Extreme heat can increase cooling costs and affect productivity; water scarcity can affect processes and pose increased costs for water procurement; sea level rise can pose risk for coastal operations
Agriculture, Forestry, and Fisheries (incl. downstream consumer goods and retail)	• Increased productivity and yields from investments in natural capital • Reduced variability/increased resilience of agricultural and forestry yields from investments in natural capital • Additional revenues from sale of nature-based carbon credits • Improved reputational and marketing image	• Local and national environmental regulation and policy, including carbon pricing and methane regulation, increasing operating and input costs • Market and competition risks associated with the emergence of fast-changing alternative protein products	• Increased supply chain and commodity price risks for businesses sourcing agricultural, forestry, or fisheries products, due to increased incidence of chronic physical climate impacts; supply chain diversification is unlikely to fully mitigate these risks
Technology	• Increased market opportunity for technology-enabled climate solutions, for example hazard monitoring, efficiency enhancements, and emissions monitoring	• Increasing power demand, especially related to AI, poses risk to access to reliable, low-carbon power	• Technologies' physical footprint e.g. data centres and technology manufacturers, which can be vulnerable to physical climate risks • Data centres require reliable power supplies so prompts additional costs to secure back up supplies
Real estate	• National and international policy to enhance energy efficiency can pose a business opportunity for new builds and energy efficient retrofitting • Investment in energy-efficient technologies can reduce operational costs and increase property values • Investment in renewable energy procurement can reduce long-term costs • Access to green bonds and sustainability-linked loans can provide favourable financing terms for real estate projects to lower cost of capital	• Compliance with new energy efficiency and building codes requires investments in retrofitting and upgrading properties, increasing capital expenditure requirements • Stranded asset risk for buildings that fail to meet regulatory requirements • Investment in renewable energy systems and smart building solutions require substantial capital investments • Failing to meet growing pressure from stakeholders (investors and tenants) can lead to loss of business, reduced investor confidence, and financial penalties • Increased indirect costs through more expensive building materials	Chronic: • Heat and water stress create new cooling needs and increase operating costs for buildings • Sea level rise: threats to infrastructure and required investment in protective measures • Subsidence: ground sinking due to dry weather causing structural damage to buildings Acute: • Extreme weather events: hurricanes, flooding, wildfires, sea level rise and coastal flooding can cause damage to real estate located in vulnerable areas and increase insurance premiums

Source: Federated Hermes, as at 31 March 2025.

Increasingly, we are seeing many companies providing or transitioning into solutions to the climate challenges we are facing.

One such example is ZF Group, a German auto component manufacturing firm, which is a leading supplier of chassis components and electric motors. It is also involved in innovative technologies, providing gearboxes for wind turbines and components for automated driving. In 2020, ZF Group made a strategic update: the company announced it would no longer develop components specific to internal combustion engine (ICE) vehicles, instead focusing on long-range plug-in hybrids and purely electric vehicles through electric mobility products.

The company has also recently upgraded its initial target to reach 100% renewable energy across production plants from 2030 to 2025, highlighting its prioritisation of rapid decarbonisation. To address upstream emissions, ZF Group works in close collaboration with suppliers and has set up a decarbonisation framework with the aim of creating 'renewable energy roadmaps.' Additionally, the company has reached a purchasing agreement with H2 Green Steel, a leading green steel provider, whose steel enables carbon emissions savings of up to 80% versus conventional steel from blast furnaces.[5] From 2025 onwards, ZF Group will purchase 10% of current steel requirements from H2 Green Steel. These initiatives will help to deliver ZF Group's ambitious targets to reduce operational emissions by 80% by 2030 versus 2019 and upstream Scope 3 intensity per sales by 40% in the same timeframe.[6]

As set out in the table below, we also consider companies' key impacts and dependencies on biodiversity and ecosystem services. As with climate change, whilst there are certain impacts and dependencies that commonly materialise for priority sectors, we also recognise that our assessments must be tailored to individual companies or assets as their impacts and dependencies will be impacted by factors such as sector, geography, and business model.

Figure 3. Key impacts and dependencies on biodiversity and ecosystem services across sectors

Sector	Key impacts and dependencies on biodiversity and ecosystem services
Consumer goods and retail (including food, beverages, tobacco, household products, cosmetics and fashion)	• High dependence on ecosystem services such as pollination, soil quality and water flow to maintain a reliable supply of agricultural products and other nature-based inputs. • High impact on biodiversity through significant land footprint, greenhouse gas emissions and the overall business model (including sourcing activities and agricultural practices)
Utilities	• Operational dependence on ecosystem services such as water quality and flow, climate regulation and others • High impact on biodiversity through significant greenhouse gas emissions and contributions to climate change, pollution of air, soil and water, land use (including potentially higher land use requirements for renewables), and disturbances to species
Mining & Materials	• Operational dependence on ecosystem services such as water quality and flow, climate regulation and others • High operational impact on land and ecosystems, significant greenhouse gas emissions and contributions to climate change, pollution of air, soil and water (including one-off events such as tailings dam collapses), and disturbances to species
Oil & Gas	• Operational dependence on ecosystem services such as water quality and flow, climate regulation and others • High operational impact on land and ecosystems, significant greenhouse gas emissions and contributions to climate change, pollution of air, soil and water (including through high-risk events such as oil spills), land use (including operations in fragile ecosystems) and disturbances to species
Agrochemicals and pharmaceuticals	• Dependencies on genetic materials, water quality and flow, climate regulation and others • High direct impact on biodiversity and ecosystem services through pollution of soil, air and water, and greenhouse gas emissions and contributions to climate change
Real estate and construction	• Dependence on ecosystem services such as raw material input (e.g., timber), water quality and flow, protection from floods and storms, and others • High impacts on biodiversity and ecosystem services through significant land use, greenhouse gas emissions, and pollution of air, soil and water
Financial Services	• High potential impact on unsustainable land use and the loss of biodiversity through financing of, and investment in, all other sectors

Source: ENCORE tool, Natural Capital Finance Initiative, as at 31 March 2025.The impact of climate- and nature-related risks and opportunities on our business, strategy, and financial planning

[5] ZF Group, "Sustainability: Climate and Nature"
[6] Ibid.

Risks and opportunities at entity level

In thinking about the risks and opportunities that are most relevant for asset managers as corporate entities, these notably relate to:

- **Investment performance.** The risks outlined above may be compounded across our portfolios due to their systemic nature. For example, the acute impacts of a severe weather event could impact a large number of companies with supply chains or operations in a particular region. Companies in a country which introduces new regulation to address environmental impacts may suffer financially if they aren't prepared for it, either through the cost of meeting the regulation or through fines if they do not. More information is available under the 'Our Investments – Strategy & Risk Management' section of this report, where we provide information on the results of our scenario analysis. Given the systemic nature of these risks, public policy advocacy is a key part of our approach as the companies we invest in on behalf of our clients cannot unilaterally entirely mitigate these risks.
- **Changing client expectations.** Clients, particularly those in Europe (including the UK), are expecting increasingly sophisticated responses to the climate and nature crises, including enhanced reporting. This provides an opportunity for asset managers whose products support the transition either through engaging to mitigate the environmental risks that may impact companies or through investing in impactful companies, assets or projects.
- **Regulatory risk.** Increased regulatory expectations are focused not only on corporates but on financial institutions too. The UK has already made climate disclosures mandatory for a wide range of financial institutions. With the planned adoption of the International Sustainability Standards Boards (ISSB) disclosure standards in an increasing number of jurisdictions (which include climate disclosures), this is likely to be replicated in other countries. Transition plan disclosure is also becoming more of a focus for policymakers.
- **Reputational risk.** There are also reputational risks if an investee company or asset is linked to negative environmental impacts.
- **Physical risk.** As a corporate entity, we rely on the services of a range of suppliers including information and communication technology ("ICT") and data providers as well as the utility services that power our offices and, following the introduction of hybrid working, our homes. We recognise the relevance of physical risks to our own operations and those of our suppliers.

The following sections of this report set out our strategy and risk management approach to manage these potential risks.

Climate Action Plan

As development in policy and technology leads to the decarbonisation of the global economy, companies not taking adequate action may be left behind, potentially resulting in suboptimal business models and stranded assets. For this reason, we take the view that we should work with clients to contribute to global efforts to limit warming to as close as possible to 1.5°C. Our goal is to drive financially beneficial change in the real economy.

In our view, this is an inseparable part of our fiduciary responsibility to seek to maximise long-term financial returns on investment on behalf of our clients. We believe we have a responsibility as an industry, and indeed as a business, to allocate capital in a way that mitigates exposure to climate risk and that plays our part in delivering the goals of the Paris Agreement: an outcome that is fundamentally in the long-term financial interests of our clients.

We remain committed to playing our part in achieving the goal of the Paris Agreement to limit the temperature increase to as close as possible to 1.5°C, even as we acknowledge the challenges presented by the current global emissions trajectory and temperature trends, including a temporary overshoot of this critical global threshold. June 2024 marked the first 12-month period in which temperatures reached more than 1.5°C above pre- industrial times.[7] This breach underscores the urgent need to accelerate efforts to reduce emissions, drive innovation, and foster systemic change. Even if the efforts to limit the global temperature increase to 1.5°C are not successful, in a below 2°C or a 2°C scenario, companies which have sought to align with a 1.5°C pathway will likely still be well positioned to deal with stricter climate regulations from governments. By maintaining ambitious targets aligned with the goals of the Paris Agreement, we aim to mitigate future climate and consequential financial risks, align with the expectations of key stakeholders including clients and policymakers, and contribute to a more sustainable and resilient global economy. Achievement of our targets will, however, require governments and policy makers to deliver on their commitments to achieve the goals of the Paris Agreement.

> **We remain committed to playing our part in achieving the goal of the Paris Agreement to limit the temperature increase to 1.5°C, even as we acknowledge the challenges presented by the current global emissions trajectory and temperature trends.**

[7] Copernicus, "June 2024 marks 12th month of global temperature reaching 1.5°C above pre-industrial' (July 2024).

This Climate Action Plan sets out why and how we will seek to work with clients and investee companies on climate goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets within the scope of our commitment. It also outlines the interim targets we have set along the way.

We recognise that the global challenges of climate change, biodiversity loss and social justice are highly interlinked and, therefore, we seek to deliver our commitments in ways that contribute to tackling these issues together. Marine and terrestrial ecosystems globally are being altered by climate change, resulting in significant species losses and key ecosystem decline. There is a growing recognition of the financial risks associated with companies' impacts and dependencies on nature and the ecosystem services it provides.

Climate change and the energy transition will also have significant impacts on society. There is an urgent need for ambitious, net-zero targets; clear, credible transition plans; and ambitious implementation of those plans from governments, corporates and financial institutions globally if we are to have a timely, orderly, and just transition. Companies must explicitly consider how their actions, or lack of, on climate change will negatively influence stakeholders and seek to mitigate the social impacts of transition plans. A focus on an orderly and just transition is critical not only for the welfare of citizens but also the transition itself because it must occur in a manner that does not diminish public support for the net-zero transition.

In seeking to deliver our climate goals, we therefore continue to focus our advocacy and engagement on related issues such as halting and reversing deforestation, protecting nature, and promoting social justice. The following approach we set out below is not set in stone and we expect it will evolve in the context of future technological, market, regulatory and political change. We will modify or tailor our approach to engagement with companies on certain climate-related topics in line with local law and regulation in the relevant jurisdiction.

While we hope to cover all asset classes over time, our interim target currently applies to all Federated Hermes' assets under management within scope of this report except for private equity, direct lending, sovereign debt and certain instruments such as FX, cash, indices and ABS, CLOs and CDOs issued by companies for which we do not have climate data. As at 31 December 2024, 63% of our total AUM is in scope of our targets. Our targets are at the asset class level. Where products in scope of the TCFD disclosure requirements have additional climate-related objectives, this is described in Appendix III of this Report.

Our approach

We aim to deliver on our net-zero aspirations by focusing on delivery against four specific pillars:

1. Operational emissions: playing our part by reducing our firm's direct environmental impact.

Our firm's direct environmental impact and associated climate risk exposure is primarily driven by the operation of our offices and business travel.

We aim to minimise our operational carbon footprint and use of environmental resources through our sourcing decisions and our carbon offsetting program, as well as through promoting behavioural changes amongst our employees, suppliers and other stakeholders.

We offset our own Scope 1 and 2 operational emissions – as well as our corporate travel emissions by air and rail – and have been doing so since 2016 through high quality offsetting.

Our approach is described in more detail under the 'Corporate Strategy & Risk Management' section of this report.

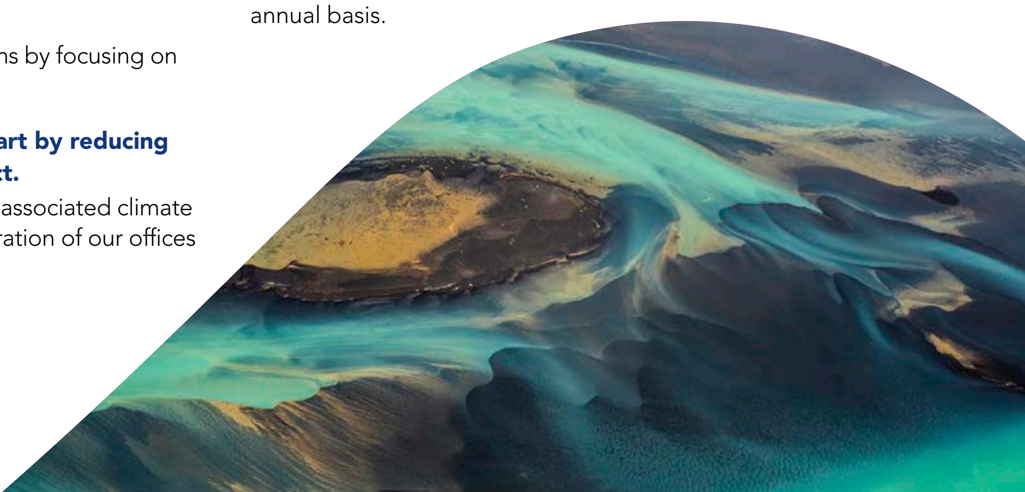
2. Advocacy

We believe that policymakers have a key role to play in influencing the investment risks and opportunities created by climate change. We recognise there may be situations in which companies are hampered in how fast they can transition their businesses to be Paris Agreement-aligned, because of either competitive disadvantage created by moving faster than peers, or other market-based barriers. We engage constructively with regulators and policymakers globally to address instances in which features of the financial system may prevent it from operating in the best interests of its ultimate asset owners and to ensure the development of policy and best practice to facilitate the transition to a net-zero carbon economy in order to reduce the systemic risks to assets we may invest in on behalf of our clients.

More information is available in the 'Advocacy' section of this report.

3. Reducing our financed emissions by encouraging our investee companies to create value by addressing climate opportunities and risks, setting credible and financially beneficial targets and transition plans validated by the latest climate science and taking a proactive and industry-specific approach which prioritises the highest emitting, misaligned companies.[8]

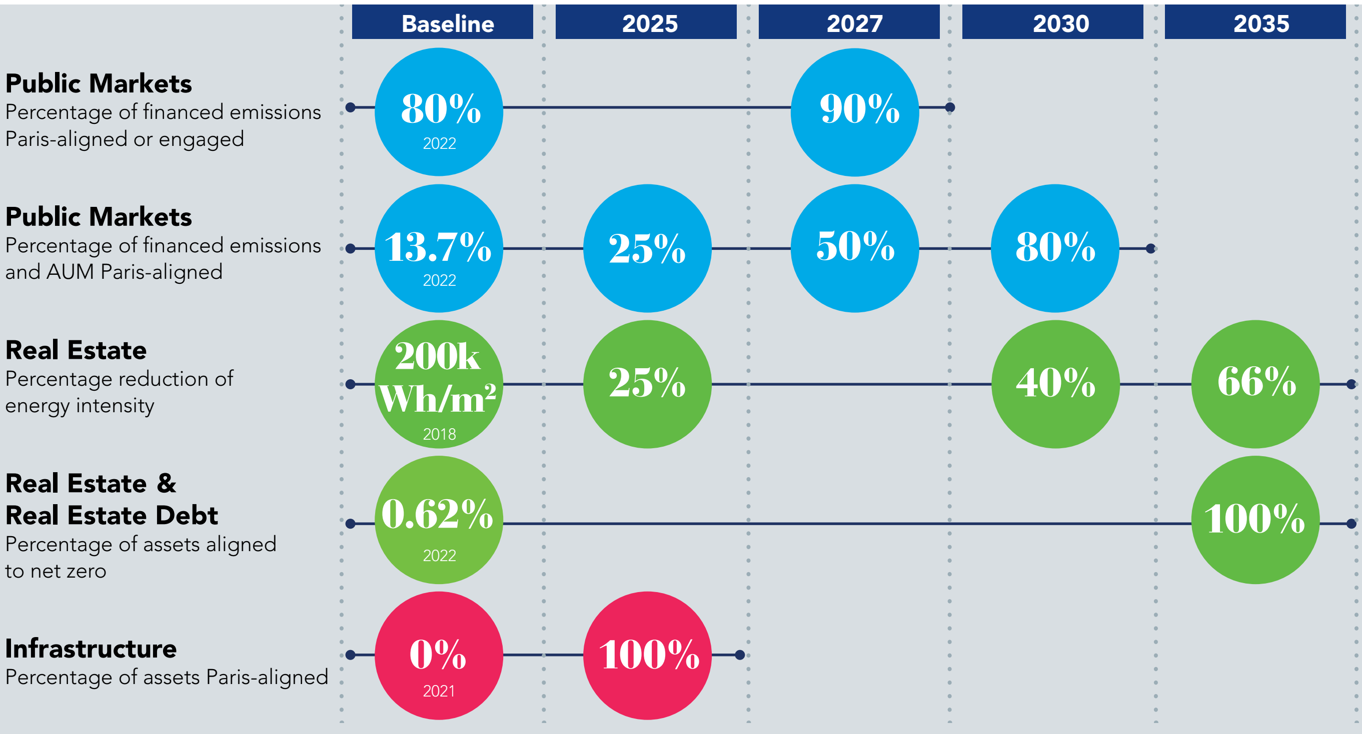
Federated Hermes has committed to achieving net zero by 2050 but we will try to get there sooner. Our financed emissions are part of our Scope 3 emissions. Our approach is focused on addressing climate-related risks and opportunities in the real economy. We have set targets for the proportion of our holdings that will be aligned with a 1.5°C trajectory; these will drive our engagement with portfolio companies to achieve reductions in greenhouse gas emissions at the company level and not just in our portfolios. We will modify or tailor our approach to engagement with companies on certain climate-related topics in line with local law and regulation in certain jurisdictions. We will continue to report progress on an annual basis.



[8] Where local law and applicable requirements allow.

As we strive to reduce our portfolio emissions, we have set the following interim milestones:[9]

Figure 4. Our interim targets across public and private markets



Source: Federated Hermes, as at 31 December 2024.

Our approach is driven by engagement with companies in order to drive change in the real economy and thereby create wealth for our clients and their investors.[10] We focus our engagement on behalf of clients on those companies where we have identified inadequate action which carries financial risk relating to the climate transition and to challenge them to accelerate their climate ambition. In doing this, we act to protect the financial interests of our clients and their investors and deliver long-term value for their stakeholders.

We acknowledge that our ability to meet the commitments set forth above depends on the mandates agreed with clients and our clients' regulatory environments as well as our own. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, and in the context of our legal duties to clients. Standardised methodologies for aligning the management of assets with net-zero goals do not yet exist in certain asset classes and sectors, and government-level climate commitments are currently not 1.5°C-aligned in many markets in which we invest. Therefore, where our ability to align our approach to investment with the goal of net-zero emissions by 2050 is constrained, we commit to work with clients and industry initiatives to seek to overcome any methodological and data limitations, as well as advocating for the policy ambition necessary to achieve net zero by 2050 globally.

Further information is included in the section on 'Our Investments – Strategy & Risk Management' in this report and in our Climate Action Plan.

4. Continuing to work on product innovation and increasing investment inflows into climate and nature-based solutions.

Investment levels in climate finance still remain considerably below what is needed to reach net zero by 2025, despite the additional funding commitments made by governments and businesses.[11] In parallel to our engagement efforts, we will continue to work on product innovation, on a client-led basis, as clients increase their focus on climate risk and, importantly, opportunity. We will also look to continue to increase investment inflows into climate and nature-based solutions between now and 2030. As such, at COP28 we announced our intention to work together with The Global Alliance for a Sustainable Planet ("GASP") and find new ways to collaborate on innovative investment solutions.

[9] While we hope to cover all asset classes over time, our interim target currently applies to all our assets under management except for private equity, direct lending, liquidity, sovereign debt, FX, cash, indices and, ABS, CLOs and CDOs issued by companies. Target dates refer to year-end.

[10] We adjust our approach in different jurisdictions to accommodate differences in local laws and regulation.

[11] World Economic Forum, "Just how big is the decarbonization investment opportunity?" (January 2024)

Biodiversity commitments

As a signatory of the Finance for Biodiversity Pledge[12] we committed to set biodiversity targets by the end of 2024. This has been a key focus of our Climate and Nature Working Group during 2023 and 2024.

In line with the Finance for Biodiversity Nature Target Setting Framework for Asset Managers and Asset Owners,[13] we set the following initiation targets:

Governance and strategy

We commit by the end of 2026:

- To create and disclose a clear governance structure for nature with senior oversight and specific accountabilities for nature-related issues.
- To provide adequate education and expertise for those with oversight and more broadly across the organisation, on nature and the implications of nature-related risks and opportunities for the organisation.
- To adopt TNFD recommendations in a phased approach, including embedding the insights into the governance, strategy, and risk management of the organisation; and
- To develop a transition plan for nature setting out biodiversity targets and plan for achieving them.

Impact and dependency assessment

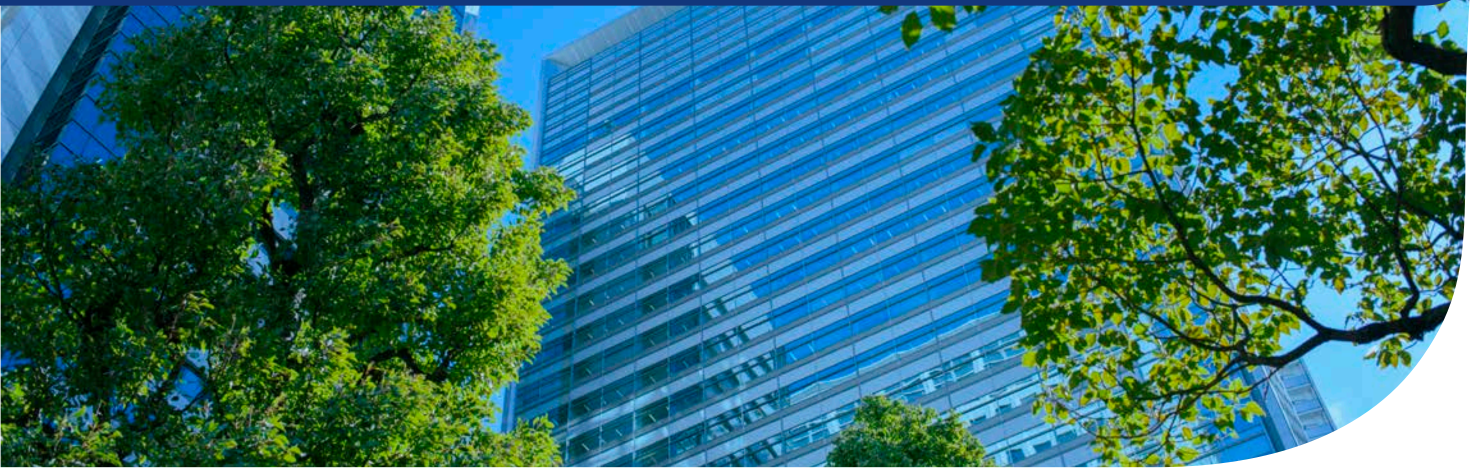
We commit by the end of 2026:

- To assess our public markets, infrastructure and real estate portfolios for nature-related impacts and dependencies, risks and opportunities and disclose our insights; and
- To determine priority sectors for engagement on biodiversity for applicable asset classes.

We have now met a number of these commitments. We have developed a clear governance structure for nature. We support colleagues to develop their understanding of how nature-related issues may affect investments through information-sharing and educational sessions. We have incorporated elements of the TNFD framework into this report, describing our approach to managing nature-related impacts, dependencies, risks and opportunities as an organisation. We will continue to enhance our disclosures over time. Work is ongoing to meet the remaining commitments. As set out in the 'Our Investments – Strategy & Risk Management' section, we have already undertaken work to assess nature-related impacts, dependencies, risks and opportunities for some of our investments, and we continue to enhance our approach.

[12] Finance for Biodiversity Foundation, "About the Pledge"
[13] Finance for Biodiversity Foundation, "Nature Target Setting Framework for Asset Managers and Asset Owners"

Corporate Strategy & Risk Management



The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning

Our Board members and senior management are aware of and are engaged with the growing importance of climate- and nature- related risks and opportunities to our business, strategy, and financial planning. As a business we understand that if left unchecked, they represent systemic risks to financial markets, the global economy, and our ability to create enduring, responsible wealth for our clients and their investors. Of particular concern is the risk that even if transition risk is managed within our portfolios of investments, unmanaged physical risk could still destroy value through business operation or supply chain interruption caused by factors outside the control of our investee companies.

For this reason, we understand we must look at the first and second order effects of climate change risk. We believe that it is part of our fiduciary duty to contribute to the conditions in which global efforts to limit warming to 1.5°C are successful and in which public and private investment to create resilient infrastructure and societies is delivered. Another driving factor is our policy and regulatory environment. Federated Hermes is headquartered in the UK, where the government has made a legally binding net-zero commitment and has committed to have the world's first net-zero financial centre. Federated Hermes made its own net-zero commitment and joined the Net Zero Asset Managers initiative in 2021.

Climate- and nature-related risks and opportunities impact our business in a number of ways, and our strategy for dealing with such risks and opportunities reflects the three lenses described earlier in this report: our role as a responsible firm, responsible investor, and responsible owner.

As highlighted in the section on climate- and nature-related risks and opportunities above, our business risks as a corporate entity notably relate to investment performance, changing client expectations, business reputation and operational risks.

In terms of physical risk, Federated Hermes has mitigation and emergency action plans for our real estate assets, in addition to our own buildings to ensure business continuity, and our key suppliers.

We recognise that as a responsible firm we must also seek to reduce our own operational emissions and have set targets accordingly. These targets and our progress towards meeting them are described later in this section. We also offset our Scopes 1 and 2 emissions and our corporate travel emissions.

Equally, there are also opportunities for us to support the transition, identify investment in climate and nature solutions, and meet changing client needs.

These risks and opportunities can therefore impact our business strategy and planning in a number of ways, for example developing new products (both in response to opportunities identified and to ensure that our product design appropriately factors in climate-related risks), our efforts to mitigate risks arising from our operational environmental impacts and our climate strategy for our existing investment products. All of the above may have impacts on financial planning, for example expected revenue generation from new products or the costs of increased headcount to support our climate engagement commitments.

Product development

Federated Hermes identifies opportunities to support the transition through product development. The Product Development Committee is responsible for developing new products and its members consider how desirable and suitable a product is from a commercial, customer and portfolio-management perspective. This includes looking at how a product is aligned with our responsible investment and ownership approach. During the product development process, the impact that potential strategies might have on our public commitments on net zero, deforestation and biodiversity is also considered, including whether additional resource is needed to ensure existing commitments can be achieved.

We launched a new private markets fund in 2024. This new fund holistically assesses environmental, governance and social factors, especially climate-related risks and opportunities. Aside from this, in 2024 our focus has been on our existing products and achieving our net-zero and engagement targets.

Impacts of risks and opportunities on our financial planning

Aside from the significance for our investment approach, and the products and services we provide to our clients, all of the above has implications for our financial planning. For example, climate-related risks and opportunities impact budget allocation, such as offsetting costs, climate data procurement and tool development and engagement headcount to support our net-zero commitments. It also informs our product development and ongoing product governance, for example ensuring that Federated Hermes is able to meet growing client interest in products that deliver a positive impact on the environment. Given the nature of our business, this is important for the financial performance and sustainability of our business as a whole, as well as the performance of individual products. We assess material risks – including any related to climate – and their potential financial impact to the company as part of our internal capital and risk assessment ("ICARA") process, which is undertaken at least annually.

Senior management also receives monthly updates on our corporate travel emissions as part of management information updates to ensure they are aware of emissions trends. Federated Hermes's annual report and financial statements include our Streamlined Energy and Carbon Reporting statement, describing our energy consumption and greenhouse gas emissions for the UK.

In terms of scenario analysis, the most material climate and nature-related risks and opportunities to our business are related to our investment activities for clients. Our analysis is therefore focused on our investment activities, as described under "Our Investments – Strategy & Risk Management", rather than the corporate entity itself.

Alignment across our business and with our third-party suppliers

Our governance structure has a role in ensuring that the individual legal entities that are subsidiaries of FHL, the governance bodies that it delegates to, and relevant teams, as well as the third parties that we outsource to, or that provide products or other services to Federated Hermes, are aligned with respect to climate- and nature-related issues.

One area of focus is how we select the third parties we work with at Federated Hermes. We endeavour to provide responsible supplier management across our full supply chain. This includes our annually reviewed Supplier Code of Conduct which considers the ESG credentials of our third-party suppliers and integrates environmental and social considerations within the supplier due diligence process. Our Supplier Code of Conduct contains the following expectations:

"We will only conduct business with suppliers who share our commitment to establish environmentally responsible business practices and proactively improve their own environmental performance. We expect our suppliers to:

- Comply with relevant environmental protection laws, regulations and recognised standards including those related to waste disposal, air emissions, plastics and pollution.
- Take steps to measure, report and minimise the environmental impact of their operations including greenhouse gas emissions, energy consumption, water use and waste generation and require their subcontractors and suppliers to do the same."

As a result of consolidating our supplier due diligence processes with our parent company, FHI, we also use suppliers which have been onboarded by FHI through a global agreement. In such cases, these suppliers would not be subject to the FHL Supplier Code of Conduct.

Climate- and nature-related considerations are particularly important for our selection of certain third-party suppliers. For instance, we use a number of external ESG data providers, as each data provider has developed their own methodology which can result in differing views and/or provide us with different aspects of the mosaic to holistically understand the risks and opportunities. More information is available below and in the 'Investment Risk Management' section.

The investment management services provided by HIML and HGPE implement our responsible investor and responsible owner strategy with the assistance and expertise of: (i) our Responsibility Office, which works closely with the investment teams to help them identify material environmental, social and governance issues specific to the investment manager's strategy; and (ii) the EOS team, which provides important information on engagement and stewardship with companies invested in or targeted by our portfolio management teams, are important enhancements to our investment process. The ability to execute that strategy is contingent on the data available to those teams.

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 ESG considerations, while ESG 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. These requirements include risk management, refurbishment and development, utilities measurement and reporting, ESG business plans, energy management, water management, waste management, transport, procurement and supply chain, environmental risk and management, occupier engagement and quarterly monitoring of progress against targets.

Our private equity team form close relationships with the GPs they back, often initially via a co-investment relationship. This gives us valuable insight into the experience of the team and how value is created.

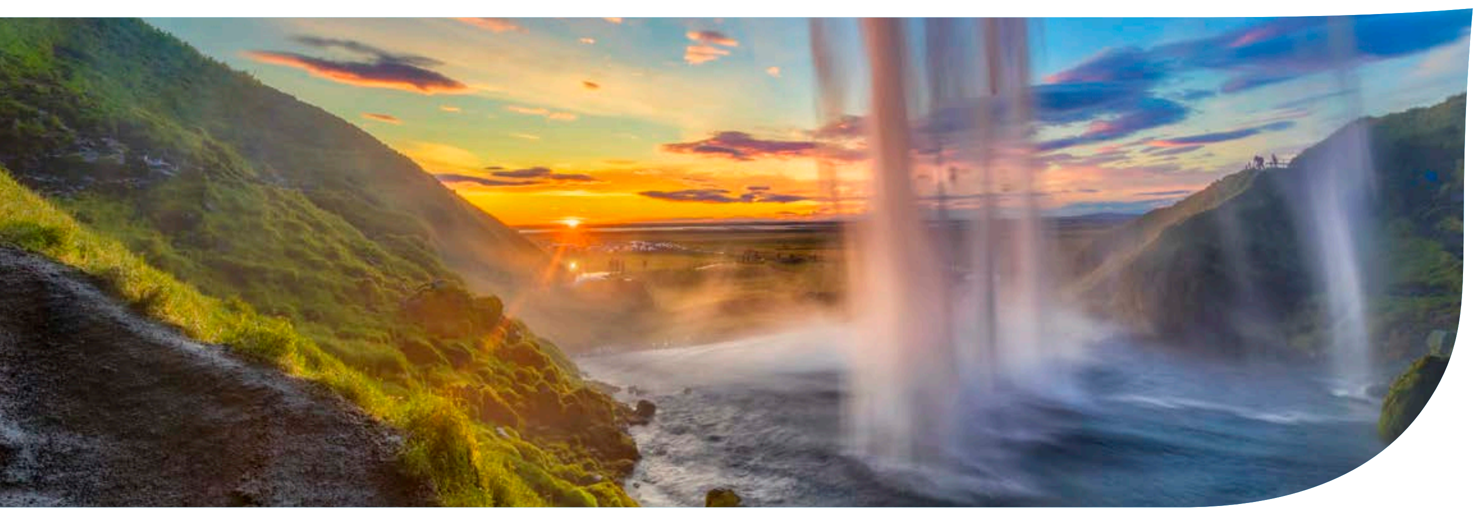
> **Our private equity team takes a risk-based approach to effectively identify, monitor, and manage ESG risks, opportunities and impacts identified across its portfolio.**

ESG risk assessments are conducted on lead GPs for all new co-investments and fund investments. The private equity team considers the ESG 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 PRI recommendations. The assessment of managers capabilities is included in the Investment Committee papers and contributes to the investment decision. They seek to improve and protect the financial value of investments through assessing, monitoring, and seeking improvements to material ESG risk areas. Our private equity team takes a risk-based approach to effectively identify, monitor, and manage ESG risks, opportunities and impacts identified across its portfolio. For direct co-investments, they receive quarterly reports from the GP that include both financial information and qualitative data. These reports often contain ESG information. In addition to this, they often have a quarterly call with the GP where they discuss the reports and any other topics they wish to raise. For fund investments they also receive quarterly reports and are invited to participate in AGMs. In a minority of cases, they are part of the limited partner advisory committee ("LPAC") and hence part of the fund's governance structure. They can raise issues with managers in those forums or bilaterally.

Risk management function

The Risk team plays a critical role in providing independent oversight of sustainability risks across the firm. It ensures that such risks are systematically identified, assessed, managed, and reported on, to safeguard our sustainability and reputation. Key activities include:

- Risk identification: The Risk team actively works to identify and assesses sustainability risks that we may be exposed to. This involves analysing a number of different factors, such as changes in sustainability regulation, climate change impacts, emerging sustainability developments, scenarios that could adversely impact our social licence to operate, alignment of our third parties to the values of our firm and broad stakeholder expectations.



- **Risk prioritisation**: The Risk team helps prioritise sustainability risk assurance based on their potential impact on our firm and clients and the probability of occurrence. We assess material risks – including any related to climate – and their potential financial impact on us as part of our internal capital and risk assessment ("ICARA").
- **Risk mitigation**: The Risk team collaborates with relevant business stakeholders to ensure that risk mitigation and controls are implemented and that mitigation efforts are aligned to our sustainability objectives.
- **ESG integration in the Risk Management Framework**: The Risk team continues to integrate sustainability considerations within the risk management framework, risk policies and processes. In doing so, the Risk team ensures ESG risks are adequately identified, measured, managed and reported on in the same manner as other business risks. Sustainability risk is integrated within the existing risk management framework to enable the business to identify and manage material ESG risks across our value chain. Our Risk Taxonomy lays out the risk landscape in a hierarchical structure with established risk categories (e.g., regulatory conduct, investment risk, operational risks etc). As sustainability risk spans the entire landscape, it is embedded accordingly across it and forms part of regular risk reporting to the Risk, Compliance and Financial Crime Committee and subsidiary boards where appropriate.
- **Risk monitoring and reporting**: The Risk team has established mechanisms to monitor sustainability risks on an ongoing basis. The Risk team regularly reports risk issues to senior management and risk governance forums. Furthermore, the Risk team continues to provide independent oversight on the progress made delivering both internal and external sustainability commitments and that the processes implemented to comply with sustainability regulation remain effective.
- **Stakeholder engagement**: The Risk team actively engages with internal and external stakeholders to understand and monitor changing sustainability expectations, trends and concerns. This includes close collaboration with the Responsibility Office, investment teams, data governance, and external parties to gather insights on best practice, emerging sustainability issues and evolving industry standards.

Development over 2025 and beyond

To ensure the business continues to measure, monitor, manage and mitigate the risks from climate change in line with risk appetite statements, key risk indictors at the corporate entity level were set in 2024, as part of risk appetite development. Furthermore, as part of our transition to the Investment Firm Prudential Regime, sustainability and reputational risk formed a key risk and harm scenario in our calculation for regulatory capital adequacy assessments.

Looking ahead to 2025, the Risk team will continue to assess the physical risks of climate change as part of our continued enhancement of our business continuity programme and wider work on operational resilience. With smaller operations in jurisdictions such as Singapore, Japan and Australia we are also cognisant of the growing threat of climate physical risks in these regions.

Sustainability-related standards and regulation

Our horizon scanning for developing regulation and maintenance of a pipeline of regulation includes sustainability- and climate-related regulation. This ensures that activities to comply with requirements are implemented and coordinated across the business.

Managing corporate environmental impacts

Federated Hermes addresses its operational environmental impacts as a responsible firm via its Environmental Management System ("EMS") group, which is run by the Facilities Management Team and is the prescribed file management structure in accordance with the internationally recognised ISO14001 accreditation. The team works with a specialist third-party consultant to set and deliver our environmental goals and improve our sustainability in relation to our operations. EMS actively promotes sustainability in the office by educating and encouraging staff to reduce our environmental impact.

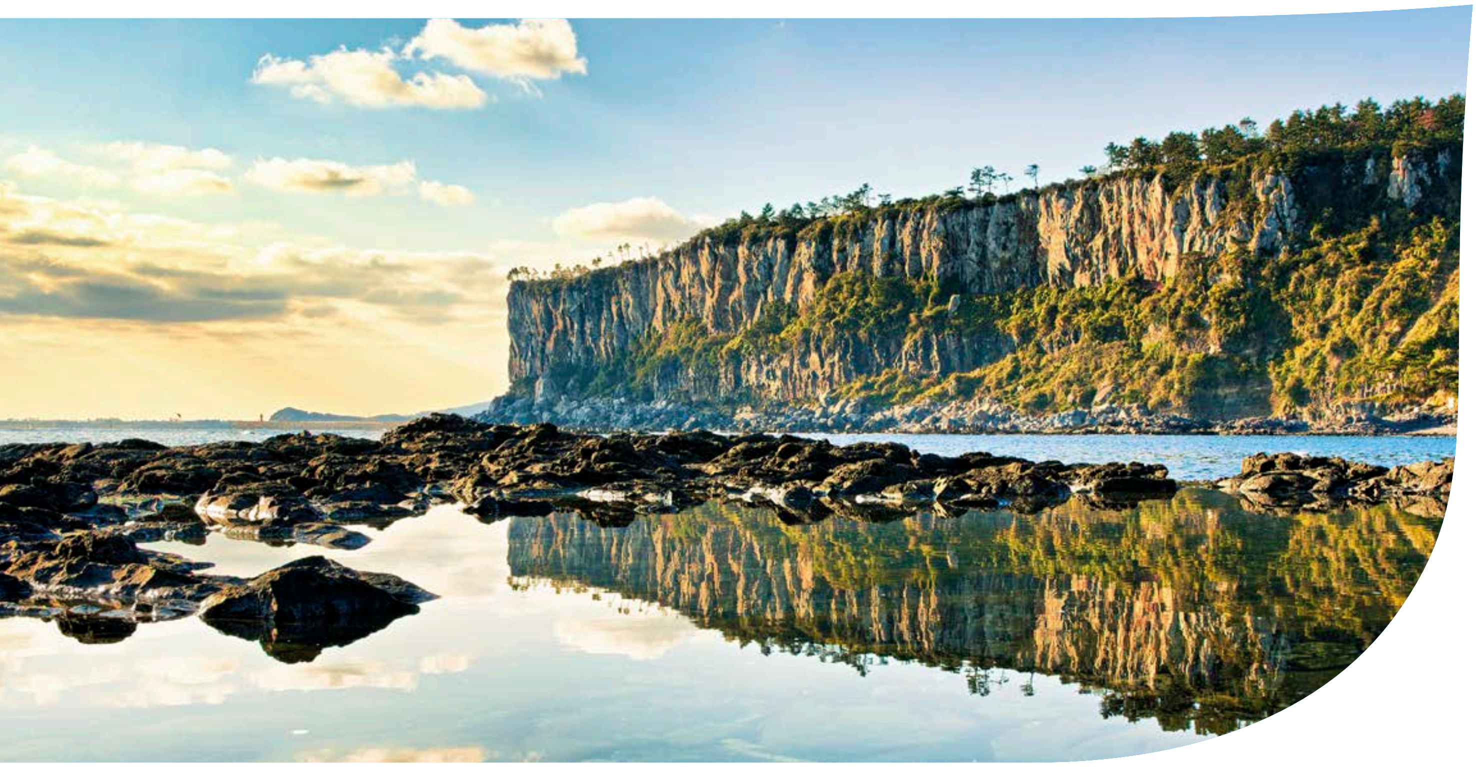
The system we use to measure and manage the impact at our head office in London is ISO14001: an internationally accepted standard demonstrating an organisation's commitment to continual improvement of their environmental management system. Federated Hermes first achieved this certification in 2010.

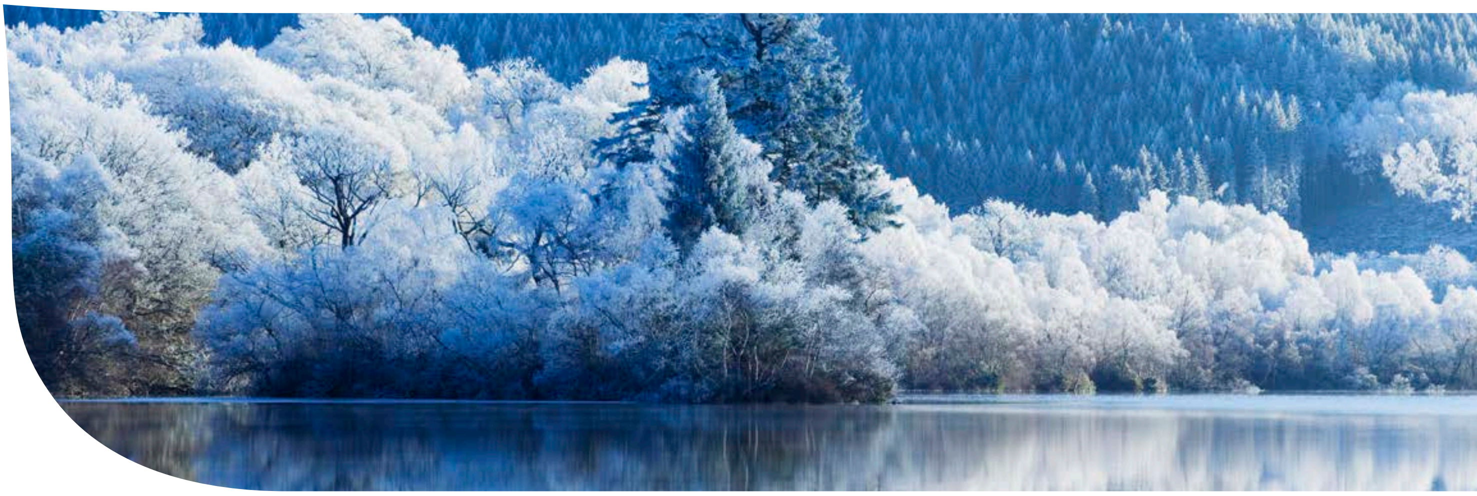
Under the EMS we had four strategic objectives in 2024:

	Strategic Objectives for 2024	Measure of Success	Result
1	**Achieve a successful ISO14001 surveillance audit for the EMS at 150 Cheapside.**	Uphold certification to ISO14001 following surveillance audits scheduled for 2024 and 2025.	• Achieved – A successful surveillance audit was undertaken with no non-conformities registered.
2	**Compliance with regulatory schemes.**	Submit SECR (Streamlined Energy and Carbon Reporting) and ESOS (Energy Savings Opportunity Scheme) disclosures. SECR requires these companies to report their annual energy use and greenhouse gas emissions, promoting transparency and encouraging environmental impact reduction. ESOS mandates energy audits every four years to identify cost-effective energy-saving measures, helping businesses improve energy efficiency and save money. Both schemes aim to support the UK's efforts in reducing carbon emissions and enhancing energy efficiency. Make a public disclosure within the annual directors' report of energy use and carbon emissions. Report using a relative intensity metric e.g., tCO_2/ number of employees. Provide a narrative on energy efficiency actions taken during the reporting period.	• Achieved – Federated Hermes Ltd. (FHL) has successfully submitted both the SECR and the ESOS disclosures. This achievement underscores our commitment to regulatory compliance and sustainability. To maintain this high standard, FHL continues to collaborate closely with key stakeholders within the business and external consultants. These partnerships are essential in ensuring that all regulatory schemes, including SECR and ESOS reporting, are completed accurately and in a timely manner. By engaging with internal teams and leveraging the expertise of external consultants, FHL is able to implement best practices in energy management and carbon reduction. This collaborative approach not only ensures compliance but also drives continuous improvement in our sustainability efforts. Our proactive stance in regulatory compliance highlights our dedication to environmental responsibility and operational excellence. Through meticulous planning and coordination, we strive to exceed regulatory standards, thereby contributing to a more sustainable future.
3	**Socialise the travel policy and drive engagement.**	Communications to stakeholders.	• Achieved – New Federated Hermes travel policy was socialised with the wider business. Content was shared digitally and through a hybrid lunch and learn event hosted at the FHL Cheapside head office.
4	**EMS Group contribution.**	Involvement in and support of the EMS group to be included in all Group members' personal objectives for 2024.	• Achieved – Environmental objectives were included in all EMS committee members' online learning objectives for 2024.

In addition to the four strategic objectives, the EMS had four performance objectives in 2024:

	Performance Objectives for 2024	Measure of Success	Result
1	**Reduce FHL's operational electricity consumption for its occupied space at 150 Cheapside by 5% per full time equivalent ("FTE") in 2023 compared to 2019.** **(2019 selected due to atypical consumption year in 2020)**	Reduced electricity consumption at 150 Cheapside per FTE.	Achieved – FHL has continued to reduce electrical consumption per FTE year-on-year versus our 2019 baseline, with an additional saving of 11.76% saved in 2024.
2	**Reduce waste to <400kg per FTE / year.**	Improved recycling rates and decreasing total waste amounts.	Achieved – FHL continues to make yearly positive progress on waste reduction versus our 2019 baseline. We have reduced waste by 59.52% per FTE since 2019.
3	**Maintain recycling rate >70%.**	Increase percentage of overall waste recycled.	Not Achieved – FHL has fallen short of its target. We are exploring new recycling waste streams as part of our objectives for 2025 and hope to increase our recycling rate.
4	**Monitor usage of flights emissions and analyse implementation of travel hierarchy.**	Continual monitoring and reporting of business travel activities and emissions.	Achieved – Federated Hermes has updated and publicised a new corporate travel policy to all colleagues. Working closely with our travel service providers, emissions data continues to flow into our ISO 14001 systems where it is tracked and reported on a quarterly basis.





Corporate travel policy

As part of our travel policy, we continue to request that employees considering business travel on behalf of the firm should undertake the following avoid-reduce-mitigate hierarchy assessment:

- **Avoid:** Consider whether the objective the journey seeks to fulfil can be achieved through other means, for example using audio-visual conferencing facilities, telephone or email.
- **Reduce:** If the journey is necessary, consider whether it can be combined with other upcoming meetings or site visits.
- **Mitigate:** Where travel cannot be avoided, we will mitigate through offsetting our carbon emissions, as we currently do.

A global consolidated travel policy is currently being developed and is expected to be rolled-out in 2025. This will build on existing guidance to employees to consider carbon efficiency, prioritise essential travel only and considering alternatives to air travel.

Corporate emissions target

Our operational emissions target is reviewed annually and is based on data captured in the Federated Hermes ISO 14001: Environmental Management System (EMS). The 2019 baseline for our target was:

- Absolute total emissions: Scope 1 – 1.13 tCO_2e; Scope 2 – 202.1 tCO_2e
- Emissions intensity (Scope 1 & 2): 0.44 tCO_2e/FTE[12]

We are targeting a further reduction in our energy intensity (based on our operational emissions per FTE) of 25% by 2030 relative to the 2019 baseline.

In quantifying our Scope 1 & 2 emissions, we have followed the guidance set out within the Greenhouse Gas Reporting Protocol[15] and primarily reported our emissions as 'location-based', whilst also working with our landlords to ensure electricity is sourced whenever possible through a 100% renewable energy tariff. Where this is the case, we have also reported energy procured and consumed through a 100% renewable energy tariff as a market-based emission.

Location-based reporting calculates emissions based on the average emissions intensity of the power grid the company is physically connected to. Market-based reporting reflects emissions from the specific electricity the company purchases.[16]

Our 2024 Scope 1 & 2 greenhouse gas (GHG) emissions from all of our offices are as follows:

- Location-based emissions: 164.15 tCO_2e
- Market-based emissions: 62.99 tCO_2e
- Scope 1 & 2 emissions intensity (location-based): 0.26 tCO_2e/FTE[17]

Each year we target further reduction of our operational GHG emissions (based on a headcount intensity metric of Scope 1 & 2 CO_2e/FTE).[18]

As at 31 December 2024, we have reduced our emissions intensity by 23.18% compared to the 2019 baseline. We are therefore on track to meet our target to reduce our energy intensity (based on our operational emissions per FTE) of 25% by 2030, relative to the 2019 baseline.

[14] Energy intensity for our offices is calculated by dividing energy consumption by the number of FTEs. This is calculated on a monthly basis and averaged over the year. Full-time equivalent (FTE) figures include temporary staff. Part time employee headcount is pro-rated based on the number of days worked. Employees on parental leave or long-term sick leave, consultants, non-executive directors, and visitors such as auditors are not included.

[15] Greenhouse Gas Protocol, "Corporate Standard"

[16] Greenhouse Gas Protocol, "Scope 2 Guidance"

[17] Energy intensity for our offices is calculated by dividing energy consumption by the number of FTEs. This is calculated on a monthly basis and averaged over the year.

[18] There are differences between the FTE figures used in our calculations in previous reports and the figures used in our calculations in this report. This is due to the figures being updated to align with our methodology which uses a two-point average of the start of year and the end of year.

Reduction in our emissions intensity will result both from energy efficiency measures and grid decarbonisation and we have committed to track progress against our targets, including FTEs, from our regional and international offices. Our emissions reporting at these offices includes both actual and estimated energy data.

Our 2019 intensity metric included electricity and gas consumption for 150 Cheapside (London) and our office in Madrid. We committed to track progress against our target including FTEs from our other offices and estimations for gas and electricity consumption in these additional offices.[19] Therefore, our reporting on progress towards our target for 2024 includes reported or estimated emissions and headcount data for all of our offices.[20] 77% of the above emissions figures are based on directly metered energy consumption, with 13% being benchmarked and 10% being apportioned based on the percentage of the buildings that Federated Hermes occupy.

Whilst our 2019 intensity metric included electricity and gas consumption for 150 Cheapside (London) and our office in Madrid, with full-time equivalent (FTE) employee headcount, our understanding of the trends in our emissions has continued to develop as the business has grown. This has led us to a plan for additional intensity metrics based upon floor area and outside temperature, allowing better comparison between offices and separately providing a method to evaluate heating and cooling emissions. This is with the aim of identifying trends in energy performance in the future to look for new reduction opportunities. We will continue to work with our external environmental consultants, combined with our internal knowledge base to maximise efficiency gains and ensure that the targets remain fit for purpose.

We had previously set and worked towards a corporate travel emission reduction target. Due to the evolving needs of the business, Federated Hermes will no longer be working towards this target.

Operational environmental metrics[21]

Energy usage

All emissions reported in this section are location-based emissions.

Our London office at 150 Cheapside is the largest office of Federated Hermes and has achieved a 31.26% reduction in emissions based on electricity consumption compared with the 2019 baseline, consuming 101.16tCO_2e in 2024.

Heating at 150 Cheapside is supplied by our landlord from gas boilers and the consumption is apportioned to Federated Hermes based upon the percentage of the building that is occupied by Federated Hermes. We occupied 23% of the building in 2019 & 2020 and 27% from 2021. The chart below shows absolute CO_2e emissions for heating rising in 2021 when the office expanded, and then falling by 9.13% in 2024 compared to 2021. We will continue to work with our landlord to ensure that controls are optimally set for our own office space to limit emissions from heating.

Overall, we have achieved a 28.99% reduction in emissions based on our energy – electricity and gas – consumption compared with the 2019 baseline, consuming 107.62 tCO_2e in 2024.

[19] Federated Hermes has used the main requirements of the GHG Protocol Corporate Standard (revised edition) as a basis to report operational emissions. Data was gathered at site level and UK Government Conversion Factors for GHG Company Reporting, The European Environment Agency and the Australian Government have been used to convert activity data into tCO_2e emissions.For measuring progress against our targets, actual data will be prioritised, however in instances where this is not available, consumption data will be estimated by apportioning based upon floor area or by comparison with industry benchmarks.

[20] For 2024, we report our non-UK offices under Scope 2 emissions.

[21] A restructured and improved process for data collection and alignment has allowed for a new evaluation of our data and some historic figures, including baseline data have been updated.

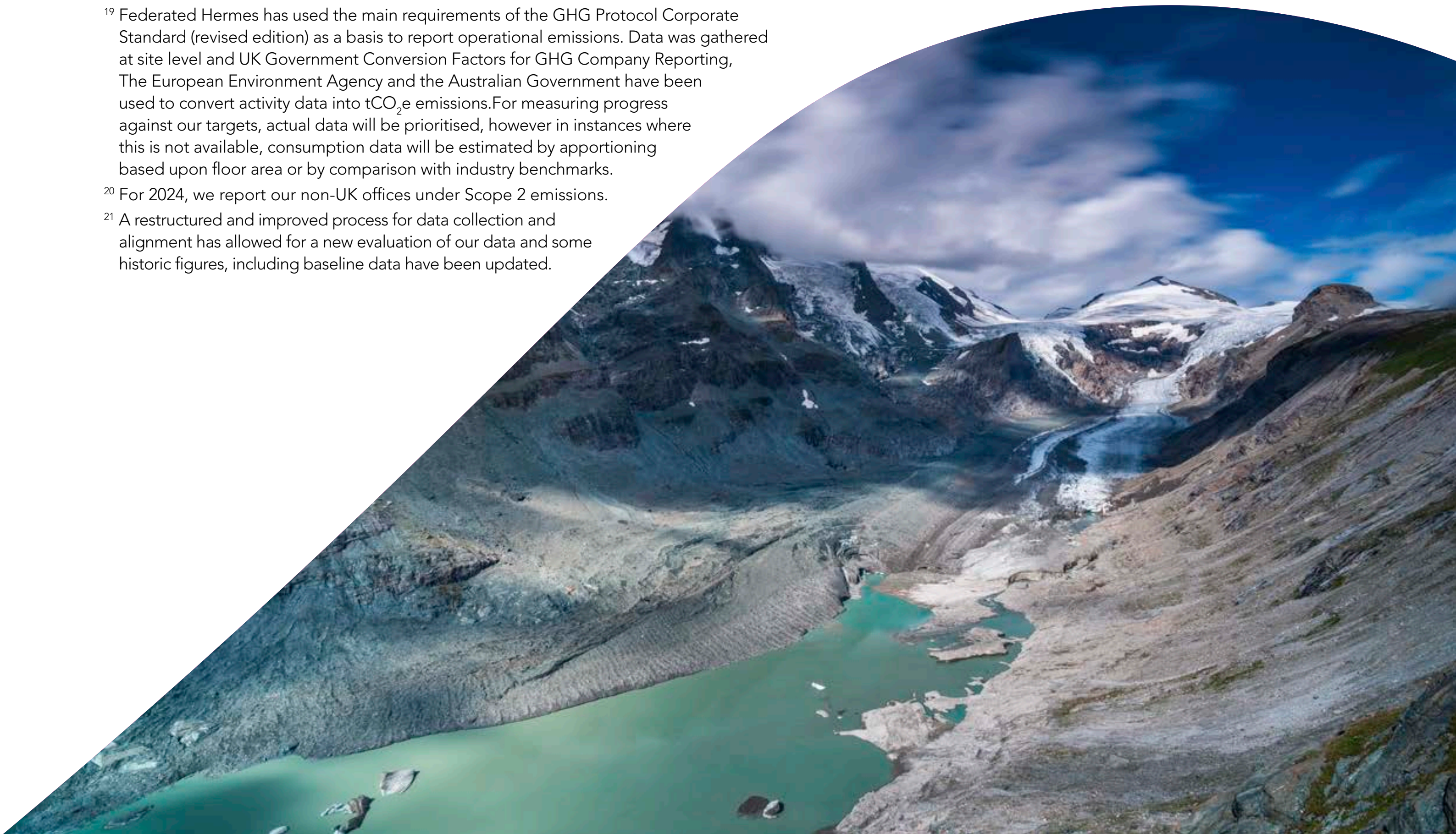
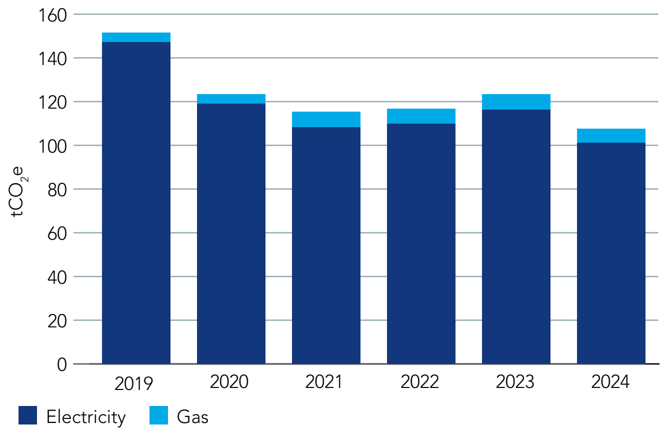


Figure 5. Breakdown of emissions based on electricity and gas consumption (tCO_2e) at 150 Cheapside office (2019-2024)



Source: Federated Hermes, Knight Frank as at 31 December 2024.

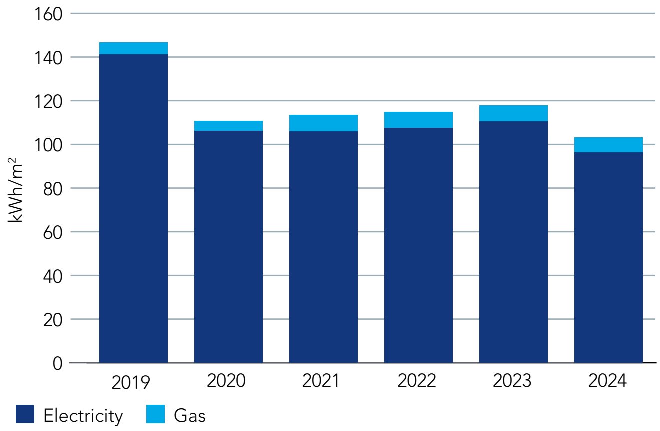
We continue to report the total absolute Scope 1 and 2 building emissions across all of our offices. The Scope 1 and 2 building emissions from all of our offices in 2024 was 164.15 tCO_2e, a 1.34% decrease on the previous year.

We have also achieved a 36.32% reduction in kWh/FTE at 150 Cheapside compared with the 2019 baseline, reporting 826.52 kWh/FTE in 2024. Electricity consumption at the 150 Cheapside office is within the direct control of Federated Hermes and the reduction in energy consumption per FTE is a result of multiple factors in energy efficiency improvements, such as improvements to lighting and improved control.

Our Scope 1 and 2 energy consumption from our offices in 2024 was 1,132.42kWh per FTE, a 14.08% decrease on our 2019 baseline.

Of this energy consumption, 77% in 2024 has been directly metered, with 13% being benchmarked and 10% being apportioned based on the percentage of the buildings that Federated Hermes occupy.

Figure 6. Energy (electricity and gas) kWh/m2 at 150 Cheapside (2019-2024)

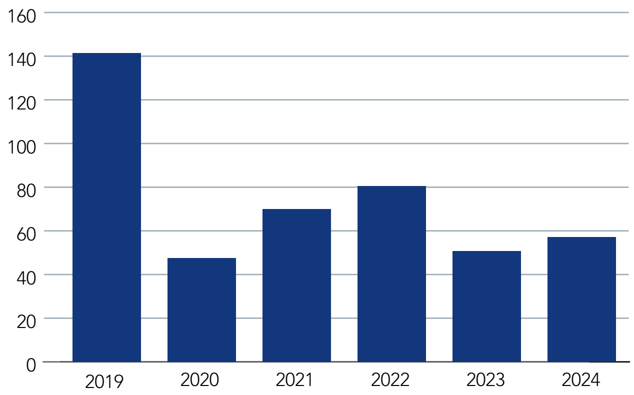


Source: Federated Hermes, Knight Frank as at 31 December 2024.

This year, we also report on our energy consumption by office floor area for the 150 Cheapside office. For 2024, we report 103.20 kWh/m^2 in terms of consumption. This is a 29.64% reduction on the 2019 baseline year, for which we report consuming 146.68 kWh/m^2. The inclusion of the metric allows for a consistent method to compare performance across different buildings, which will help to inform our decision making.

Waste[22]

Figure 7. Total waste kg/FTE at 150 Cheapside (2019-2024)



Source: Federated Hermes, Knight Frank as at 31 December 2024.

As a result of our waste management practices at 150 Cheapside, a reduction in waste volumes has been achieved, both for the total waste and the quantity of waste per FTE. In 2024, a 59.62% reduction was seen in waste compared to the 2019 baseline with 57.22kg of waste/FTE being reported. In 2025, we plan to further advance waste management as part of our EMS and improvements to the monitoring and measurement of waste are being explored.

Travel emissions metrics

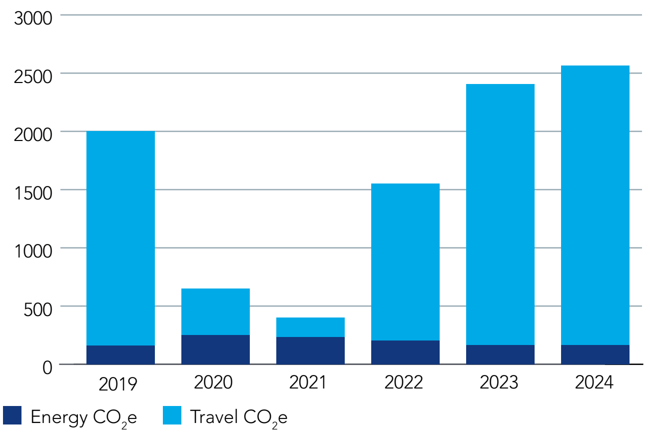
One of the key risks identified by EMS and the CNWG in relation to climate is company risk from operational emissions, notably travel emissions.

We report emissions for corporate travel by rail and air. Our 2019 baseline was 3.79 tCO_2e/FTE.[23] In 2024, our per capita emissions from business-related travel were 3.74 tCO_2e/FTE showing a 1.13% increase from the 2019 baseline and as anticipated, absolute CO_2e has risen, showing an 30.40% increase as the business grew and entered a period of increased activity. In 2024, our absolute corporate travel emissions were 2,399.30 tCO_2e. As well as including our reported emissions for corporate travel by rail and air, we have also included estimated travel emissions based on a per capita average for those colleagues for whom we do not have travel data. We describe earlier in relation to our Travel Policy how we are seeking to identify opportunities to reduce travel emissions in the future.

We will continue to monitor our travel emissions by working with our travel provider to identify opportunities whilst still facilitating effective business operations. These opportunities include further changes to the travel policy and further use of technology. As well as measuring its GHG emissions, Federated Hermes aims to offset its Scope 1 and Scope 2 emissions and corporate air and rail travel emissions.

Travel & operational emissions metrics

Figure 8. Building and travel emissions (tCO_2e) (2019-2024)



Source: Federated Hermes, Knight Frank and Reed & Mackay as at 31 December 2024.

We continue to report our combined building and travel emissions and in 2024 we reported 2563.45 tCO_2e emissions from all of our offices and corporate travel – a 28.04% increase in our emissions in 2019. Please see above for information on reported versus estimated data. The historical data in Figure 8 above, including the baseline year, has been re-evaluated as a result of the restructured and improved process for data collection. We have worked with our environmental consultants to revise the historical data to align as closely as possible with the principles of the Greenhouse Gas Reporting protocol.

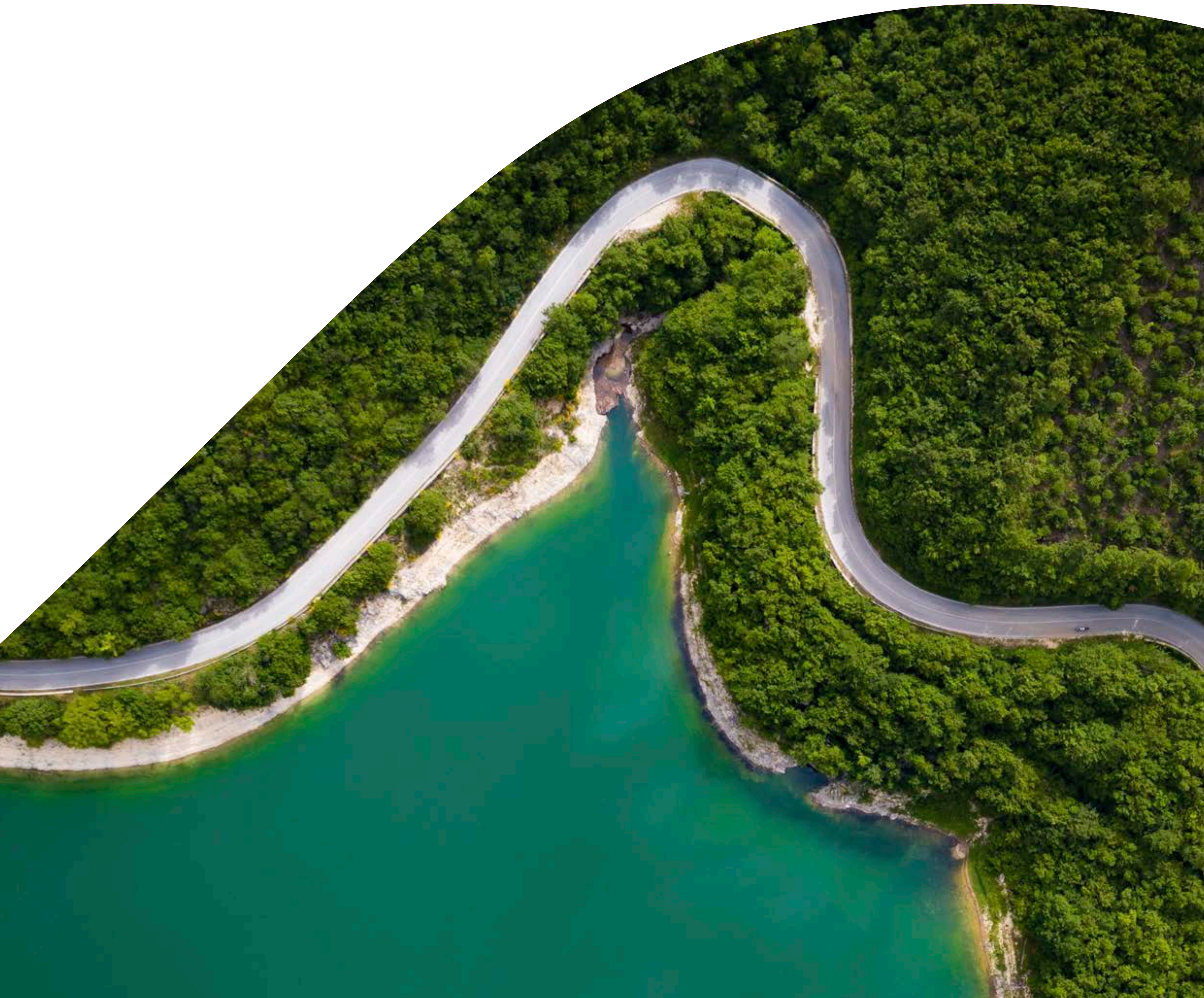
[22] Energy and travel data relate to all offices. Waste relates to only general and dry/mixed recycling at 150 Cheapside, London.

[23] Due to the aforementioned restructured and improved process for data collection and alignment that has allowed for a new evaluation of our data and some historic figures, this baseline figure has been updated.

Offsetting

In calculating our 2024 offsets, we have included reported or estimated emissions for all of our offices, including those outside of the UK. As with the reporting of our operational emissions, we use a location-based methodology to calculate the operational emissions for our offsetting, meaning that we calculate the total using grid intensity and do not factor in that our landlord purchases renewable data for our head office. We have also included reported air and rail travel emissions for Federated Hermes employees.

We work with external partners to acknowledge and address the impact of our unavoidable emissions through use of carbon offsets. Our 2024 operational and travel emissions totalled 2,563 tCO_2e and, at time of reporting, we are in the process of securing an external partner to assist in the offsetting of these emissions.



Advocacy

We believe that policymakers have a key role to play in determining the investment risks and opportunities relating to climate change and nature. We engage constructively with regulators and policymakers globally to address environmental, social and other market issues that may prevent the financial system from operating in the best interests of its ultimate asset owners. We often engage directly with regulators and policymakers and aim to be a progressive and constructive voice in the debate. We engage on regulation relating to he investment industry and the assets in which we invest. We contribute to policy discussions both directly and collaboratively. We further advance our engagement activities through both our leading role in global initiatives and membership in various trade associations, which are focused on promoting responsible investment.

We have a dedicated advocacy team within our Responsibility Office. EOS also has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard setters to help shape capital markets. 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.

We are a member of many industry bodies and initiatives around the world and are co-founders of a number 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 and nature. Colleagues from across the business – including the Responsibility Office, EOS, Risk and the investment teams – take on advisory roles in many organisations to share our practical expertise.

Under 'Our Investments – Strategy & Risk Management' section, we set out our risk identification and prioritisation process, which also influences our advocacy priorities.

Climate

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.

Nature

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,[1] and over thirty financial institutions including Federated Hermes committed to seek to eliminate agricultural commodity-driven deforestation from their portfolios.[2] We recognise the importance of policy change from governments to drive 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.[3] 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[4] 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.

[1] GOV.UK, "Over 100 leaders make landmark pledge to end deforestation at COP26" (November 2021)
[2] Global Canopy, "Thirty financial institutions commit to tackle deforestation" (November 2021)
[3] Finance for Biodiversity, "Aligning Financial flows with the Global Biodiversity Framework: Translating Ambition into Implementation" (April 2024)
[4] Finance for Biodiversity, "FFB Foundation urges world leaders to implement concrete actions to align financial flows with the GBF ahead of COP16" (October 2024)

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.

However, COP16 concluded without an agreement on a resource mobilisation strategy, which relates to the financing of nature and biodiversity, or a monitoring framework for assessing implementation of the GBF. These critical elements were further discussed at a reconvened meeting in Rome in February 2025. We attended the negotiations as representatives of the Finance for Biodiversity Foundation and were pleased to see the agreement on the Resource Mobilisation Strategy of the GBF and the indicators for its Monitoring Framework.

COP16 resulted in progress on Digital Sequencing Information, with the formation of the Cali Fund to recognise the value of nature for scientific research.

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.

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.

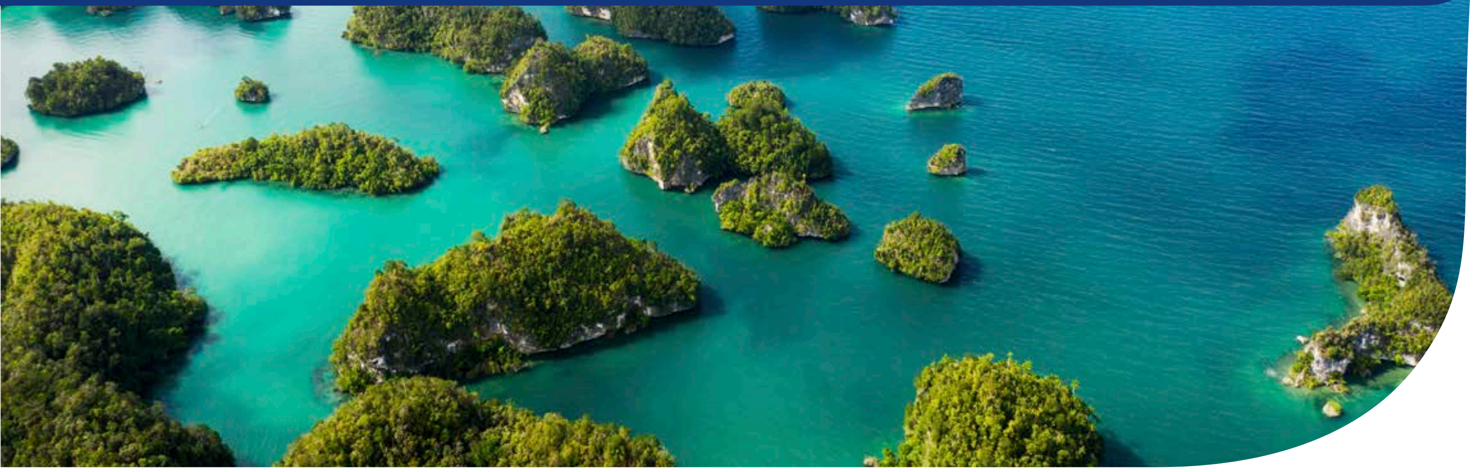
Disclosure Standards: In recognition of the need for better disclosure frameworks on nature-related issues, including deforestation, we are part of the Taskforce on Nature-related Financial Disclosures (TNFD) Forum and have provided feedback on the draft recommendations. This complements our engagement 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.[5]

In 2024 we responded to three TNFD sector guidance consultations for food and agriculture, beverage, and apparel, accessories and footwear.

[5] TNFD, "TNFD Early Adopters" (January 2024)

Our investments – Strategy & Risk Management



As a responsible owner and investor, the way we engage and invest is key to our climate approach. On a day-to-day basis the management of risks and opportunities that arise from the transition to a resilient, net-zero and nature positive economy is led by our investment, engagement and advocacy teams with this work supported and coordinated by the Responsibility Office and the Climate and Nature Working Group. All investment strategies in scope of this report incorporate consideration of climate-related risks and opportunities. As described later in this report, the implementation approach is tailored to each asset class, and some of our strategies layer additional approaches on top of this.

Our assessment of, and response to, the systemic risk of climate change spans our top-down investment risk analysis, our asset-level analysis and our engagement activities. We integrate consideration of climate-related risks across all investment strategies in scope of this report. Through our advocacy and engagement work we seek to play our part in mitigating climate risk at both a systemic and asset level.

In this section we describe how we identify, assess, monitor, and manage climate-related risks, and how this is integrated into our overall investment risk management processes.

We also describe how we are developing our approach to identifying, assessing, monitoring, and managing nature-related impacts, dependencies, risks and opportunities.

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

Investment risk management

Risk prioritisation

We consider all material investment factors, including risks and opportunities related to climate change and nature. A risk is considered material if it ultimately impacts the financial performance of an investment. While the most pressing material risks are those that will crystallise in the short term, we strive to deliver enduring, responsible wealth creation for our investors. Our definition of materiality takes into account our clients' time horizons and may therefore be wider than others. With regards to climate risk, our investment teams analyse the potential impacts on investments in the short, medium, and long term to identify material risks and opportunities. Understanding climate risk and opportunities (in particular for companies in carbon intensive sectors or sectors that provide solutions) is therefore a key part of our investment analysis.

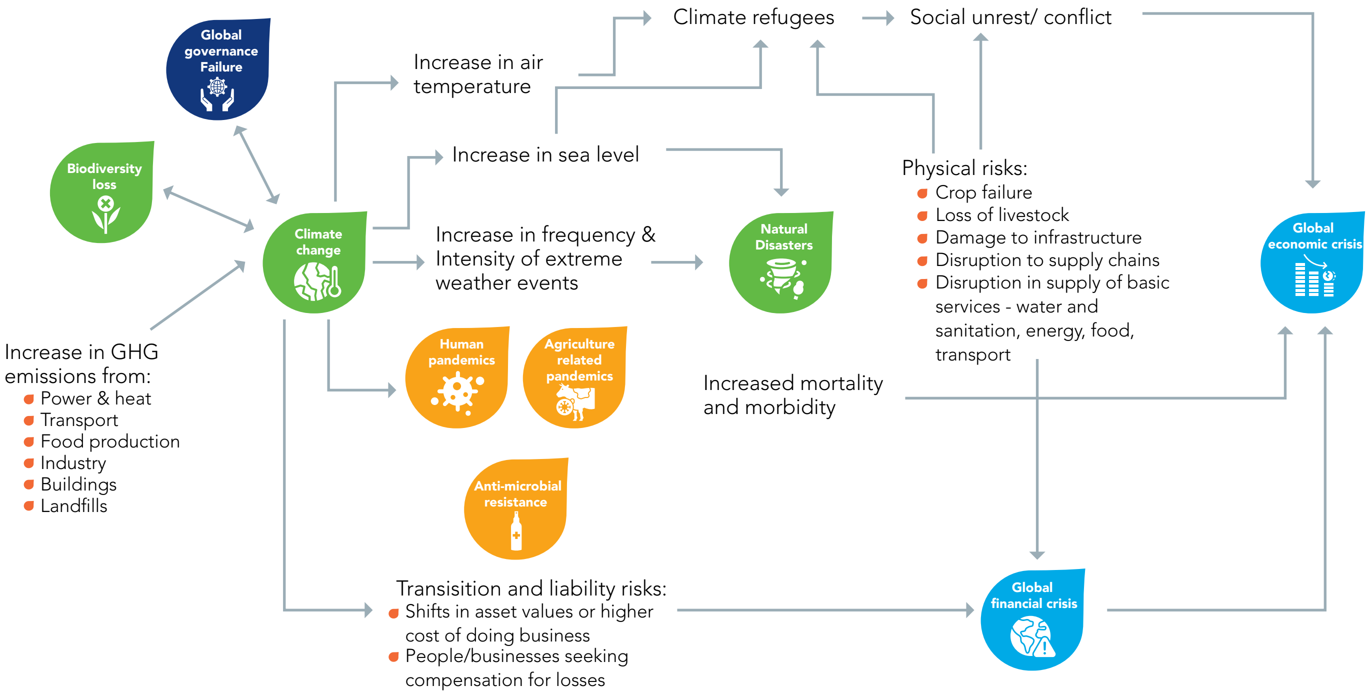
The systemic nature of the risks posed by climate change and nature degradation require a tailored approach to risk identification and mitigation. To truly address risks, multilateral action will be required to provide solutions. Asset managers, alongside other stakeholders, must play a role in mitigating these systemic risks to ensure a well-functioning financial system, which is key to our being able to generate enduring, responsible wealth for our clients.

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. The key climate- and nature-related risks we take into consideration across our investment risk, engagement and advocacy work are informed by the latest research from the World Economic Forum Global Risks Report and academic research.[1]

[1] World Economic Forum, "Global Risks Report 2025" (January 2025)

The figure below illustrates the interconnectedness of climate change action, one of our top engagement and advocacy themes, with a range of other issues.

Figure 9. Cambridge University diagram of the cascading effects between systemic risks



Source: University of Cambridge and Citi GPS Systemic Risk Paper, as at 30 April 2021.

This systems-based approach informs all three elements of our strategy – ESG-integrated investments, engagement, and advocacy. Part of our horizon scanning exercise in 2023 included a review of recent academic reports to ascertain the key climate- and nature-related risks to take into consideration across our engagement work.

When prioritising topics for our public policy advocacy, climate and nature are consistently high priorities due to the systemic nature of the risks and the scale of potential impacts on investments. We also receive feedback from clients and our investment teams that this is a priority for public policy engagement. Our advocacy activities are described in the' Advocacy' section earlier in this report.

Climate change is one of the key medium- to long-term risks that we factor into our investment analysis and engagements. We also recognise that it is becoming more relevant over shorter timelines. Engagement will be prioritised based on the materiality of financed emissions, the size of our investment and the degree of misalignment to the goals of the Paris Agreement. Whilst we recognise the systemic nature of climate risk, we also recognise that our assessments must be tailored to individual companies or assets as the risks they face will be impacted by factors such as sector, geography, and business model. Taking an active approach is a central part of our investment proposition.[2]

During 2024, nature-related issues also continued to be a priority in our engagement and advocacy activities.

In our investment activities, all of our investment strategies integrate consideration of material environmental, social and governance issues. We have also started to explore impacts and dependencies on biodiversity with the investment teams primarily using the ENCORE tool, which provides information on how the different GICS ("Global Industry Classification Standard") sub-industries both impact and depend on nature. During 2025, we will continue to enhance our approach to other nature-related issues, with a focus on biodiversity in line with our commitments as a signatory of the Finance for Biodiversity pledge.

In 2024, we published a comprehensive Responsible Investment (RI) Policy. As well as setting out our general approach, this policy collates our Human Rights Policy Statement, Deforestation Policy Statement and Approach to Controversial Activities. The RI Policy also includes a new Climate Change Policy Statement, which sets out our existing approach to managing climate-related risks and opportunities in our investment processes.

Risk identification

It is the responsibility of our investment teams to effectively integrate relevant and material ESG factors and, where applicable, insights from engagement into their investment processes. The investment teams identify and assess material ESG risks and opportunities at both industry and issuer level, in order to identify areas for deeper analysis that are specific to the issuer.

[2] We adjust our approach in different jurisdictions to accommodate differences in local laws and regulation.

Each investment team integrates this in a bespoke approach that is compatible with their investment process and style, building on the baseline approach for each asset class that we set out below to identify and mitigate material climate risks. Our fund managers have discretion on all investment decisions. We believe that ownership of this process by our investment teams, with the support of the Responsibility Office, ensures that material ESG factors including climate considerations are fully integrated into investment analysis and decision making rather than considered in a siloed manner.

The investment teams stay informed through internal information sharing, discussion and debate across and between teams, and through more formal initiatives such as our Sustainability Investment Centre ("SIC"). The SIC supports the development of our firm's responsible investment capabilities. It facilitates monthly conversations between teams across the business to pool the best ideas in the sustainable space and supports our focus on enduring, responsible wealth creation.

The ESG Integration team within the Responsibility Office also works closely with all the investment teams to help identify material ESG issues, including those related to climate and nature, 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 ESG risks at the company level. Finally, the ESG Integration team obtains data from third-party providers to help analyse ESG related risks and opportunities including relating to climate and nature. Some of these datasets are supplemented in our proprietary tools by insights gleaned from our engagement with the company and are also used by analysts and engagers in their company research and portfolio analysis.

Monitoring this informs our engagements, while engagement insights inform our investment decisions where applicable. Our fundamental research benefits from our ongoing dialogue with investees, as well as that between our public-markets investment teams and EOS. We invest time and resources to encourage companies to strengthen their governance of climate change related issues, give our views on strategy to implement business models that are aligned with the Paris Agreement and encourage companies to take a long-term view on identifying and mitigating transition risk. The depth and breadth of engagement carried out by our public markets stewardship team in EOS is significant, therefore enabling a more informed assessment of company positioning in relation to peers. The insights we glean from these interactions help us to better understand a company's complex strategic challenges.

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 role in encouraging firms both to mitigate transition risk and to reduce the systemic risks arising from climate change by lowering their emissions, ultimately helping us to serve our clients. Through our risk management approach described below, our investment teams are able to assess the potential size and scope of identified climate- and nature-related risks.

The investment teams stay informed through internal information sharing, discussion and debate across and between teams, and through more formal initiatives such as our Sustainability Investment Centre

The Risk team is responsible for the daily oversight of market risk across Federated Hermes, 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, with separate independent reporting lines, and management information flow through the governance structure to the GOC and, ultimately, the Boards of our regulated investment managers. Regular meetings are held with the investment teams to ensure proper coordination and integration of ESG factors and engagement insights. The Risk team has also been effective in providing a second line of risk management as new issues emerge.

In the following sections, we describe our approach to managing climate- and nature-related risks and opportunities by asset class. Each asset class has a tailored approach to identifying, assessing, and seeking to mitigate climate-related risks. We describe our approach to scenario analysis, where applicable. We set out our asset class-level targets used to manage climate-related risk within our investment management activities. We also detail our carbon footprint coverage and present a range of metrics which we use in order to understand the company's exposure to climate- and nature-related risks and opportunities. These metrics have been selected on the basis of what is most appropriate to our business and to the asset classes we manage.

We undertake carbon foot printing for the following asset classes:

- Listed Equities and Fixed Income
- Real Estate
- Infrastructure
- Real Estate Debt
- Private Equity
- Direct Lending

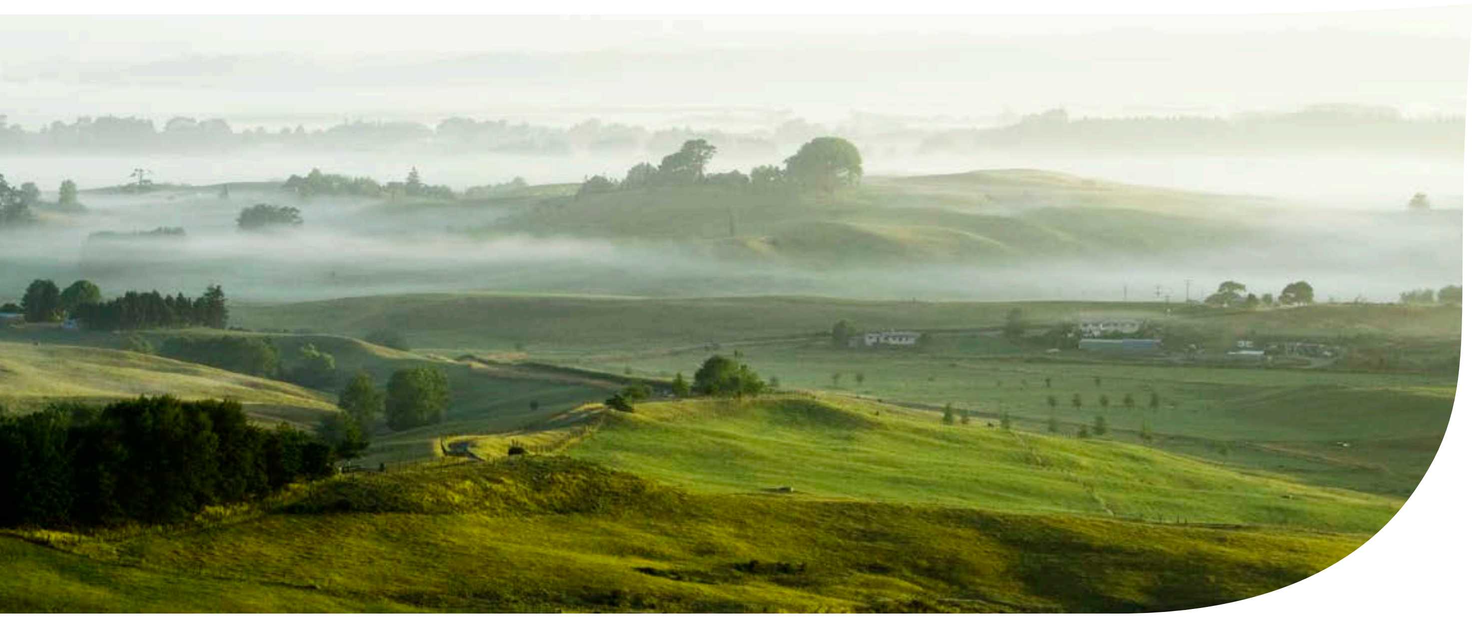
Approach to Controversial Activities

In 2024, we published our Approach to Controversial Activities. The Approach has been developed to further our business purpose of creating enduring wealth responsibly for investors. Consistent with our broader goals of providing investors a decent standard of living and protection from unexpected financial shocks, as well as a sustainable environment and just society in which to live, the intent of our unique Approach is to enhance the performance we deliver for investors, holding ourselves accountable to clients and their investors for the results of our stewardship and sharpening the focus of our investment teams on enduring wealth creation.

There are four categories of controversial activities covered by the Approach:

1. **Mandatory excluded activities:** Investments in certain armament-related activities are prohibited by International Law or Conventions. We exclude these investments with no minimum threshold or exemption possible in any fund.
2. **Specific fund or mandate exclusions:** We exclude investments as specified in a fund or mandate's legal documentation.
3. **Highly controversial activities:** We carefully consider companies on a case-by-case basis whose activities are unlikely to form a constructive part of a future sustainable economy, for which investor stewardship is not expected to be effective and that we believe are likely to cause material financial risk to our clients. This includes activities such as thermal coal extraction and power generation and tar sands extraction.
4. **Other controversial activities:** Our Approach embraces engagement with companies whose activities may carry material risks to social or natural capital, but where we believe that stewardship can have a positive impact in significantly reducing or eliminating the associated financial risks to our clients. This includes activities such as the exploration, production, refining, transportation, storage and generation of fossil fuels.

In line with the fiduciary obligations of the Federated Hermes investment mandates, and with the exception of mandatory or client-specific excluded activities, portfolio managers will continue to have full freedom to make investment decisions in the context of the relevant client mandate. However, any investments in companies with activities that are considered highly controversial will be subject to a Transparency and Accountability Framework. The Transparency and Accountability statement lays out our investment case (including any engagement objectives) for the holding and explains why the portfolio manager believes that the holding is consistent with our aim to create enduring wealth responsibly.



Holdings of companies that undertake other controversial activities will be flagged on a quarterly basis to the investment teams via meetings with the Responsibility Office. The teams are expected to articulate how the company will be mitigating any risks the involvement in the controversial activity may present.

Assessing the resilience of our strategy under different scenarios

The most material climate and nature-related risks and opportunities to our business are related to our investment activities for clients. Our analysis is therefore focused on our investment activities, rather than the corporate entity itself. To date, Federated Hermes has undertaken scenario analysis for our public equity and credit, real estate, and infrastructure investments. The results of this scenario analysis are disclosed in the subsequent sections relating to the relevant asset classes. Due to the lack of disclosed data, we have not been able to conduct asset specific analysis for real estate debt, private equity, and direct lending investments. We do have an industry/sector level analysis we conduct for our private equity and direct lending assets that use averages to help us estimate value at risk. As data becomes more readily available, we hope to further our scenario analysis across these asset classes. We will continue exploring options on building climate resilience in our portfolios as we develop better tools to help us understand impacts and dependencies.

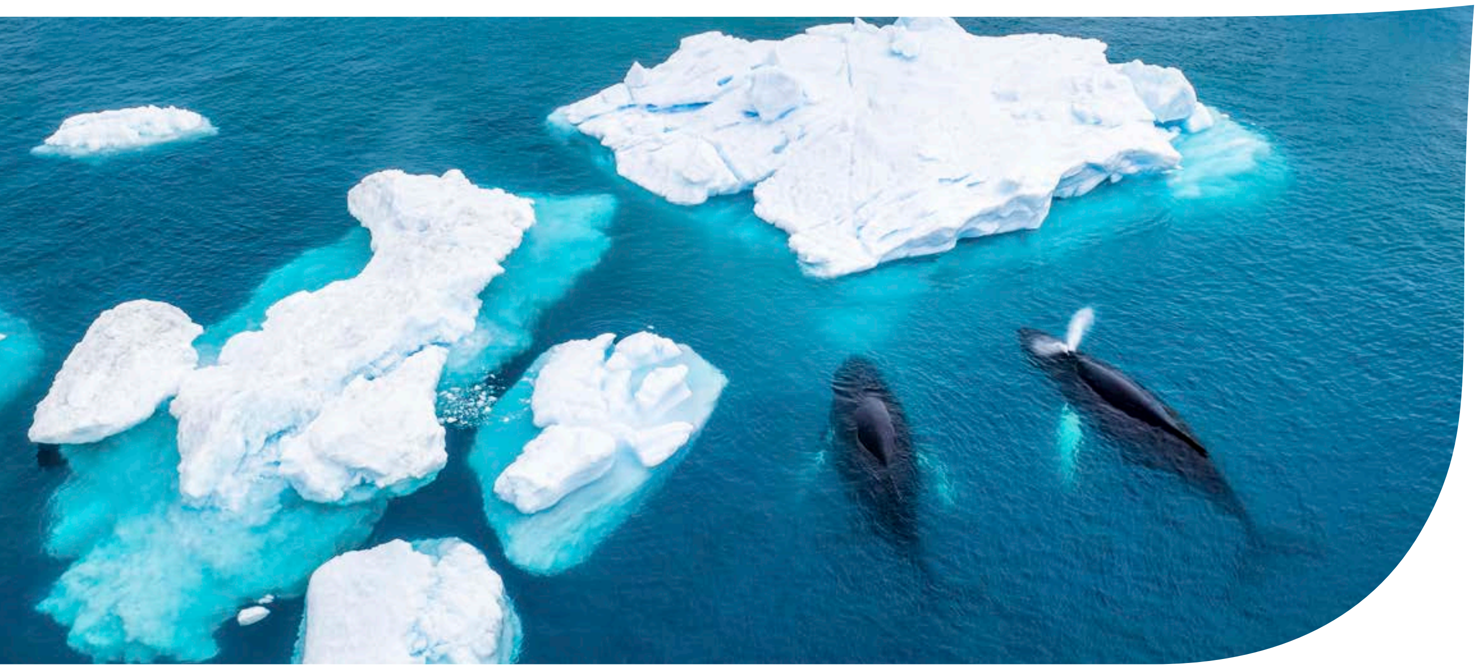
Procuring data to support implementation of our strategy

As discussed further in the Risk Management section of this report, our ESG Integration team obtains data from third-party providers to help analyse ESG related risks and opportunities including relating to climate and nature. Some of these datasets are supplemented in our proprietary tools by insights gleaned from our engagement with the company and are also used by analysts and engagers in their company research and portfolio analysis.

We use a number of external ESG data providers, as each data provider has developed their own methodology which can result in differing views and/or provide us with different aspects of the mosaic to holistically understand the risks and opportunities. 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 on sustainability issues. As part of our ongoing research into assessing sustainability within companies we have spoken with a number of data providers on 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.

In 2024, we entered into a partnership with Forest IQ to integrate commodity-driven deforestation data into our analysis. Forest IQ is a new data platform launched in 2023 for financial institutions which brings together a range of data sources on corporate exposure to deforestation. The platform has been developed by an alliance of not-for-profits – Global Canopy, the Stockholm Environment Institute and ZSL – in close consultation with several financial institutions, including Federated Hermes. This project aims to improve the usability, quality, and scope of data available to investors to allow more accurate portfolio risk assessments and to inform engagement.

We also engage with data providers when we identify incorrect information. Over the course of 2024, we identified numerous instances where environmental data received from data providers did not match our expectation of the company's performance on those factors. We have engaged with data providers around data quality and have since seen an improvement in their data quality practices.



Our Responsible Investment Business Management team, alongside our technology and data governance teams, continue to enhance the way we ingest and digest data to improve data quality.

The public market investment teams continue using impact data which allows us to identify investment opportunities. Some of the impact achieved through these investments have been included under the public markets section. The database draws on data from company, sector, and impact-related industry reports. It provides theme specific KPI outputs including, but not limited to megawatt hours (MWh) of renewable energy generated; metric tonnes of CO_2 avoided (Energy Efficiency); cubic metres of water saved (Water); and metric tonnes of food waste/loss avoided.

Public markets

Public equity and credit scenario analysis

In partnership with Planetrics, a company specialising in tools to quantify, manage and report climate impacts, Federated Hermes has been exploring scenario analysis across some of our investments. The tool allows us to assess 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 have assessed our public market strategies using Network for Greening the Financial System ("NGFS") scenarios version 4*.[3] It is worth noting that the scenarios forecast outcomes until 2050 hence some of the more severe physical risk impacts are not evident in the below analysis as these are set to occur post 2050.

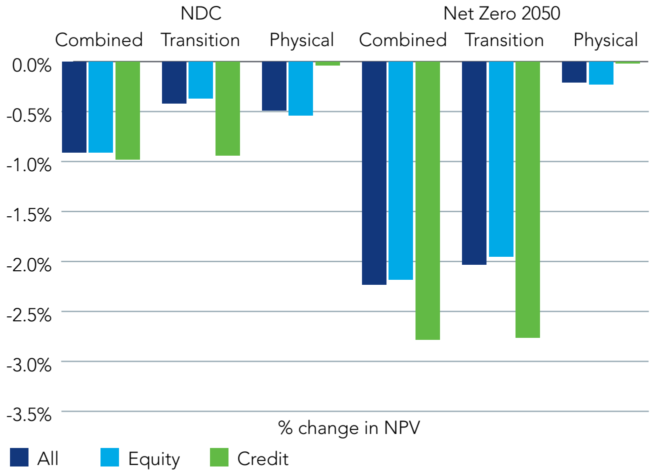
- **Impacts of achieving Net Zero by 2050**: A scenario which limits global warming to 1.4˚C through stringent climate policies and innovation, reaching global net-zero CO_2 emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all greenhouse gases. This assumes an orderly transition.
- **Impacts based on the current Nationally Determined Contributions ("NDCs")**: A scenario in which all pledged targets are assumed to be implemented, even if they are not yet backed up by effective policies. Countries implement pledged policies in addition to current policies and keep their level of ambition beyond the NDC horizon. The cut-off date for targets being considered here is those published by the UN Framework Convention on Climate Change (UNFCC) until end of March 2023.

Workshops have been held with the investment teams to walk through the methodologies including any updates to the models and the data available to integrate into the investment analysis both at the company and portfolio level. The Responsibility Office has also been conducting portfolio and company-level analysis for each of our investment teams to discuss any risks and opportunities as part of some of the quarterly meetings between the ESG integration team and investment teams.

Where we do not have disclosures from a company, we have used estimated datapoints such as the carbon emissions from third-party data providers to help conduct the scenario analysis. The coverage of data for public equity holdings in our funds is 94.6% and for credit holdings in our funds is 82.2%.

Figure 10 below shows the change in net present value ("NPV") using two different scenarios for our public equity and credit funds. However, this change in NPV does not currently account for any climate targets set by the investee companies. If the investee companies were to meet any targets they have set, we find the value of our investment to increase by 5.3% under the Net Zero scenario and 1.6% under the NDC scenario by 2050. Through this analysis, we have identified names with the largest negative change in NPV, and we find that Anhui Conch Cement is our top detractor with the negative change in NPV being driven by direct carbon costs. The company has set climate targets, however not enough to reduce the transition risk. We will continue to engage on our high-risk names on setting appropriate targets.

Figure 10. The aggregated percentage change in NPV across two NGFS scenarios for our public equity and credit funds by 2050



Source: Federated Hermes, Planetrics, as at 31 December 2024. This figure has been created by Federated Hermes Limited ("FHL") drawing on selected data provided by Planetrics, a McKinsey & Company solution (which does not include investment advice). This figure represents FHL's own selection of applicable scenarios selection and/or and its own portfolio data. FHL is solely responsible for, and this figure represents, such scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.

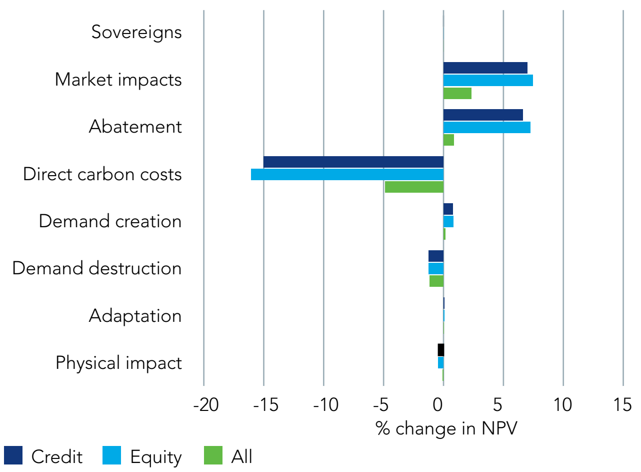
Figure 11 below further breaks down the change in NPV by different impact channels. These impact channels can be split into four categories which are:

- Physical impacts (physical impacts and adaptation).
- Changes in revenues (demand destruction and creation).
- Changes in costs (direct carbon costs and abatement).
- Market impacts (competition and cost pass through).

[3] Network for Greening the Financial System, "NGFS Climate Scenarios for central banks and supervisors - Phase IV"

The main driver of valuation risk as a result of negative change in NPV is direct carbon cost for both public equity and credit, responsible for a valuation impact of 15% in a 1.5°C scenario by 2050.

Figure 11. The percentage change in NPV for the 1.5°C alignment scenario, disaggregated across different impact channels for our public equity and credit funds by 2050



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

This figure has been created by FHL drawing on selected data provided by Planetrics, a McKinsey & Company solution (which does not include investment advice). This figure represents FHL's own selection of applicable scenarios selection and/or and its own portfolio data. FHL is solely responsible for, and this figure represents, such scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.

We also have access to temperature alignment data from Planetrics. This is another lens to assess how prepared a company is for a net-zero world. The aggregated temperature alignment of all Federated Hermes' public equity and credit portfolios is currently 3°C. This figure is derived using a budget methodology which calculates carbon budgets based on the NGFS below 2°C scenario based on cumulative emissions from 2022 to 2050 across Scope 1, 2 and 3 absolute emissions.

Assessment and Integration

Our experience suggests that a systematic engagement approach, combined with tried and tested methods of escalation such as shareholder meeting interventions, is needed to accelerate change at companies. Driving change through engagement is one side of the coin – effective integration of stewardship insights into investment decisions is the other.

All of our public markets strategies integrate climate considerations and engagement insights into their investment processes and decision making. We believe in developing processes that are relevant to the investment strategy, and therefore, the method of this integration can vary by investment team. Climate-related data 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.

To support all our investment teams, we continue to add tools and datasets and participate in research to better understand and continue to refine our process of integrating climate risk management into every stage of the investment process from inception of new strategies through to day-to-day portfolio management. Integration is facilitated by a range of tools (proprietary and third-party) and information, including from our own engagement activities.

The primary means through which we monitor and measure the climate-change exposure of our investment portfolios is through our proprietary Carbon Tool, which measures a fund's carbon footprint relative to its benchmark and calculates its carbon efficiency/intensity. As well as providing a carbon heatmap, the tool enables portfolio managers to stress-test the resilience of our portfolios to a range of carbon prices, identify whether high-emitting companies in the portfolio are being engaged with 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 teams' awareness of carbon-related risks, which can lead to updated valuations and potentially change investment decisions.

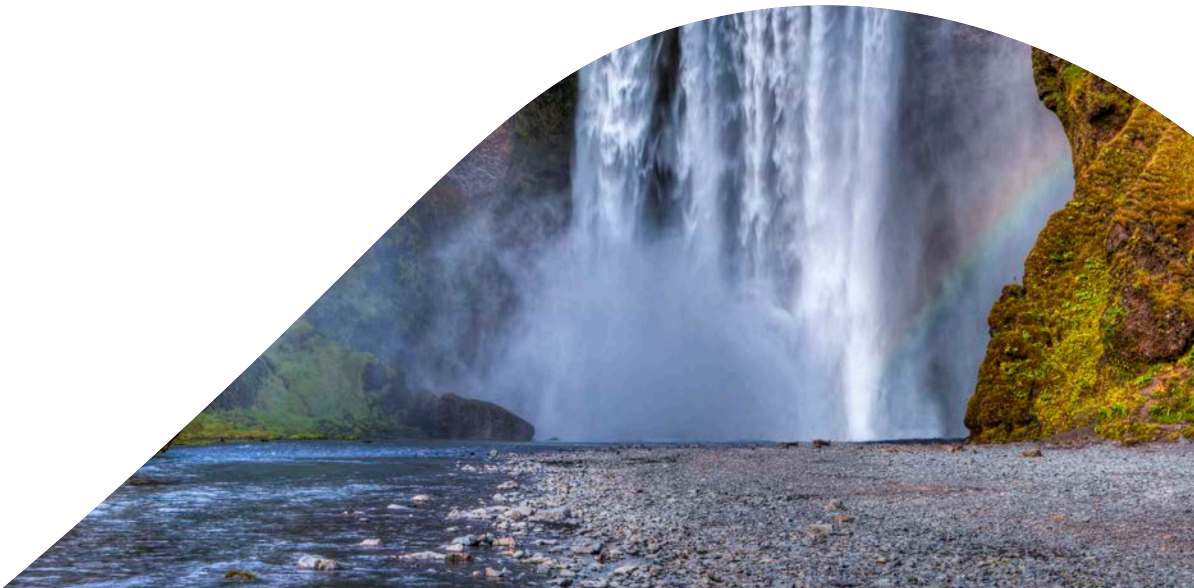
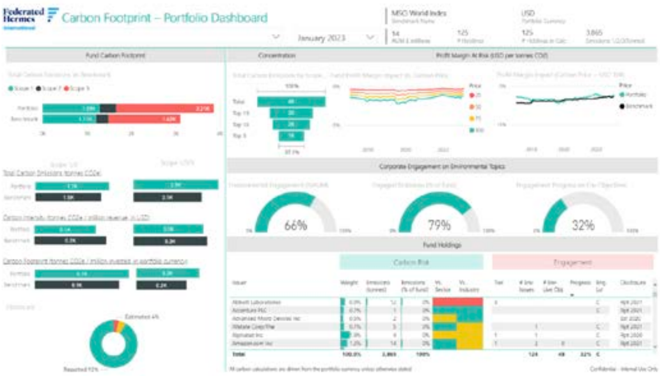


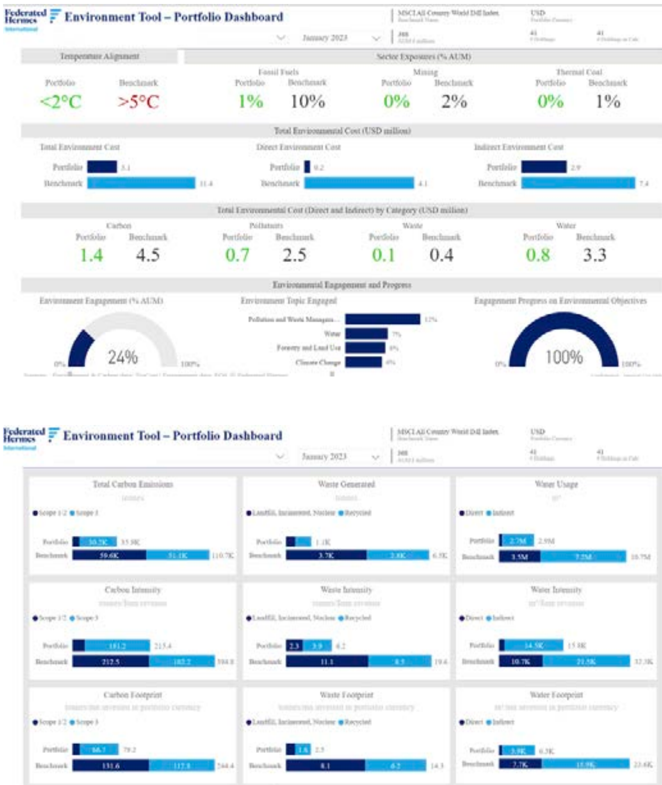
Figure 12: Carbon footprint – portfolio dashboard



Source: Federated Hermes, as at 31 March 2024. For illustrative purposes only.

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 have incorporated the temperature alignment of portfolios and companies alongside exposures to carbon intensive sectors, namely fossil fuels, mining and thermal coal.

Figure 13: Environmental Tool – Portfolio dashboards



Source: Federated Hermes, as at 31 March 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 ESG 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. We also use other external tools, including Planetrics which allows us to explore transition and physical risk across various scenarios. We also use freely available sources of information such as Forest500.

Over the last year, we have progressed on our deforestation exposure assessment and have integrated data from Forest IQ. This dataset explores the investment teams' exposure to commodity-driven deforestation, focusing on palm oil, soy, cattle products, and timber, pulp and paper. We have used this dataset alongside the Global Canopy guidance on deforestation due diligence for financial institutions to assess exposure and review the mitigation activities our investee companies have undertaken.[4] We reported for the first time in December 2024 using this approach.

We have also started to explore impacts and dependencies on biodiversity with the investment teams primarily using the ENCORE dataset, which provides information on how the different GICS sub-industries both impact and depend on nature. This is an important lens through which we identify companies for engagement.

Investment teams are responsible for conducting appropriate due diligence when they have identified material ESG risks, including any climate- and nature-related risks. That due diligence may include sourcing additional data and communicating with the investee company.

To further enhance and provide support to the investment teams, the Responsibility Office meets with each of the investment teams on a regular basis to discuss various sustainability topics including an analysis on the portfolio's exposure and understanding the progress on mitigating sustainability risks. These discussions may also consider how such risks have been integrated into the investment process and decision-making, including conversations with the investment teams on their consideration of the portfolio's (i) carbon exposure and (ii) the transition targets, and the progress of investee companies within the portfolio. Given our net-zero commitment, we monitor the progress of each public markets fund to determine whether each fund is increasing the proportion of Paris-aligned investments through engagement to understand the implications for our firm level targets. We use the framework set out in our Climate Action Plan to categorise investments.

Engagement activities and voting information can be used by the teams managing our active fundamental and private markets strategies to provide a forward-looking view of a company's performance on climate and nature risks and opportunities.

[4] Global Canopy, "Due diligence towards Deforestation-Free Finance"

The information we gather through stewardship enables us to develop a more comprehensive view of both the climate risk and opportunities a company is exposed to and to factor this into valuations and investment decisions. Such assessments are not a one-off but rather form an ongoing feedback loop. The extensive nature of EOS' engagement allows us to better assess a company's position in relation to its peers and set engagement objectives that are aligned with best practice for the companies in EOS' engagement programme and the companies engaged by the dedicated engagers in the investment teams.

As well as accessing EOS' engagement portal – which includes the engagement history and progress against live objectives for companies that have been engaged by EOS or by the dedicated engagers in the investment teams – and discussing specific companies with the relevant EOS engager, 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 robust engagements that focus on the relevant and material E, S and G risks and opportunities. Our investment teams also regularly discuss sustainability issues with company management directly.

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 regular basis to review the portfolio holdings from a sustainability point of view and flag, if necessary, particular holdings which our third-party ESG data vendors might have highlighted as controversial. As such, the Responsibility Office and the investment teams regularly use our proprietary sustainability and stewardship tools to review the sustainability performance and engagement coverage of holdings in our funds.

Whilst many of the tools and approaches we use are shared across our public market strategies, some of our strategies layer additional approaches on top of this:

- **Sustainable Global Equity Strategy:** The strategy aims to generate superior long-term financial returns by investing in companies that are aligned with achieving positive outcomes for society and the environment, and has a sustainable objective to achieve a reduced environmental footprint relative to the benchmark (in terms of reduced carbon, water and waste footprint). The team believe 'impactful', 'leading' and 'improving' companies all play a critical role in the transition towards a more sustainable future and are well-positioned to benefit from sustainability tailwinds. The strategy addresses four sustainable themes with each having a variety of investible sub-themes.

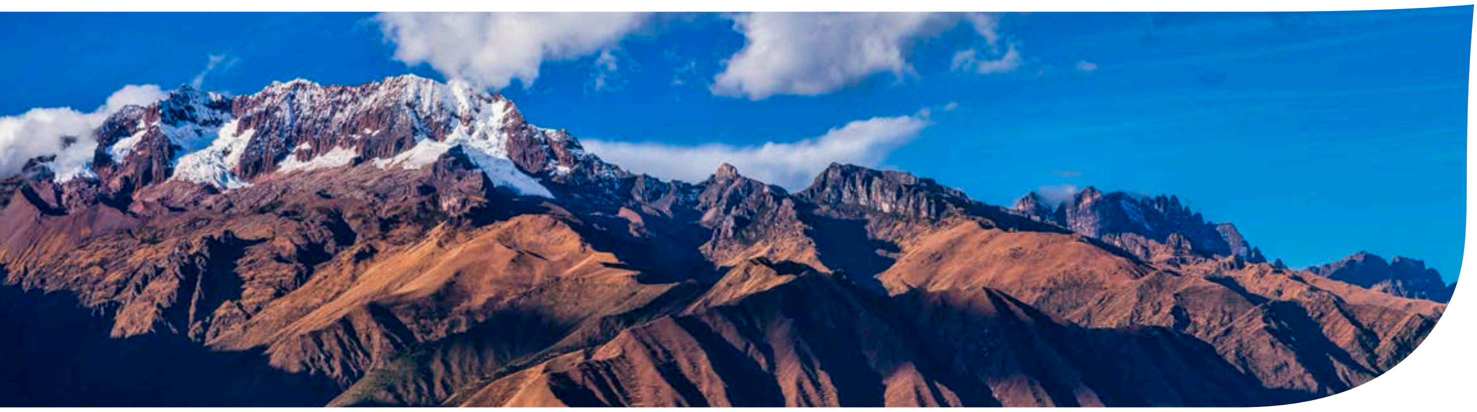
  Two of the overarching themes relate to the environment – environmental preservation and efficient production and resource usage – and two relate to society – health and wellbeing and social inclusion.

- **Sustainable Global Investment Grade Credit Strategy:** The strategy aims to achieve superior risk-adjusted returns and a reduced environmental footprint relative to the benchmark (in terms of a reduced carbon, water and waste footprint) – these are not independent goals.

  The team seeks to invest in companies that see value-creation in protecting the planet and which create products and services in a sustainable manner. The team uses their proprietary Sustainable Leaders (SL) Score as a screening tool to refine the initial investment universe. The SL Score is a proprietary framework which provides an assessment of ranking and momentum in sustainability, focusing on non-fundamental risks. The team also engages with companies to improve their impact on society and the environment.

- **Climate Change High Yield Credit Strategy:** The strategy aims to outperform the global high-yield market through high-conviction investment in companies with strong fundamentals that also demonstrate the potential to decarbonise and transition to a low-carbon world. The team seek companies that have the willingness and ability to make a positive impact on the planet, whilst excluding companies involved in activities believed to be unsustainable or unethical. To determine a company's progress towards decarbonisation and the materiality of its impact, the team begin by analysing an aggregate of historical climate change data and scores. They then supplement the forward-looking perspectives of our credit analysts and engagers, including engagement insights.

  This enables them to assess each company's climate-related risks and its progress towards decarbonisation and potential impact. Designed by the Sustainable Fixed Income team, our bespoke framework – the Climate Change Impact ("CCI") Score – conveys a company's willingness to decarbonise, the potential to reduce its carbon footprint and the materiality of that decarbonisation path. These scores are key to issuer selection and sizing within the strategy. Dedicated engagers in the Fixed Income team, supported by EOS, seek positive action on climate change. The strategy will not hold a company's credit where engagement on climate change transition has failed.



- **SDG Engagement Equity Strategy and SDG Engagement Credit Strategy:**[5] 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 and bespoke holdings, 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. 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.

Engagement

Engagement is a crucial element of our approach to managing both climate change and nature-related risks and opportunities in public markets.

Our approach to engagement is driven by our purpose and investment beliefs. We believe that the purpose of investment is to deliver enduring wealth creation, and that investing responsibly over the long term – through effective stewardship and the integration of material issues including sustainability factors – is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors. As a result, our engagement is outcomes-driven and focused on ensuring that the companies we invest in are aiming to deliver enduring wealth creation. We are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies in public markets. We believe that this approach delivers the best results for our clients and end beneficiaries. The majority of our engagement in public markets is carried out by our stewardship team for public markets, EOS. The investment teams also carry out engagements themselves, and some have dedicated engagers to complement the investment strategy, such as in our SDG Engagement funds (described above).

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. As part of this process, we use our own proprietary carbon and environmental tools to systematically assess which of the holdings in our funds are exposed to material carbon and water-related risks, in jurisdictions where local law and applicable requirements allow, therefore material climate and nature-related transition risks. This informs the selection of companies for EOS' engagement programme. As we describe below, we also take into consideration our net-zero interim targets. Engagement coverage, including engagement on climate- and nature-related issues, therefore varies across our funds.

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. 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. 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 how we prioritise and conduct our engagements is available in our Stewardship Report 2024.

Engaging on climate change

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.

[5] The name of these funds have changed following the reporting period but prior to publication of this report. The SDG Engagement Equity Strategy is now referred to as the Global SMID Equity Engagement Fund and the SDG Engagement Credit Strategy is now referred to as the Global High Yield Credit Engagement Fund.

Responding to client input and internal and external research, we increased our focus on requesting that companies publish climate transition plans aligned with the goals of the Paris Agreement. We also developed internal capabilities for the assessment of transition plans, which we see as providing insights to investment teams and for engagement on the credibility of company plans to navigate the energy transition. In 2024, EOS and investment team engagers engaged on 621 objectives that were linked to SDG 13 (Climate Action) for assets held in our funds.[6]

For example, EOS has been engaging Engie, French multinational electric utility company, since 2018 as part of the collaborative engagement initiative Climate Action 100+ (CA100+) on introducing a climate metric to the executive remuneration incentive plans. In 2022, we were pleased to see our feedback was implemented at the 2022 AGM where two climate-related metrics were introduced to the long-term incentive plan (LTIP): increase the proportion of renewable capacities and reduction of CO_2 from power generation. In 2023, in response to our requests, we received some reassurances from the chair on how these metrics are tested in the absence of public thresholds but still encouraged full and proper disclosure in line with best practices. EOS were then pleased to see that the company expanded its climate-related metrics to include the gas distribution business under the LTIP in 2024.

We also engage for companies to ensure that their direct and indirect climate-related policy engagement is consistent with their strategy, climate ambitions, and the Paris Agreement. Climate change and the energy transition will also have significant impacts on society and therefore companies must explicitly consider how their actions, or lack of, on climate change will negatively impact stakeholders. Companies should seek to mitigate the social impacts of transition plans to streamline their delivery, manage core business risks, and contribute to a just transition. In 2024, we also enhanced our dialogue with companies, auditors, and regulators on the adequate consideration of financially material climate-related factors in the financial statements and the role that audit firms should play.

In our view, it is essential for companies to address whether key accounting assumptions and judgements adequately reflect changing expectations for the energy transition, which has accelerated in some sectors and jurisdictions, and of physical climate risks.

We expect that robust and due consideration of financially material climate-related risks and opportunities should translate into financial indicators of company performance today.

We also engage companies on their exposure and vulnerability to the physical impacts of climate change. Each company must prepare for the chronic and acute climate change impacts that are already materialising. Climate change will continue to impact operations, supply chains and customers, with a long-term temperature increase of at least 1.5°C inevitable and higher increases likely.

The International Sustainability Standards Board (ISSB) launched its first sustainability standards – IFRS S1 (general sustainability disclosures) and S2 (climate-related disclosures, aligned with the TCFD recommendations) – in 2023. As at 31 December 2024, 12 jurisdictions have adopted the standards on a voluntary or mandatory basis and 22 other jurisdictions have announced plans to adopt them in the future.[7] Given the prevalence of these standards, we encourage companies to employ scenario analysis under IFRS S1 and S2 guidance to assess exposure and vulnerability to material risks. Subsequently, this analysis may be leveraged to develop and disclose adaptation and action plans that demonstrate enterprise resilience to the physical impacts of climate change in a range of climate scenarios. Companies should consider emergency and pre-emptive actions set in the short- to medium-term and demonstrate financial awareness of physical risks.

Each company must prepare for the chronic and acute climate change impacts that are already materialising.

Physical risks, such as water stress, may arise from a combination of climate change and biodiversity loss, and resilience to physical risk in some value chains, such as agriculture, is directly dependent on ecosystem services. In these cases, companies should leverage TNFD assessments of nature-related risks, impacts and dependencies when developing physical climate risk adaptation and action plans, acknowledging and internalising the dual benefits of mitigating nature- and climate-related risks. Companies should also consider opportunities for nature-based solutions that enable and improve resilience across the value chain.

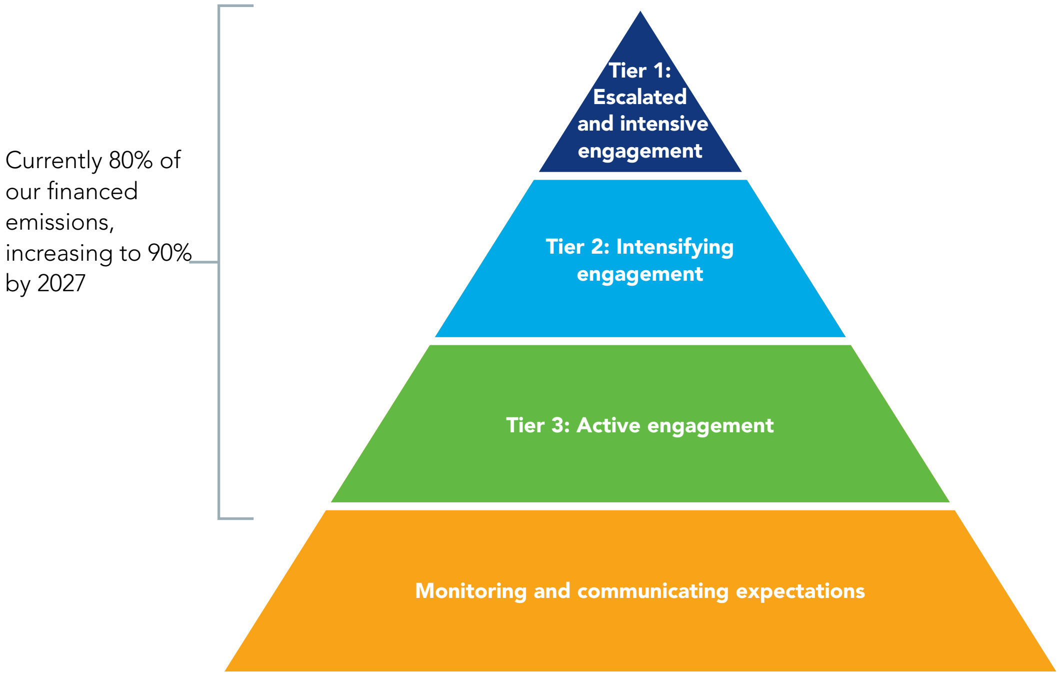
[6] These figures refer to holdings in our managed funds only.
[7] S&P Global, "Where does the world stand on ISSB adoption?" (December 2024)

Coal mining and coal power activities, like the broader mining and power sectors, face material climate-related financial risks over the near- and medium-term, driven by policy, regulation, market conditions, and technological change. This includes national carbon pricing mechanisms, local emissions regulations, competition from alternative and cost-effective energy sources, and process innovations. As such, we engage companies involved in coal activities, especially thermal coal, on the robustness and resilience of their commercial strategies, including plans to transition away from coal as one available tool to manage related financial risks. Our engagement also seeks to ensure adequate governance and oversight of coal-related financial risks, including in a company's capital allocation decisions.

As we set out in our Climate Action Plan, engagement to support our interim targets will be prioritised based on the materiality of financed emissions, the size of our investment and the degree of misalignment to the goals of the Paris Agreement. We use emissions data, client holdings, external benchmark indicators, and considerations of structural exposure to climate transition or physical risks to determine the companies that are flagged as priorities for engagement and escalation. EOS have developed an in-house Paris Alignment methodology to assess the extent to which a company's climate change ambitions are aligned to the goals of the Paris Agreement. The methodology assesses alignment of a company's greenhouse gas targets and associated emissions trajectory to a Paris-aligned transition pathway, applicable to the relevant sector and geography where possible. Qualitative, sector-specific analysis informs the assessment further. Companies will be placed into different categories of alignment: Not aligned; Committed to net zero; Aligning; Aligned; and Unscored.

Companies that are categorised as "Not Aligned" or "Unscored" and identified as engagement priorities will receive the highest intensity of engagement over the next few years. Our engagement seeks to encourage the management of climate-related opportunities and risks further.

Figure 14. Structuring climate change engagement



Source: EOS at Federated Hermes Limited, as at 31 December 2024.

CASE STUDY

National Grid

National Grid is a British utility company.

We have been engaging with National Grid on the robustness of its climate strategy. We would like National Grid to effectively manage climate risks and embrace climate opportunities from the energy transition – including by demonstrating alignment of its emissions reduction targets to a 1.5°C scenario.

Since 2022, we have been asking the company to expand its targets to comprehensively cover its material emissions. In particular, we emphasised the importance of the targets fully addressing Scope 3 emissions, especially considering commercial uncertainty over the shape of the transition. We also emphasised the need to include fossil-fuelled power stations in the coverage of such targets.

We highlighted the role of external validation of the target to provide greater levels of assurance to investors on the company's commitment. We met with the company in 2022 and questioned why it had not moved as quickly as peers on target validation, but we obtained reassurance that the company was working with the Science Based Targets initiative (SBTi) on establishing an approach for a gas utility.

We continued to encourage comprehensive and externally-validated 1.5°C-aligned targets at the group level through collaborative meetings as part of the Climate Action 100+ and individually in 2022 and 2023.

In 2024, we met with the chief sustainability officer and were pleased to see that SBTi had validated the company's group-level near-term targets as being aligned to 1.5°C. This provided reassurance that the targets had captured all fossil-fuelled power stations and downstream Scope 3 emissions from the US gas business. This high-level ambition is supported by a significant capital expenditure plan, focused on energy transition opportunities and overwhelmingly aligned to the EU Taxonomy. We showed support for this advancement by supporting the say-on-climate proposal at the 2024 AGM.

We encouraged the company to go one step further on its transition planning, including breaking down its actions for the US gas business, which remains an area of some uncertainty. Nonetheless, in line with best practices, the company cited policy dependencies for its transition towards these targets in line with its commercial and fiduciary goals, which we were pleased to see were communicated clearly and should inform effective advocacy efforts. We will continue to engage the company on the implementation of its transition plan.

Engaging on nature & biodiversity

Engagement on nature and biodiversity is a key way for investors to address their nature-related risks and impacts, especially given the complexity of the topic. Federated Hermes signed the Finance for Biodiversity Pledge in 2020 and we continue to prioritise nature-related issues in our stewardship activities.

We encourage 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. Given the high impacts and dependencies of the food system on biodiversity and ecosystem services, the retailing and production of food will remain priority sectors for engagement, as well as other sectors with significant impacts, such as mining and chemicals. 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. We encourage companies to identify, assess and disclose their impacts and dependencies on biodiversity and ecosystem services in-line with the TNFD recommendations, and then develop strategies and transition plans with timebound targets to address the most material risks and impacts. We also engage on the governance of nature-related issues, including ensuring robust understanding at the board-level and the alignment of lobbying positions. Please refer to the EOS white paper on biodiversity, Our Commitment to Nature,[8] for further information about our expectations with respect to nature and biodiversity, and how that informs our engagement with companies.

[8] Federated Hermes, "Our Commitment to Nature" (October 2021)

Tracking progress

We track the progress and the achievement of our public market engagements using our four-stage milestone strategy.

Milestone 1: Our concern is raised with the investee company at the appropriate level.

Milestone 2: The investee company acknowledges the issue as a serious investor concern, worthy of a response.

Milestone 3: The investee company develops a credible strategy to achieve the objective, or stretching targets are set to address the concern.

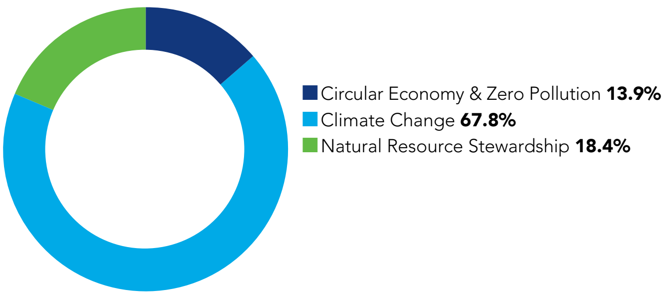
Milestone 4: The investee company implements a strategy or measures to address the concern.

Our milestones are specific and measurable, which helps us identify progress towards achieving the objective. An engagement objective typically takes up to three years to complete but may take longer depending on factors that include the nature of the issue and how receptive the company is to engagement. In 2024, 41.4% of all EOS and investment team engagers engagements – on behalf of both third-party clients and Federated Hermes products – were related to environmental topics. For engagement on investments held by our funds, this was 39.4%. The bar charts below show completed milestones during 2024.[9]

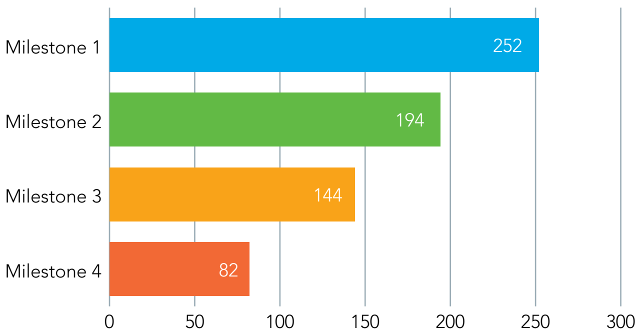
For example, 252 environmental objectives (or 152 for investments in our funds only) saw Milestone 1 completed during 2024. 82 environmental objectives (or 47 for investments in our funds only) were fully achieved during 2024.

Figure 15: EOS and Federated Hermes investment team engagers engagements on environmental topics on behalf of all clients (including our funds)

Environmental topics comprised 41.4% of our engagements in 2024



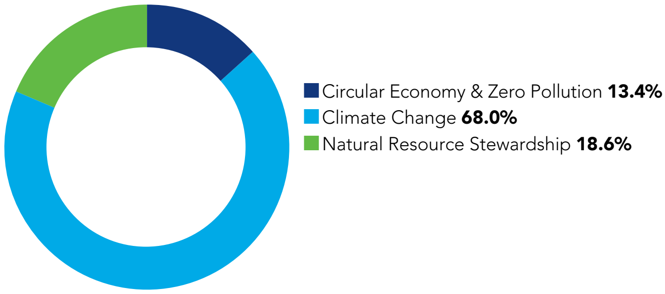
Progress against environmental objectives



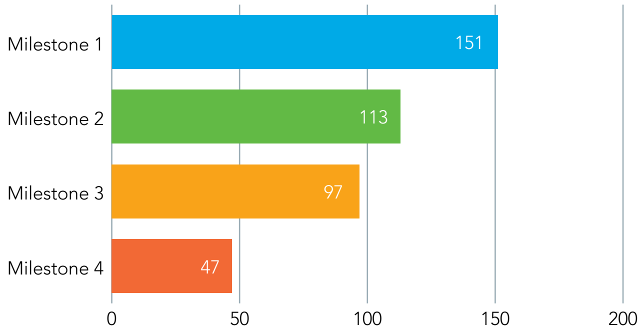
Source: Federated Hermes and EOS data, as at 31 December 2024.

Figure 16. EOS and Federated Hermes investment team engagers engagements on environmental topics on behalf of our funds only

Environmental topics comprised 39.4% of our engagements in 2024



Progress against environmental objectives



Source: Federated Hermes and EOS data, as at 31 December 2024.

For listed equities, our voting and engagement are integrated 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 informed by the insights and experience of engagement with the investee company. More information on our approach to voting is available in our Stewardship Report 2024.

We have had formal climate change voting/voting recommendation policies in place since 2019 addressing climate-change laggards. We continue to use the Transition Pathway Initiative ("TPI") assessment, setting a threshold of Level 4 for all European and Australian companies, coal mining companies, oil and gas companies, electricity utilities, mining and material companies, and auto companies, or Level 3 for all other companies. We have also identified several other areas where we believed a company's actions were materially misaligned with the goals of the Paris Agreement, including companies contributing to coal expansion and deforestation.

Our aim is to deliver value for clients, not to seek headlines that could undermine the trust we believe should otherwise exist between a company and its owners. As a result, we prefer to conduct engagement privately, rather than taking a public route when seeking change at companies. In our experience, this is the most effective way to achieve 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 privately, we adapt our engagement approach. When doing so, we would normally notify a company in advance.

[9] There can be overlap between each row, as the same objectives can have multiple milestones completed in the timeline.

This may include voting 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. Similarly, we have demonstrated a willingness to use the full range of rights that we have at our disposal, including the tabling of resolutions at shareholder meetings when necessary or collaborating with others to co-file shareholder resolutions. All of these actions are understood to deliver long-term sustainable value for our clients.

Collaborative Engagement: Climate

We collaborate with other investors in our engagement with companies. We seek collaboration where our interests are aligned. 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.

The Climate Action 100+ (CA100+) initiative supports intensive engagement, where local law and applicable requirements allow, on companies' management of climate-related opportunities and risks, climate governance, and emissions performance. For the avoidance of doubt, we expect any such strategies 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.[10] This is an increase of four percentage points on 2023.[11]

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 ambitions, 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.

As part of Net Zero Engagement Initiative (NZEI), EOS engaged a number of companies in 2024, including Ahold Delhaize. The company is involved in the management and operation of supermarkets, as well as an e-commerce business. In line with our requests to Ahold Delhaize, the company published a new transition plan with information on the levers for achieving Scope 3 decarbonisation, its public policy work, its engagement with its suppliers and the investment requirements for decarbonisation.

Additionally, as part of Institutional Investors Group on Climate Change (IIGCC), we co-led the collaborative engagements at the three Japanese megabanks – Mizuho Financial Group, Sumitomo Mitsui Financial Group (SMBC) and Mitsubishi UFJ Financial Group[12] – to reiterate our climate-related engagement requests. We sought more disclosure around the banks' assessment of risks relating to the financing of their fossil fuel sector clients and their mitigation through energy transition plans that are more aligned with the goals of the Paris Agreement. We were pleased to see enhanced disclosure and methodologies from the banks, as well as an update to SMBC's transition finance playbook and the introduction of environmental and social due diligence.

Through EOS's engagement across these initiatives in 2024, we continued to seek progress where companies appeared to perform at a level below of what would be considered 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. More information is available in the EOS 2024 Annual Review.

Collaborative Engagement: Nature

Engagement on nature is increasing and we are working in collaboration with others in the industry to strengthen and streamline approaches. 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.

Engagement on biodiversity is increasing and we are working in collaboration with others in the industry to strengthen and streamline approaches.

[10] CA100+, "Climate Action 100+ Net Zero Company Benchmark 2.1" (2024)
[11] CA100+, "Climate Action 100+ Net Zero Company Benchmark 2.1" (2024)
[12] At time of reporting, Mitsubishi UFJ Financial Group is not currently a Federated Hermes holding.

For example, in 2024 we joined the Nature Action 100 (NA100) collaborative engagement with Carrefour as lead engagers 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 for nature (SBTN) methodology. The company completed the SBTN pilot and is considering next steps.

Case study: Engaging on Deforestation

Investors have a critical role to play in halting and reversing deforestation, especially through engagement with companies and capital allocation. The investor-led collaborative initiative Finance Sector Deforestation Action (FSDA), which was launched at COP26 in Glasgow, continues to support investors in delivering against the commitment to eliminate commodity driven deforestation through engagement and due diligence. It uses data from Forest 500 and Global Canopy to inform selection of target companies at risk of having links to deforestation. EOS and Federated Hermes are supporting these efforts through collaborative engagements with over 20 focus companies (as at 31 December 2024)[13], including Walmart, Unilever and Yum! Brands.

> **Investors have a critical role to play in halting and reversing deforestation, especially through engagement with companies and capital allocation.**

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

Companies are encouraged, where feasible, to articulate a clear strategy for how their operations and supply chain will become deforestation and conversion-free. This includes understanding the risks and financial impacts, setting clear expectations for suppliers and creating mechanisms to enforce them. Ongoing due diligence and monitoring of suppliers and operations will be critical for effective implementation. Equally, ongoing collaboration will be necessary to tackle this complex issue.

For instance, through the FSDA initiative we engaged Unilever, a British multinational consumer goods company, on its progress against the FSDA commitments.[14] The company continues to have a mandate to drive sustainability. The company stressed its deforestation approach has not reduced efforts but moreover strengthened the focus on prioritisation and impact. The company has in place infrastructure, monitoring and verification systems to manage a deforestation-free supply chain.

These actions have led to 97% of the company's palm oil, paper and board, tea, soy and cocoa order volumes being independently verified as deforestation free.[15] We asked about the reduction to the sustainable sourcing commitment from 100% to 95% and the company confirmed this adjustment better reflects the need to provide space for new suppliers to improve and to enhance third-party verification processes.

On the implementation of free and prior informed consent (FPIC) by suppliers, we appreciated that the company has worked to better understand its sourcing locations for materials which have identified risks, including customary land rights that pre-date FPIC. Unilever said it is working to embed these learnings into its supplier policies. The company has also been spending time on land rights and developed the human rights defender document in 2023.

The company remains concerned about the risks associated with deforestation certifications. The company is exploring risk mitigation strategies including increased reliance on digitization and technology solutions such as imagery. For example, Unilever expanded the coverage of its palm oil monitoring platform, which uses satellite imagery and geolocation data to measure deforestation in the supply chain; and, along with USAID, WRI, NASA, Google, and others, has developed the Forest Data Partnership.[16] The company said audits remain important but are not always necessarily the best catch all. The company confirmed it is in its second supplier cycle of independent verification and audit. A recent review identified processes and controls for audit improvement and the company has conducted over 1000 hours of supplier training. We will continue to engage with the company on deforestation through the FSDA in 2025.

> **Unilever expanded the coverage of its palm oil monitoring platform, which uses satellite imagery and geolocation data to measure deforestation in the supply chain.**

We also provided informal feedback to the FSDA initiative and the IIGCC on deforestation investor expectations for commercial banks.[17] Banks can be exposed to deforestation risks through the financial services they provide to companies that produce and/or use products contributing to deforestation within their direct operations or value chains.

Banks that fail to address deforestation are exposed to financial risk through various channels, including physical risk, transition risk and failure to align with net zero. Building on the FSDA's investor expectations of companies the deforestation expectations for commercial banks were published in September 2024.[18]

[13] To note, companies engaged through the FSDA initiative may also engaged by EOS independently on other issues.
[14] IIGCC, "FINANCIAL SECTOR COMMITMENT LETTER ON ELIMINATING COMMODITY-DRIVEN DEFORESTATION" (November 2021)
[15] Unilever, "Our progress towards a deforestation-free supply chain"
[16] Unilever, "Our progress towards a deforestation-free supply chain"
[17] IIGCC, "First-ever investor expectations on deforestation for commercial and investment banks published by FSDA and IIGCC" (September 2024)
[18] IIGCC, "First-ever investor expectations on deforestation for commercial and investment banks published by FSDA and IIGCC" (September 2024)

Metrics and Targets

Public Markets Targets

Our public market interim targets:

- **25% of in-scope AUM and financed emissions to be 1.5°C-aligned by 2025: 50% by 2027 and 80% by 2030.**
- **We aim for 80% of our financed emissions (Scope 1, 2 and material 3) to be Paris-aligned or engaged on climate change, which will grow to 90% by 2027.**

By targeting 80% of the assets within portfolios to be aligned to these pathways by 2030, the vast majority of portfolio emissions should be decreasing in line with 1.5°C pathways that substantially incorporate the Intergovernmental Panel on Climate Change (IPCC)'s requirement for a 50% global reduction in CO_2 emissions by 2030. We have targeted 80% to allow for 20% portfolio rotation into new companies which require further engagement.

As at 31 December 2024, we engaged with 83% of our financed emissions across Scope 1, 2 and 3 emissions during 2024. This includes both upstream and downstream emissions for Scope 3.

Figure 17 shows the current state of alignment of our public markets as a percentage of our AUM and as a percentage of financed emissions (Scope 1, 2 and 3 emissions, and Scope 1, 2 and material 3 emissions) as at 31 December 2024. The percentage of AUM in the 'Aligned' category has increased over the last year, however the percentage of financed emissions (based on Scope 1, 2 and material 3 emissions) that this represents has slightly decreased over the same period. Whilst we are on track to meeting our 2025 target, we recognise that significant progress – in terms of government policies to facilitate the transition and companies setting robust transition plans – is required to meet our 2027 target.

The decrease in aligned financed emissions is predominantly due to an increase in the EVIC (enterprise value including cash) of the aligned companies where we have the largest exposures. For example, the top 10 aligned names accounted for 14.2% in 2023 whereas it only accounted for 9.1% in 2024 despite our exposures being similar. For some of these companies the EVIC increase was almost 80%. We currently assess the alignment of holdings in our funds by assessing the greenhouse gas ("GHG") reduction targets that the company has set. Further information on our Paris Alignment methodology can be found in the public markets 'Engaging on climate change' section earlier in this report and in our Climate Action Plan.

There are two tests taken to understand whether Scope 3 emissions are material to a company. If an investee company meets one test, we deem it to have material Scope 3 emissions. The first test considers whether a company is within one of the following Global Industry Classification Standard ("GICS") industries, which we consider having material Scope 3 emissions:

- Industry – Chemicals
- Industry – Aerospace & Defence
- Sub-industry – Construction Machinery & Heavy Trucks
- Sub-industry – Agricultural & Farm Machinery
- Industry – Transportation Infrastructure
- Industry – Automobiles
- Industry Group – Consumer Discretionary Distribution & Retail
- Sector – Consumer Staples

The second test looks at whether a company's Scope 3 emissions account for 40% of more of its total emissions. We continue to contribute to and monitor the development of best practice guidance for the consideration of Scope 3 emissions.

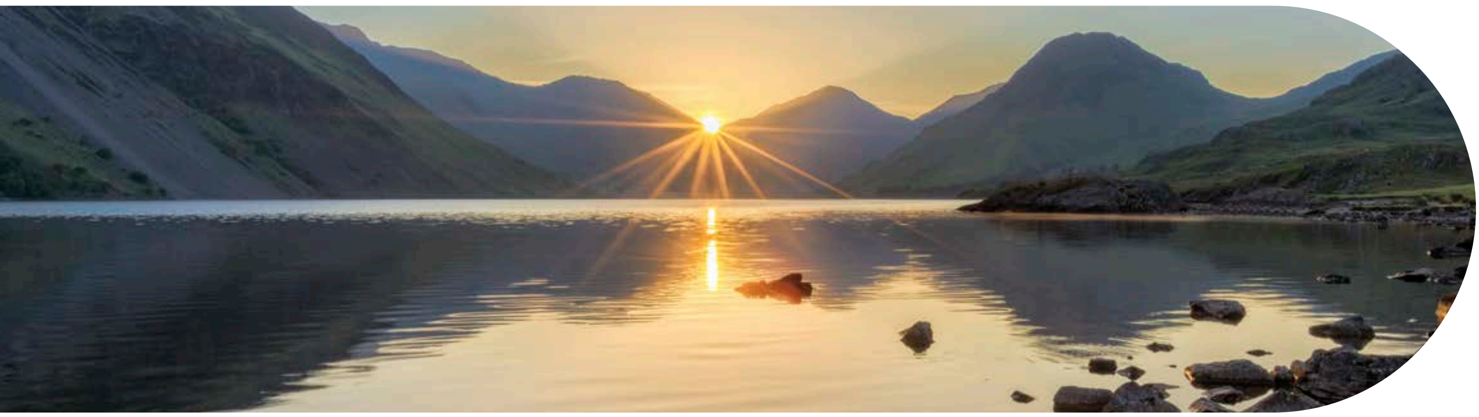


Figure 17. Alignment according to Federated Hermes methodology of public markets exposure (% of AUM and financed emissions) in Federated Hermes shareholder and participating funds (public equity and credit).

	2023			2024		
Category	% of AUM	% of financed emissions (Scope 1, 2 and upstream 3)	% of financed emissions (Scope 1, 2 and material 3)	% of AUM	% of financed emissions (Scope 1, 2 and upstream 3)	% of financed emissions (Scope 1, 2 and material 3)
Not Aligned	27.0%	23.8%	25.0%	**28.2%**	**25.0%**	**30.6%**
Unscored	5.3%	18.0%	6.5%	**7.5%**	**27.0%**	**12.4%**
Committed to net zero	28.5%	32.0%	27.1%	**27.6%**	**27.1%**	**24.4%**
Aligning	14.7%	13.9%	8.8%	**9.0%**	**7.6%**	**6.6%**
Aligned	24.5%	12.3%	32.6%	**27.7%**	**13.3%**	**26.0%**

Source: Federated Hermes, Trucost, MSCI, SBTI, as at 31 December 2024.

Carbon Footprinting

Across all our strategies we aim for high carbon data coverage. In 2021, we developed our own internal issuer hierarchy to improve data coverage in the public credit space. We also developed our own internal baseline methodology which excludes certain securities where there is lack of ESG data (cash, FX, long CDS, index or pooled product, sovereign, derivative where underlying is a government entity). This makes up 2.96% of our total public equity and credit AUM (excluding cash and FX exposure). Figure 18 below does not take these securities into account. We are also not yet able to measure the carbon footprint of our sovereign and structured credit exposure. This is due to a lack of data and available methodologies in this space. This is an area of continued focus and we are evaluating estimation methodology to fill in the gaps.

In addition to those exclusions described above, securities for which we have no data (reported or estimated), primarily due to lack of coverage by third-party data providers, are excluded from the calculation. This includes removal of these names from the AUM figures used in our carbon metric calculations. This ensures that we are not understating our carbon exposure by excluding companies with no data from the numerator but including them in the denominator.

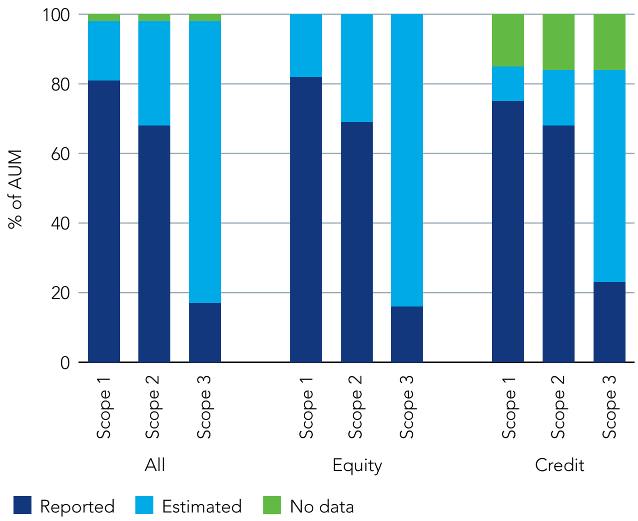
We calculate aggregated emissions in line with the TCFD recommendations.

We use estimated data where there are gaps in reported data from the investee company (apart from the exceptions described above). We rely on third-party data providers for our estimated data.

We use a third-party data provider, S&P, for our GHG emissions data for publicly listed companies on Scope 1, 2 and 3 emissions. S&P estimate emissions where there are gaps in reported data using their environmentally extended input-output ("EEIO") model which combines industry-specific environmental impact data with quantitative macroeconomic data on the flows of goods and services between different sectors of the economy.

Figure 19 shows the breakdown of reported and estimated data by each asset class used in this report.

Figure 19. Breakdown of reported, estimated and non-disclosure of carbon emissions data across Scope 1, 2 and 3 for public markets.



Source: Federated Hermes, as at 31 December 2024.

Whilst the weighted average carbon intensity (WACI) is a useful metric that can be applied across different asset classes, it allocates emissions based on the weight of a holding in a portfolio rather than the carbon footprint, which is our owned emissions based on our investment relative to the overall value of the investee company. Hence, we also report our carbon footprint, which allows us to measure tCO_2e for every million invested. We use the enterprise value including cash (EVIC) method for calculating the owned emissions of public equity and credit assets.

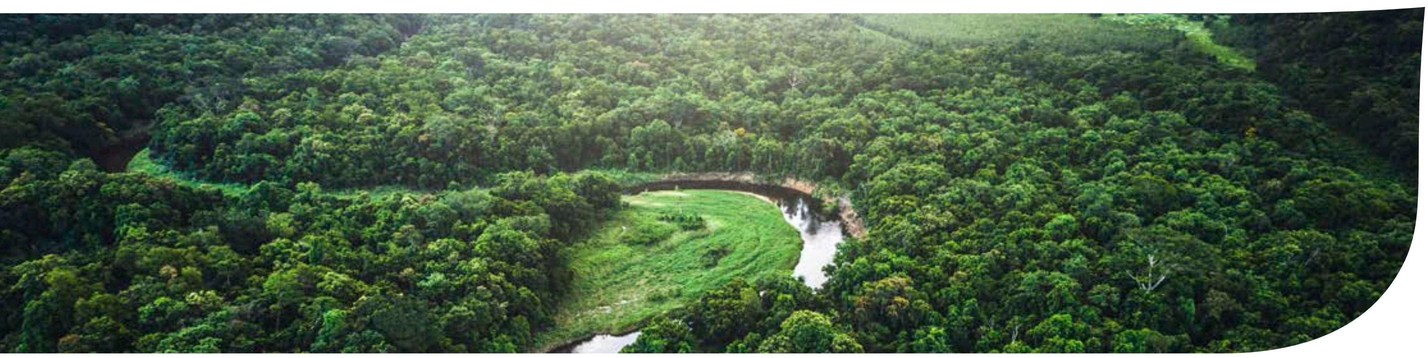


Figure 20 shows the WACI for public markets, including changes year-on-year since 2022.

Figure 20. Weighted average carbon intensity ("WACI") and carbon footprint of public equity and credit.

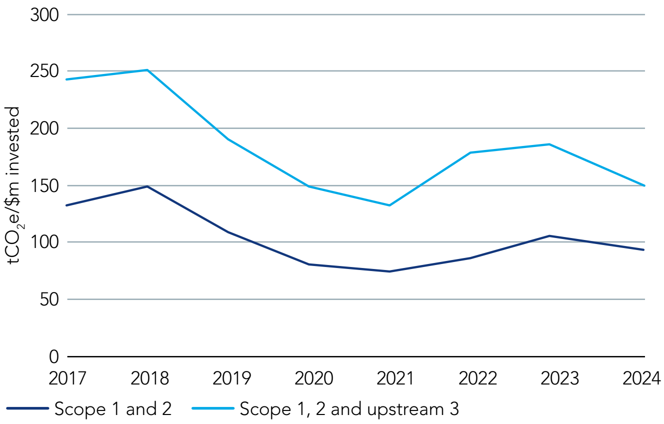
Asset Class	Unit	Scope included[1]	2022	2023	2024
Public Equity and Credit	WACI (tCO_2e / $mn revenue)	1,2	115.0	137.2	133.7
		1,2, upstream 3	251.2	259.9	231.4
Public Equity and Credit	Carbon Footprint (tCO_2e / $mn invested)	1,2	87	107	92
		1,2, upstream 3	179	184	150

Source: Federated Hermes, Trucost, 31 December 2024.

Over the course of 2024 we have continued to monitor the carbon intensity of our public market investments. Both our carbon footprint and WACI have decreased since 2023.

Within public markets – public equities and credit – we have seen our aggregate carbon footprint decline by c.40% since a peak at the end of 2018 to year-end 2024 and a 36% decrease in WACI since 2018. This shown in Figure 21 below. 2018 is the year we introduced the carbon tool, and this improvement seems to indicate its impact in helping our investment managers integrate, respond to, and manage transition risk within their portfolios.

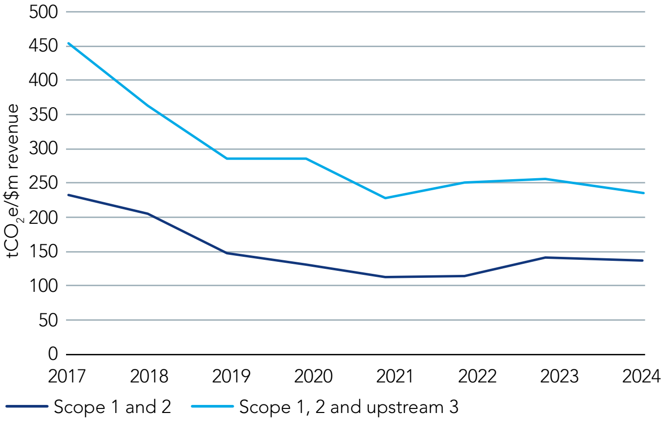
Figure 21. Carbon footprint (tCO_2e/$m invested) of public equity and credit in Federated Hermes shareholder and participating funds (Scopes 1 and 2, and Scope 1, 2 and upstream 3)



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

Figure 22 shows the WACI of our public equity and credit portfolios. The analysis includes Scope 1, 2 and upstream 3 emissions.

Figure 22. Weighted average carbon intensity (tCO_2e/$m revenue) of public equity and credit in Federated Hermes shareholder and participating funds (Scopes 1 and 2, and Scope 1, 2 and upstream 3)

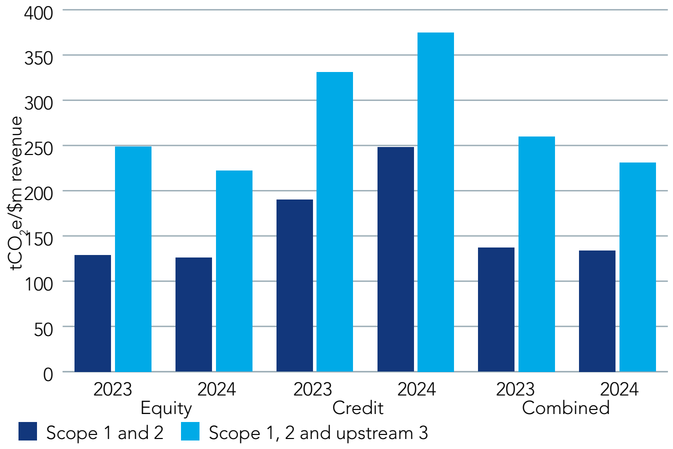


Source: Federated Hermes, Trucost, as at 31 December 2024.

Figure 23 on the next page splits out the WACI by public equity and credit. The WACI of public equity across both Scope 1 and 2, and Scope 1, 2 and upstream 3, has increased year-on-year compared to 2022. This is due to the purchase of Anhui Conch Cement, as discussed above. The WACI of public credit across Scope 1 and 2 has also slightly increased, which appears to be partly due to an increase in market value of The Southern Co and Alcoa Corp. Both companies have committed to net zero by 2050 and we are engaging both on climate change. When adding in upstream Scope 3, the WACI for public credit stays consistent year-on-year.

[1] References to Scope 3 emissions include upstream and downstream emissions unless otherwise specified.

Figure 23. Weighted average carbon intensity (tCO_2e/$m revenue, weighted by the proportion of each holding in the portfolio) of public equity and credit in Federated Hermes shareholder and participating funds.

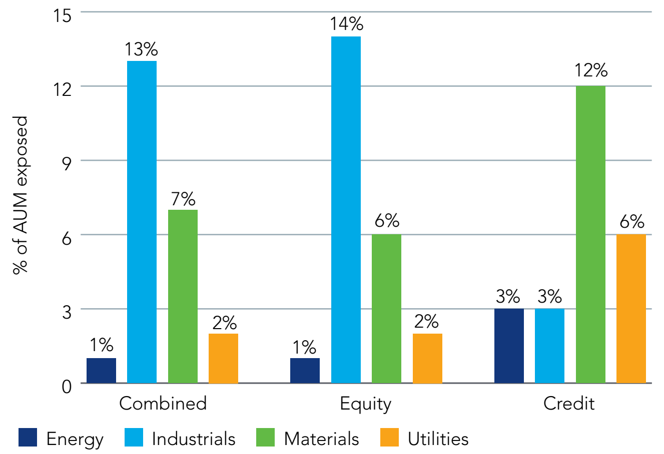


Source: Federated Hermes, Trucost, as at 31 December 2024.

Looking beyond GHG emissions, we use data, metrics and targets from various sources in order to understand a company's exposure to climate- and nature-related risks and opportunities. These are informed by the recommendations of the TCFD and TNFD but have been selected on the basis of what is most appropriate to our business and to the asset classes we manage, as well as where we have data of sufficient quality so as not to be misleading.

In Figure 24 we look at our exposure to carbon intensive sectors (energy, industrials, materials and utilities) in shareholder and participating funds (both public equity and credit). Out of the four carbon intensity sectors, our equity funds have most exposure to industrials whereas our credit funds have most exposure to materials.

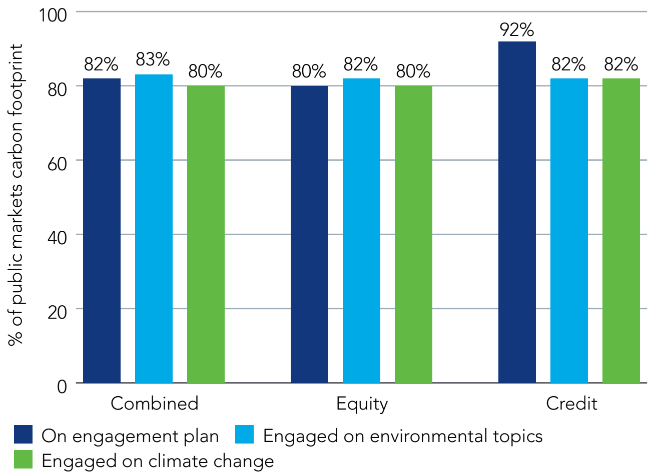
Figure 24. Public markets exposure (% of AUM) to carbon intensive sectors in Federated Hermes shareholder and participating funds (public equity and credit).



Source: Federated Hermes, as at 31 December 2024.

We believe that climate is a material risk across a variety of sectors, and therefore climate change is an important topic for our engagement. We aim to engage with our top emitters, with a first focus on the top 100 emitters across our public equity and credit funds which makes up c. 80% of our public equity and credit carbon footprint. Climate change will continue to be a main point of conversation to ensure that we have a good understanding of the climate risks of the asset and that appropriate actions are being undertaken to minimise the transition risk, in line with our net-zero target. Figure 25 shows the proportion of the carbon footprint of our public equity and credit investments that was covered in 2024 by our engagement both on all environmental topic, and specifically on climate topics.

Figure 25. Percentage of public markets carbon footprint (Scope 1, 2 and upstream 3) on the engagement plan and engaged on environmental and climate change topics by EOS and Federated Hermes investment team engagers in Federated Hermes shareholder and participating funds (public equity and credit).



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

As well as identifying climate-related risks across our portfolios, we also recognise the importance of identifying climate opportunities. The metrics in the figure below show the impact created through our public market strategies apportioned based on our investment in the companies.

Avoided emissions are the emissions avoided by the use of goods or services as a substitute for other goods or services with a high emissions intensity.[2] Currently, there are variations in how companies calculate and report avoided emissions, and so such metrics should be understood as an estimate. The below figures cover 80% of our public markets AUM, and includes modelled data.

[2] Greenhouse Gas Protocol, "Estimating and Reporting Avoided Emissions"

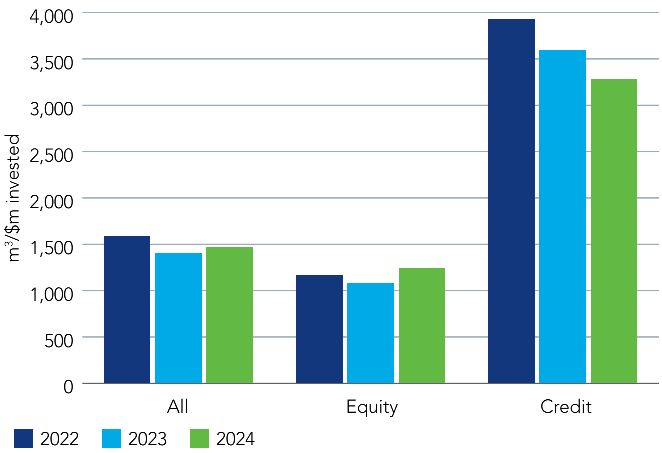
Figure 26. Impact metrics created by our public market strategies (public equity and credit) apportioned by our investment in the companies

Impact Metric[3]	Apportioned portfolio impact
CO_2e avoided	1.7bn tonnes
Renewable energy or electricity production enabled	1.9bn MWh

Source: Net Purpose, as at 31 December 2024. Data disclosure: 80% of AUM covered.

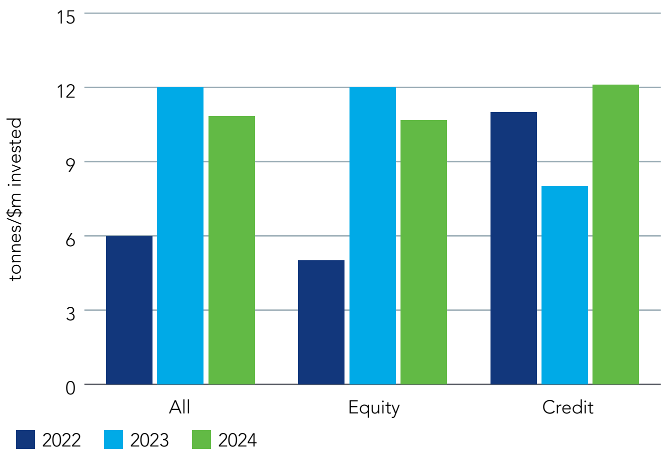
Through our Environmental Tool, we also assess the water and waste footprint of our portfolios. The below charts show the water footprint (direct cooling, direct processing and purchased water) and waste footprint (landfill, incinerated and nuclear) of our public market funds, and also the split of reported versus estimated/modelled data.[4] We use a third-party data provider (S&P) for our water and waste data who use their EEIO model (described above) to model impacts where there are gaps in reported data. We have no data on cooling water for a high proportion of our AUM as the data provider only estimates cooling water for utilities companies. The aggregated waste footprint across both our equity and credit funds have decreased since 2023 however, we do note a slight increase across our credit funds. This has been primarily due to increase in our exposure to a number of companies that have a slightly higher waste footprint.

Figure 27a. Water footprint (m^3/$m invested) of public equity and credit in Federated Hermes shareholder and participating funds.



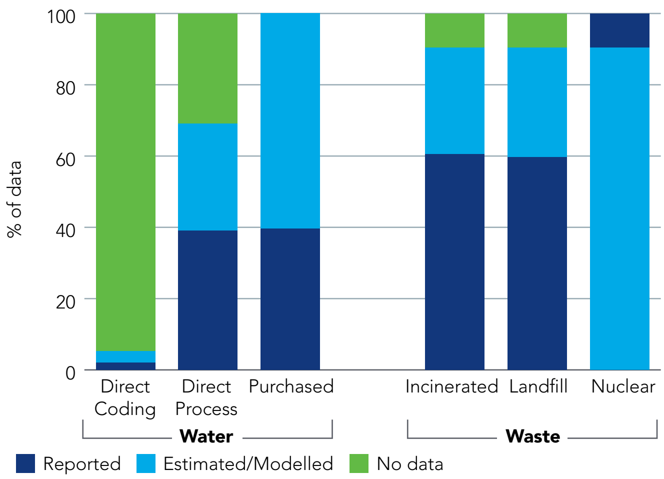
Source: Federated Hermes, Trucost, as at 31 December 2024.

Figure 27b. Waste footprint (tonnes/$m invested) of public equity and credit in Federated Hermes shareholder and participating funds.



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

Figure 27c. Breakdown of reported, estimated and non-disclosure of water and waste data of public equity and credit in Federated Hermes shareholder and participating funds.



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

Along with mitigating risks associated with managing water- and waste-related risks, we have also invested in opportunities. In 2024, our investments in public markets contributed to a saving of 45bn m^3 of water.[5]

[3] Source: Federated Hermes, Net Purpose, Federated Hermes Impact Calculations
[4] Modelled data includes data where the value has been derived by the data provider using data reported by the company.
[5] Source: Net Purpose; data coverage: 80% of AUM; 100% modelled data.

Deforestation

In line with our commitment to strive to eliminate commodity-driven deforestation from our portfolios at COP26, deforestation has been a focus area across our engagement, advocacy and reporting.

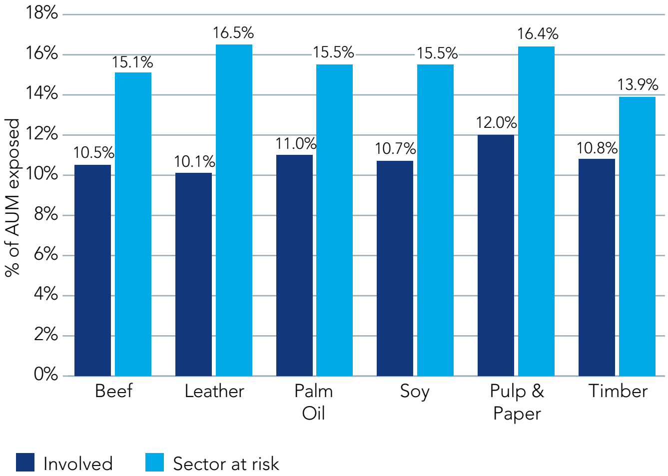
We have based our commodity-driven deforestation risk assessment on the Due Diligence towards Deforestation-Free Finance Guidance for financial institutions, produced by Global Canopy.[6] This guidance recommends assessing both exposure risk and policy risk. Deforestation exposure risk is defined as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

Due to lack of data on certain points, we have simplified the recommended exposure assessment by assessing whether the company has confirmed involvement in one of the following forest-risk commodities: palm oil, soy, beef, leather, timber, and pulp and paper. To assess any potential data gaps, we also identify whether companies are in high-risk sectors for commodity-driven deforestation.

Figure 28 shows the output of this analysis for Federated Hermes's public markets AUM, with the percentage of our public markets AUM in sectors with a high risk of exposure to commodity-driven deforestation. The difference between the percentage of AUM with confirmed exposure and the percentage in high-risk sectors indicates that there could be additional investees not covered by our data provider which have exposure to forest-risk commodities. However, not all companies in high-risk sectors will have exposure.

The exposure analysis looks at both corporate companies and financial institutions. This analysis shows that 13% of Federated Hermes public market AUM has confirmed exposure to forest-risk commodities as at 31 December 2024, with 6.0% being corporates and 7.1% being financial institutions.

Figure 28. Federated Hermes public markets exposure (% of AUM) to forest-risk commodities in Federated Hermes shareholder and participating funds (public equity and credit)



Source: Federated Hermes, Forest IQ, Global Canopy, as at 31 December 2024.

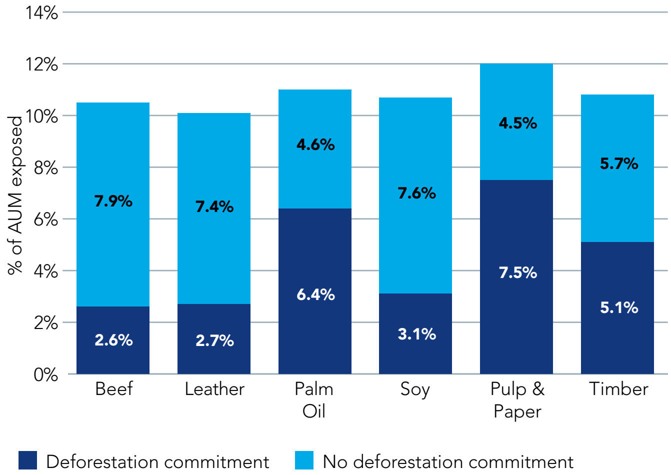
We have also drawn on the Global Canopy guidance to develop our policy risk assessment. Our assessment focuses on the deforestation commitments and human rights commitments made by companies. We expect a company to set either a zero-gross conversion or zero-gross deforestation commitment for all forest-risk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

- Commitment to test for Free, Prior and Informed Consent (FPIC)
- Commitment to respect customary and legal land rights
- Commitment on labour right
- Commitment to a zero-tolerance approach to violence and threats against Forest, Land and Human Rights Defenders

Figure 29a below shows that our investees with confirmed exposure to palm oil, timber and pulp and paper have the highest proportion of deforestation commitments, whilst companies involved in soy, beef and leather are lagging on setting any form of deforestation commitment. For all the forest-risk commodities, we have exposure to companies without deforestation commitments.

[6] Global Canopy, "Due diligence towards Deforestation-Free Finance"
[7] Accountability Framework, "New Framework-aligned guidance for financial institutions" (June 2023)
[8] Global Canopy, "Due diligence towards Deforestation-Free Finance"

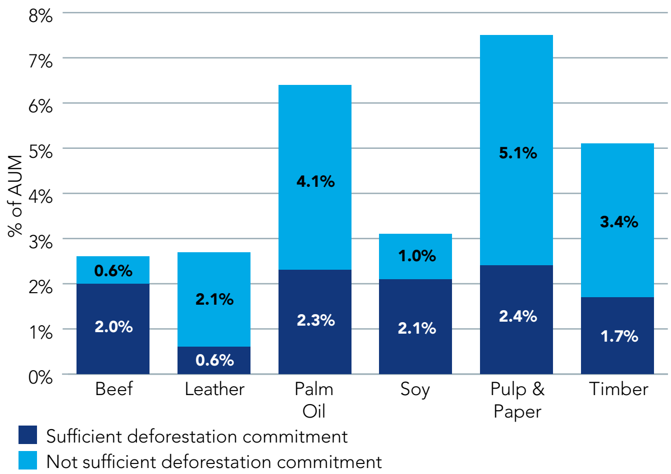
Figure 29a. Overview on deforestation commitments set for public market exposure (% of AUM) to forest-risk commodities in Federated Hermes shareholder and participating funds (public equity and credit)



Source: Federated Hermes, Forest IQ, as at 31 December 2024.

Figure 29b further breaks down the companies with deforestation commitments shown in Figure 29a into companies with deforestation commitments that we deem sufficiently strong, and those with commitments that we deem insufficient. We expect a company to set either a zero-gross conversion or zero-gross deforestation commitment for all forest-risk commodities that it is exposed to, as well as at least one of the human rights commitments outlined above, in order for a commitment to be considered strong. We find that our investee companies with exposure to leather seem to lag behind in setting sufficient commitments relative to other commodities.

Figure 29b. Breakdown of sufficient and not sufficient deforestation commitments set for public market exposure (% of AUM) to forest-risk commodities in Federated Hermes shareholder and participating funds (public equity and credit)

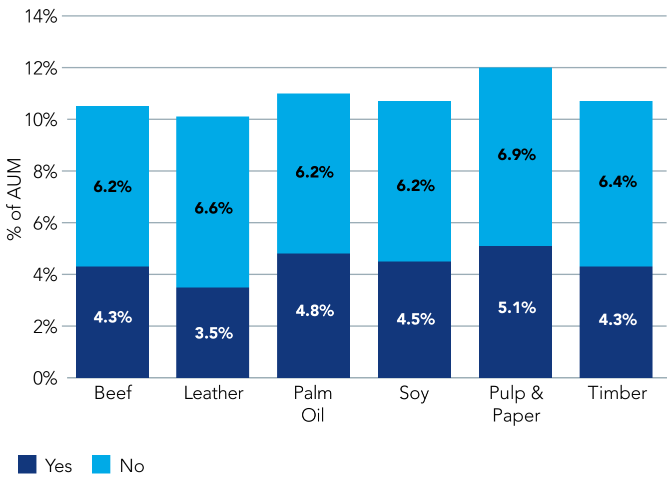


Source: Federated Hermes, Forest IQ, as at 31 December 2024.

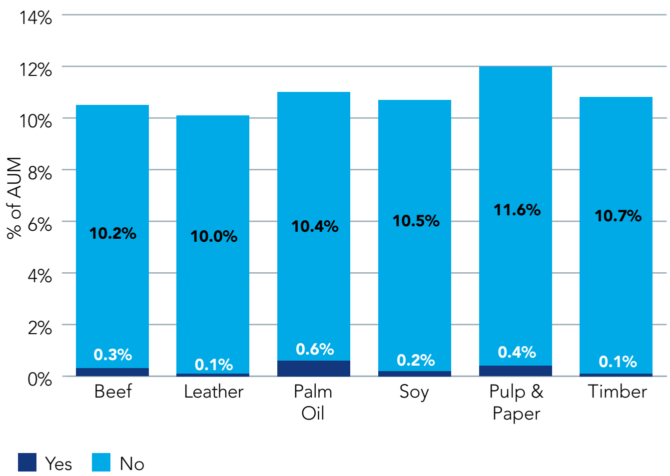
Figures 30 below again focus on those companies in our portfolios with confirmed exposure to forest-risk commodities. These charts break down the proportion of our AUM which has made each of the human rights commitments highlighted above. We find that FPIC and labour rights commitments are more common than commitments on customary rights and zero-tolerance to violence and threats against forest, land and Human Rights Defenders.

Figure 30. Overview on human rights commitments set for public market exposure (% of AUM) to forest-risk commodities in Federated Hermes shareholder and participating funds (public equity and credit)

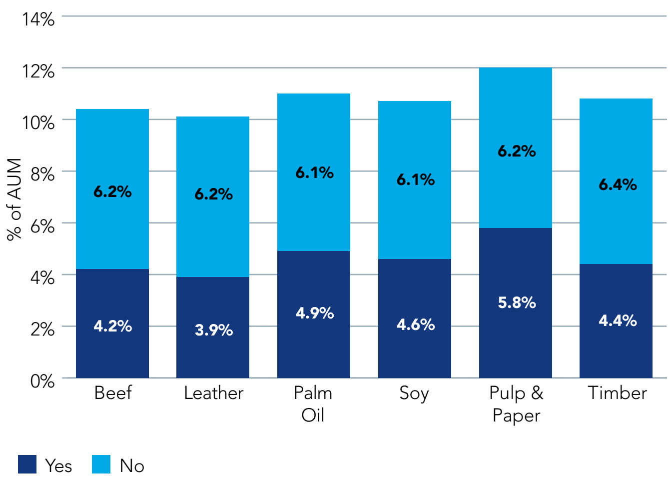
FPIC



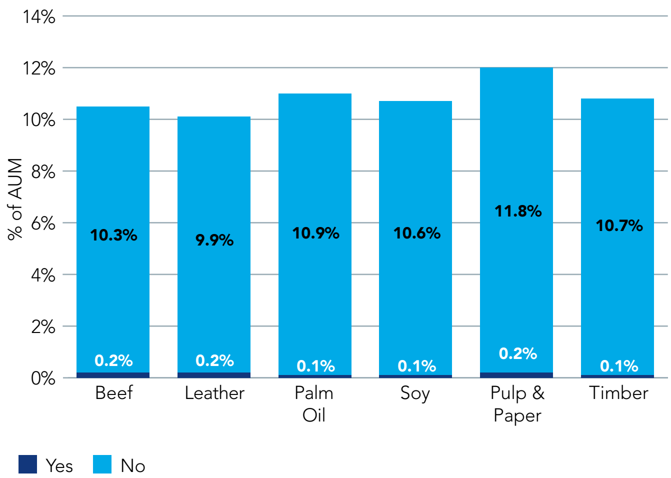
Customary rights



Labour rights



Zero-tolerance to violence and threats against Forest, Land and Human Rights Defenders



Source: Federated Hermes, Forest IQ, as at 31 December 2024.

Figure 31 below shows the output of both the exposure analysis and the policy analysis. We focus our engagement efforts on companies that are exposed to forest-risk commodities and have high policy risk. 14.4% of our public markets AUM has an unknown classification. This is either due to a lack of industry classification, meaning we are unable to assess whether the company is in a high-risk sector, or because the company sits in a high-risk sector but is not covered by Forest IQ, therefore we are unable to assess whether the company is involved in a forest-risk commodity. This 14.4% is not included in the table below. We classify companies that do not sit in high-risk sectors and are not covered by the Forest IQ dataset as "Not exposed". We believe these companies to be low risk as there is a low probability that they will have exposure to commodity-driven deforestation.

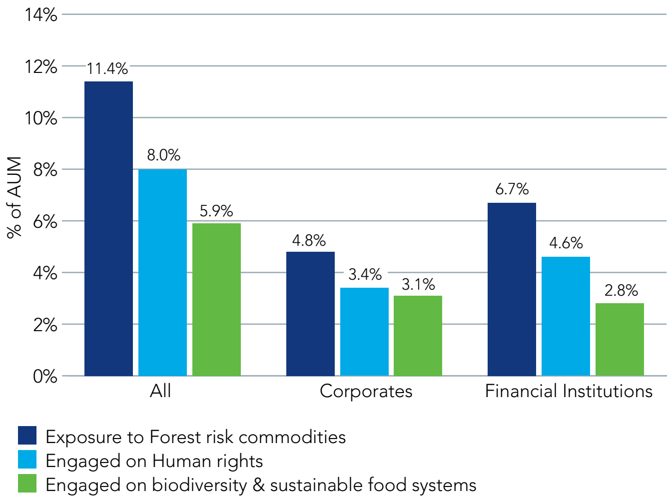
Figure 31. Exposure and policy risk (% of AUM) of public markets holdings in Federated Hermes shareholder and participating funds (public equity and credit)

Classification		Policy risk		
		Low risk	Medium risk	High risk
Exposure	Not exposed	72.5%	n/a	n/a
	Exposed	0.0%	1.6%	11.4%

Source: Federated Hermes, Forest IQ, as at 31 December 2024.

Figure 32 below shows a breakdown of high-risk holdings exposed to forest-risk commodities of public markets holdings (based on percentage of AUM) and what percentage had been engaged in the previous 12 months on human rights (indigenous and community rights and supply chain rights) and biodiversity (which includes, but is not limited to, engagement on deforestation).

Figure 32. Breakdown of high-risk holdings exposed (% of AUM) to forest-risk commodities of public markets holdings with engagement information in the previous 12 months in Federated Hermes shareholder and participating funds (public equity and credit)



Source: Federated Hermes, Forest IQ, as at 31 December 2024.

Thermal Coal

As at 31 December 2024, 0.95% of our public markets AUM had exposure to thermal coal, which is a decrease on our exposure at 31 December 2023 which was 1.39%. The majority of these names – representing 0.77% of our AUM - were engaged during 2024 on the topic of climate change. Out of the names that were not engaged, there was only one company that had over 5% revenue exposure to thermal coal that was not engaged. The company is primarily involved in natural gas which we see as being a transitionary fuel as move to more renewable sources of energy. Only 0.1% of our AUM was invested in companies with a revenue exposure to thermal coal of over 5% during 2024.

Private markets

In private markets, ESG 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 environmental, social and governance risks within their investments.

In terms of reporting our emissions, for real estate debt we use estimated data where there are gaps in reported data from the investee company (apart from the exceptions described above). For private equity, we only use estimated data. We rely on third-party data providers for our estimated data. Our real estate, infrastructure and direct lending funds only use reported data from the portfolio companies or assets in this report. More information is available under the relevant asset class sections.

Our portfolios advised by Federated Hermes invest across a number of different asset classes and there is no single carbon metric that can be reliably aggregated across asset classes to give a view on our carbon intensity. We adapt the methodology for our weighted average carbon intensity ("WACI") calculation for some of the asset classes where we believe revenue is not a useful indicator of intensity.

For our real estate and real estate debt portfolios, the standard practice within the industry including INREV ("European Investors in Non-Listed Real Estate") and EPRA ("European Public Real Estate") reporting, as well as the definition of reporting under GRESB ("Global ESG Benchmark for Real Assets") uses the complete buildings in the footprint rather than the return on the amount of equity invested, as the revenue can differ widely depending on the type of occupier and the nature of the assets usage (such as industrial versus office). For our private equity portfolios, we look at the carbon footprint, rather than the weighted average carbon intensity due to lack of revenue data.

Figure 33. Overview of our private market weighted average carbon intensity (WACI)

Asset Class	Unit	Scope included[9]	2023 WACI	2024 WACI	Coverage
Infrastructure	tCO_2e / £mn revenue	1,2	440.5	444.3	Reported: 99% Estimated: 0% No Data: 1%
		1,2,3	565.5	525.3	Reported: 93% Estimated: 0% No Data: 7%
Real Estate	$kgCO_2e$ / m²	1,2	21.2	15.8	Reported: 100% Estimated: 0% No Data: 0%
		1,2,3	ND	28	Reported: 69% Estimated: 0% No Data: 31%
Real Estate Debt	$kgCO_2e$ / m²	1,2,3	43	36.9	Reported: 36% Estimated: 64% No Data: 0%
Direct Lending	tCO_2e / $mn revenue	1,2	20.2	19.2	Reported: 21% Estimated: 0% No Data: 79%
		1,2,3	283.6	60	Reported: 26% Estimated: 0% No Data: 74%
Private Equity	tCO_2e / £mn NAV	1,2	17.8	15.1	Reported: 0% Estimated: 100% No Data: 0%
		1,2,3	96.3	100.7	Reported: 0% Estimated: 100% No Data: 0%

Source: Federated Hermes as at 31 December 2024.

Infrastructure

Scenario Analysis

The infrastructure team invest in real assets that may be both exposed to physical climate events and connected to industrial activities that are currently emissions intensive. In 2021, the infrastructure team conducted a physical and transition climate risk and opportunity assessment with leading consultancy, Environmental Resources Management ("ERM"), that produced insight into the climate-related risks and opportunities across the portfolio. In 2024, the team updated the results of this assessment with ERM performing a review of the previous analysis using up-to-date data from the latest climate scenarios. Figure 34 shows the scenarios that were used in this analysis.

Figure 34. Infrastructure scenario analysis

Scenario	High Carbon		Low Carbon	
Physical Time horizons: 2030 and 2050	RCP 8.5 (2021 assessment) SSP5-8.5 (2024 review)	This high emissions scenario follows a 'business as usual' scenario, seeing emissions increasing year on year out to the end of century and reach around three times today's CO_2e emissions by 2100.	RCP 4.5 (2021 assessment) SSP1-2.6 (2024 review)	This scenario assumes implementation of emissions management and mitigation policies and is most aligned to the current commitments under the Paris Agreement.
Transition Time horizons: 2025, 2030, 2040 and 2050	IEA Stated Policies Scenario (STEPS)* (2021 assessment and 2024 review)	This scenario reflects current policy settings based on a sector-by-sector and country-by-country assessment of the energy-related policies that are in place, as well as those that are under development. The scenario also considers currently planned manufacturing capacities for clean energy technologies.	IEA Sustainable Development Scenario (SDS) (2021 assessment) IEA Announced Pledges Scenario (2024 review)	This scenario assumes that climate policies are introduced immediately and become gradually more stringent. Carbon removal technology deployment is relatively low. Net-zero CO_2 emissions are achieved after 2070.

*Where indicators were not available in the 2024 IEA Stated Policies scenario, indicators from the NGFS scenarios were used.

Source: Environmental Resources Management, Federated Hermes.

[9] References to Scope 3 emissions include upstream and downstream emissions unless otherwise specified.

The portfolio screening assessment in 2021 provided data on climate-related trends relevant to each of the portfolio companies. The assessment considered the significance of climate indicators, including specific physical climate hazards and low carbon economy transition trends, across short-, medium- and long-term timeframes. The identified indicators were rated on a scale of 'low' to 'high' in terms of their potential significance to each portfolio company. The climate indicator data was then combined with these exposure ratings to develop a company-specific score for each risk and opportunity. Scenarios for this analysis were selected to provide a comparative view of possible risks and opportunities under different decarbonisation and global warming trajectories.

Additionally, in 2023, to enhance the team's evaluation of transition risks identified by the scenario analysis, the team worked with ERM again to complete a detailed assessment of the risks and opportunities posed specifically by increased regulatory carbon pricing. Carbon pricing has the potential to impose direct and rising costs on some infrastructure investments with an impact for valuations. However, the analysis found the applicability of carbon pricing to investments and the materiality and channel of its impact to be complex and asset-specific. Certain investments were potentially at greater risk of increased regulatory carbon pricing, and therefore developments in relevant jurisdictions were identified for monitoring. The risks associated with carbon pricing will continue to be assessed throughout the investment lifecycle in the context of the wider approach to managing climate-related risks and opportunities.

In the 2024 update, climate data from the 2021 assessment was reviewed against up-to-date scenarios to understand whether any material changes to risks and opportunities were likely for the portfolio. Figure 35 summarises the risks and opportunities for the portfolio that were identified through this scenario analysis.

Figure 35. Infrastructure risks and opportunities

Risk or Opportunity	Description of Risks and Opportunities	Time Horizon
Transition Risks	Portfolio companies within highly carbon intensive sectors which do not or cannot take action to transition to a lower carbon economy may experience revenue impacts, potentially resulting in a reduction in returns. For example, as policies designed to reduce natural gas supply and demand are enacted, demand for gas network infrastructure may decrease. Similarly, the actions taken to transition assets to remain competitive or meet regulatory requirements may have capital and operational expenditure requirements that affect returns. For instance, external pressures to electrify vehicle fleets and decarbonise key input materials, such as steel and cement, may lead to higher costs for infrastructure businesses that are investing in growth.	Short, medium and long-term
	The portfolio companies subject to emissions pricing mechanisms may experience increased costs, for instance through the purchase of emissions trading permits within emissions trading systems or through the payment of carbon taxes.	Short, medium and long-term
Physical Risks	Acute weather events can cause business interruption leading to loss of revenue and subsequent reduction in returns from infrastructure businesses. For instance, flooding on rail tracks leading to service disruptions for rail portfolio companies. Similarly, acute events can cause damage to a business' physical infrastructure resulting in increased capital costs and subsequent reduction in returns. For example, increased frequency and severity of storms could damage port infrastructure, such as cranes and vehicles.	Medium and long-term
	Chronic risks such as heatwaves can cause business interruption, especially for investments which are not incorporating sufficient resilience to adapt to climate change. For example, infrastructure businesses which rely on temperature sensitive equipment may experience increased failures in the future, roads may become heat damaged, rail tracks may buckle and there may be a decrease in workforce productivity, particularly for personnel working outdoors. This can all lead to delays in operations, increased costs, and subsequent reduction in returns.	Medium and long-term
Transition Opportunities	Increased demand for, and therefore revenues from, sustainable products and services may offer an opportunity for portfolio companies that offer these. For example, our energy-from-waste investments and water utilities investments which can produce biogas could increase revenue by capitalising on the increasing demand for non-fossil fuel energy projected in Europe.	Short, medium and long-term
	Contingent participation in a future market for negative emissions may arise as an opportunity for our energy-from-waste investment that could generate emissions-negative energy through carbon capture technology and therefore may produce carbon-removal credits.	Medium and long-term
	In the future, it is likely that businesses which are providing services in line with a low-carbon economy, such as renewable energy and rail, will experience reputational benefits as political, societal, and economic actors regard them as an integral part of the transition. Investment in these businesses will help to support regional and national decarbonisation goals.	Short, medium and long-term

Source: Environmental Resources Management, Federated Hermes.

Assessment, Integration and Engagement

Climate-related risks and opportunities are considered throughout the investment process, alongside infrastructure's target for all portfolio companies to be aligned with the 1.5°C goal of the Paris Agreement by 2025.

The scenario analysis and review of carbon pricing risks and opportunities performed to date inform the team's stewardship priorities with portfolio companies. The team update climate stewardship objectives annually, as risks and opportunities evolve over the duration of the holding periods, and work closely with portfolio company management teams to ensure these are being reflected in company risk management and business planning procedures. In some cases, the team directly input into and oversee areas of portfolio companies' mitigation and adaptation strategies, including through roles on company boards and sustainability committees.

As a sample of the infrastructure team's ongoing engagement, in Q4 2024, we recorded 86 sustainability-related engagements. Of these, approximately 20% were direct engagements with investee company management teams and the rest were primarily engagements with co-shareholders or management through the Board or Board committees. In terms of theme, 10% of all engagements were related to net zero and climate-related risks and opportunities. Engagement activities are carried out throughout the year as part of the team's active asset management approach and through annual strategic reviews, emerging ESG risks are identified which will likely affect, or are already affecting, portfolio companies. Engagement is the primary lever for managing these risks, including those related to climate change.

Please see the Federated Hermes Infrastructure 2024 TCFD report for more information on the team's approach.[10]

CASE STUDY: INFRASTRUCTURE

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 in the coming 12 months. 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 Federated Hermes 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.

[10] Federated Hermes, "Infrastructure TCFD Report 2024" (2024)

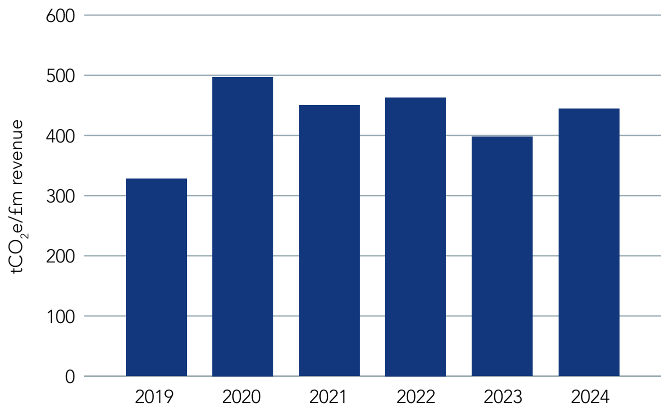
Metrics and Targets

Our infrastructure team has been collating Scope 1 and 2 emissions data from its portfolio companies since 2017. All companies, except one renewable energy Special Purpose Vehicle, report on their Scope 1 and 2 greenhouse gas emissions (representing over 99% coverage overall by NAV as at 31 December 2024).[11] We use this data to monitor the emissions of our infrastructure portfolio. When calculating the emissions of our portfolio, we use gross figures and do not include any 'avoided' emissions from renewable energy generation. Gross Financed Scope 1 and 2 emissions across the portfolio companies we are invested in decreased by 4.1% in 2024 versus 2023. The largest emitters, Cadent (the UK's largest gas distribution network) and Viridor (a leading UK recycling, resource and waste management company) together make up approximately 90% of gross emissions in the infrastructure portfolio. The decrease year-on-year was primarily driven by reduced diesel use by Viridor and further decreases in methane emissions from gas leakages at Cadent as a result of its mains replacement programme that replaces largely iron pipes with modern alternatives.

The infrastructure team also engages with portfolio companies to report Scope 3 emissions, and 93% of companies by NAV now report on these.

Despite a decrease in financed emissions, as shown in Figure 36, the WACI increased by 0.9% between 2023 and 2024 due to a slight increase in emissions intensity at one investment. We continue to engage with all portfolio companies to establish targets and further reduce their emissions in line with the goals of the Paris Agreement.[12]

Figure 36. The weighted average carbon intensity of our infrastructure portfolio (tCO_2e/£m revenue, weighted by the proportion of each investment in the portfolio)[12]



Source: Federated Hermes as at 31 December 2024.

Targets

Our Infrastructure interim target:

- **100% of portfolio aligned with the goals of the Paris Agreement by 2025.**

We focus on ensuring companies have long-term net-zero targets for 2050 or sooner and near-term targets aligned with a science-based, 1.5°C-aligned pathway demonstrated, for example, by validation by the Science-based Targets Initiative (SBTi).

Progress against our targets: As at 31 December 2024, the infrastructure team used our proprietary Paris Alignment Test in which companies were scored and classified as "Aligned", "Aligning", "Committed to Net Zero" and "Not Aligned". The breakdown of the infrastructure Net Asset Value (as at 31 December 2024) was as follows:

- 16% Aligned
- 11% Aligning
- 62% Committed to Net Zero
- 9% Not Aligned

Based on our latest assessment, we are currently not on track to achieve our commitment for all investments to be aligned with the 1.5°C goal of the Paris Agreement by 2025. Despite significant progress across the portfolio, there remain a number of technological and policy hurdles to setting a commercially feasible strategy that aligns with the 1.5°C goal for some of our portfolio companies. We believe that there is scope for further improvements to be made during 2025 and will re-assess overall alignment of the portfolio at the end of the year. This updated assessment will inform our approach to future target setting, which will reflect our ongoing commitment to the alignment of the portfolio with the goals of the Paris Agreement.

Real estate

Scenario Analysis

Our real estate team have undertaken climate resilience scenario planning since 2021. They examine climate-related transition and physical risks at an asset level across 100% of assets under management. The physical risks assessed include fluvial, surface and coastal flooding, extreme temperatures, tropical storms and wildfires. For transition risks, they examine the carbon intensity of assets and the reduction required under different scenarios covering current Nationally Determined Contributions (NDCs), 1.5°C alignment and 2°C alignment.

In 2024, we took advantage of scientific and modelling advances and also factored in changes to the real estate portfolio into our process. The real estate team reports portfolios' exposure to climate risk on the surveys submitted to the Global ESG Benchmark for Real Assets ("GRESB")

[11] Some of the underlying emissions figures are draft and could be subject to change and/or restatement.

[13] We have reinstated some data from prior years due to further data becoming available in the interim period, resulting in minor adjustments.

portal every year. Specifically, we disclose details on the resilience of real estate assets to climate-related risks, transition, and physical risk identification. At the fund level, all physical risks have been identified as low, with the highest risk coming from fluvial flooding at locations in Leeds, London and on the Dorset Coast. Where assets have been identified as being exposed to physical risks, risk mitigation plans are developed and implemented through our contracted property managers.

Assessment, Integration and Engagement

Our real estate business has embedded climate risk management throughout their asset management and investment processes since 2006.

For potential new assets, the team completes an initial screening which assesses the risks and opportunities for value-add from sustainability characteristics. This is then followed by our sustainability due diligence process, as part of which surveyors and environmental consultants identify risks and opportunities, including the alignment to relevant net-zero targets. The findings of this due diligence inform the asset-management plans and processes post-acquisition.

For our existing assets, we seek to identify efficiencies to reduce carbon emissions, water use and waste generation. Regular monitoring of an asset's performance is carried out through an external ESG platform. The use of the platform enables analysis at asset- and fund-level across all the environmental data sets. The team works closely with property management teams and asset managers to identify where improvements could be made.

The real estate team has developed internal tools and standards. The ESG Framework sets out the sustainable guidelines and principles for our project and development managers to follow. In 2024, the real estate team updated the 'Design Innovation Standard' tool which reflects the latest best practice and is intended to be used as a framework to support project teams in achieving the best possible sustainability outcomes based on the scale and scope of the project. The guidance sets out commitments, limits, and targets together with the scope of work required at different project stages, responsibilities and clear deliverables. These standards ensure a consistent, start-to-finish approach to sustainable refurbishment and development, making use of key RIBA Stages.[13] The approach also follows BREEAM principles, which adopt sustainable methods of construction to deliver an operationally efficient and sustainable building or refurbishment.[14]

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.

CASE STUDY

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. Centre:MK shopping centre is a public-private partnership between Milton Keynes City Council and Federated Hermes on behalf of the Joint venture partners . The aim of the Green Roof Project is to cover the entire flat roofing 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 approximately 50,000kg CO_2 (as at 31st December 2024)
- 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.

[13] 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.

[14] 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.

Targets

Our real estate interim targets:

- **25% reduction in energy intensity across all real estate assets by 2025, 40% by 2030 and 66% by 2035.**
- **Net zero commitment for real estate development and operational assets and for real estate debt by 2035.**

Progress against our targets: Compared to a 2018 baseline, energy intensity has been reduced by 52% on landlord-controlled assets as at 31 December 2024 (using location-based emissions).[15] This means that we are currently on track to reach our 2025 goal.

In line with our net-zero commitment, we have seen a reduction of 7.5% in landlord like-for-like energy consumption from 2023 to 2024 and a reduction in Scope 1 and 2 emissions for landlord-controlled energy procurement of 16,366 tCO_2e since 2018. This represents a 53% reduction since our 2018 baseline.

Since 2019, our real estate team has been part of the Better Building Partnership Climate Change Commitment with the aim of achieving net-zero emissions across our real estate portfolios by 2035. This target includes all scopes of carbon emissions from both landlord and occupier use.

By taking a proactive approach in developing and operating net-zero buildings, we intend to reduce the risk of having stranded assets. Net zero also presents opportunities for market leadership: to generate income resilience for our clients; to support and retain our occupiers; and to provide long-term value to our stakeholders.

As part of this commitment, on behalf of our clients, 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 Residential[16] and International[17] portfolios. Over half of our assets under management are currently aligned to the pathway, with nearly 10% reaching their net-zero target position already.

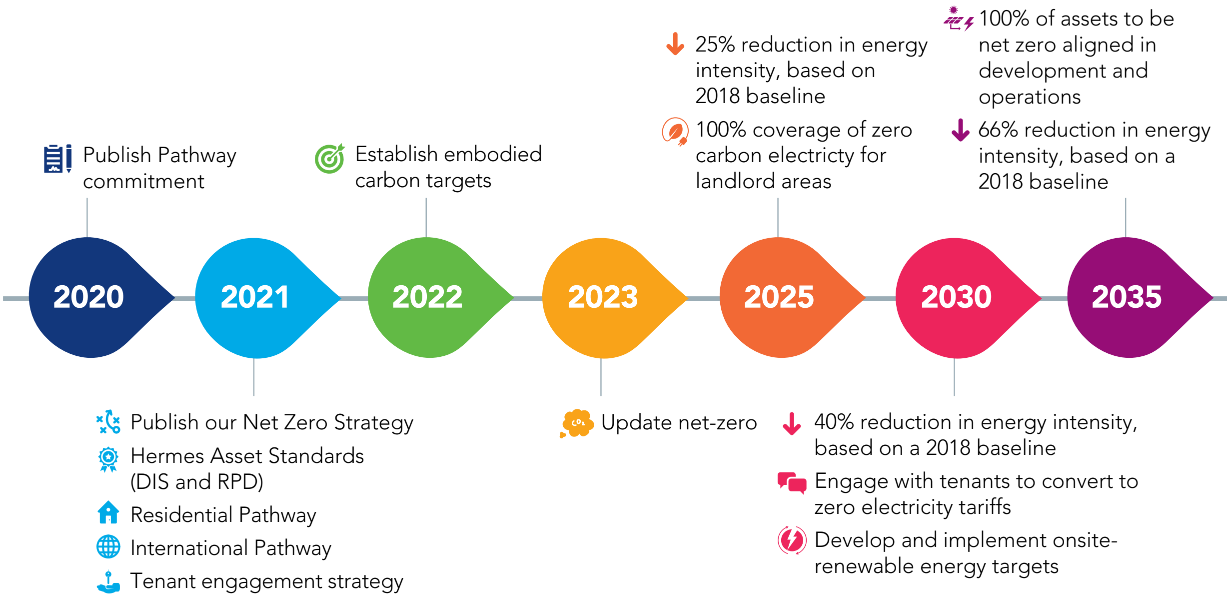
Over the period to 2035, we aim to deliver on the net-zero aspirations set out in the pathway, with a focus on delivery against four specific pillars of activity:

- Decarbonisation
- Deliver energy efficiency
- Stakeholder engagement
- Utilise offset opportunities

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

Decarbonising existing and heritage properties 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, however building-by-building approaches also fail to take advantage of the opportunities presented by portfolio-level investment decisions and economies of scale. Following the development of our real estate net-zero pathways, an in-depth decarbonisation review

Figure 37. Real estate approach to net zero



Source: Federated Hermes, as at 31 December 2024.

[15] Whilst this target applies to all assets, we are reporting for landlord-controlled assets only as we do not yet have sufficient coverage of tenant-supplied data.
[16] Federated Hermes, "Hestia Net Zero Strategy" (December 2022)
[17] Federated Hermes, "Net Zero Pathway for our International portfolio" (December 2022)

has been carried out by engineering consultants on over 45% of the assets under management. These reports determined the actions required to deliver net zero and provide a framework for interventions. The reports have been aligned in the last 12 months to plan resource allocation at the fund level for decarbonisation aligning to the lease structure and planned maintenance schedules of our assets.

There were several steps to this work:

- **Benchmark:** The first step was to create a baseline to establish the current carbon position and this was carried out by our external consultants via a non-intrusive survey that was representative of the wider portfolio.
- **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, the consultants combined machine learning analysis with the expertise of building services engineers, whilst taking tenant requirements into consideration.
- **Deliver:** We recognise that roadmaps are only beneficial 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 in supporting our net-zero transition plans and decarbonising at scale. During 2024, we continued to focus on establishing costed net-zero plans for assets working with a number of specialist consultants and taking action to deploy on-site photovoltaic (PV) electricity generation at both industrial and retail assets alongside targeting low embodied carbon developments at new buildings in Leeds, Birmingham, Milton Park (Oxfordshire), and Manchester.
- **Monitoring:** We conduct annual assessments through an external third-party consultant, who examines data at an asset-level, maps against the transition pathways for EUI (energy use intensity) and GHG emissions. The results of this monitoring are reported to clients. The ESG platform used to record ESG KPIs also provides asset and property managers with continual access to data, analysis and actions required for improvement.

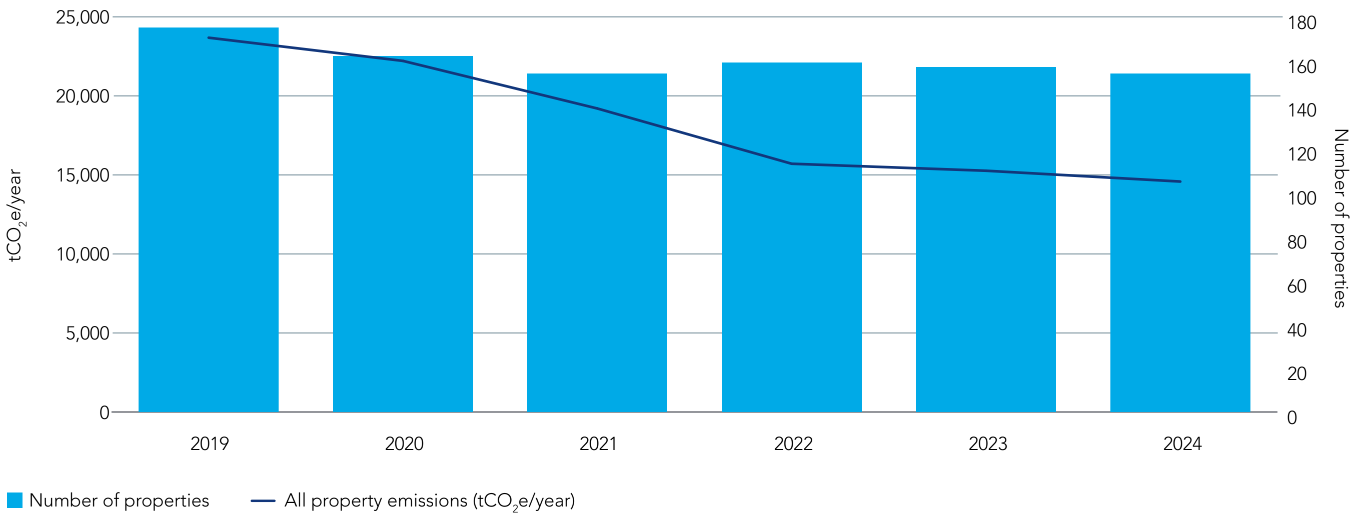
Metrics

Figure 38 shows the long-term performance of our portfolio. It depicts the annual emissions from energy usage for areas we manage in our real estate portfolio. The chart includes only the properties within our real estate portfolio for which we supply energy. There may be areas within these properties for which we do not supply energy as they are managed by our tenants, and which are therefore not captured in the chart below. Due to variation in the size and energy needs of individual assets, it is not feasible to normalise the carbon footprint for the whole portfolio by floor area. However, the chart below shows that in 2019 23,678 tCO_2e were emitted by 165 properties and in 2024 only 14,579 tCO_2e were emitted by 154 properties.

Alongside the reduction in absolute emissions, as shown in Figure 38, the WACI for the real estate portfolio decreased 34.18% between 2023 and 2024. The emissions reductions were supported by increases in efficiency (such as smart tech deployment and greater building control), disposal of assets, and changes in occupation levels (such as in new builds in operation with current low occupancy levels).

During 2024, proactive property management – including onsite renewable generation and smart building technology – has helped to ensure that absolute carbon emissions continued to fall. This was also supplemented by the continued decarbonisation of the UK grid and use of 100% green electricity for all assets where we manage have freedom to negotiate supply contracts. In the last 12 months, we have gained control of further energy procurement leaving only one asset where we are reliant on a grid-based supply.

Figure 38. Changes in absolute carbon emissions (Scope 1 and 2 tCO_2e) for all properties in landlord-controlled standing portfolio between 2019 and 2024



Source: Federated Hermes, Deepki Platform, as at 31 December 2024.

Private Equity

Scenario analysis

Due to the lack of disclosed data, we have not been able to conduct asset specific analysis for private equity investments. We have used industry/sector level analysis that use averages to help us estimate value at risk for our private equity assets however, we find these to not necessarily reflect the true value at risk. To avoid presenting potentially misleading information, we have omitted this from this reporting. As data becomes more readily available, we hope to further our scenario analysis across this asset class.

Assessment, integration and engagement

Our private equity team assesses sustainability risks and opportunities, including climate change, ahead of each investment.

For fund investments, the team reviews the ESG practices of the fund manager, including their approach to climate change. For direct co-investments, the investment team involves the private equity ESG specialist when the investment is in a sector identified as high risk by TCFD or Global Canopy (in relation to deforestation). The ESG specialist conducts risk analysis and provides a view which is included in the Private Equity Investment Committee ("PEIC") documentation. The ESG specialist and the investment team review the ESG materials provided by the lead investor, complemented by in-house research or expert calls where relevant. The investment team score each deal for ESG risks and opportunities and report their findings to the PEIC.

Investments with significant and financially material climate change risks are declined (typically ahead of being considered by the PEIC), and investments with relevant risks that could materialise during the investment hold are included in an ESG watchlist.

> **For fund investments, the team reviews the ESG practices of the fund manager, including their approach to climate change.**

The investment team report any changes in the ESG watchlist to the Private Equity Portfolio Review Group (a sub-committee of the PEIC), in relation to both companies which need to be included given that a sustainability risk or issue has materialised and companies that are removed from the watchlist once a risk has been significantly mitigated.

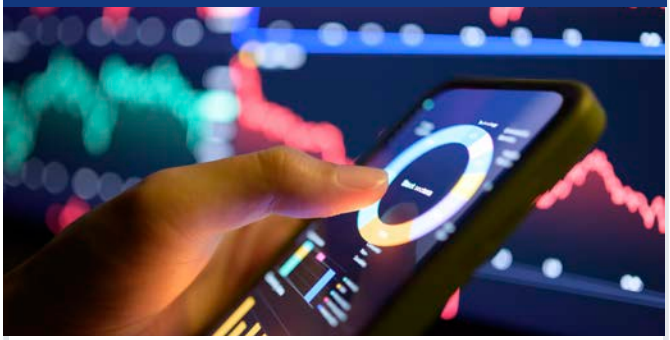
In addition to reviewing risks and opportunities for individual investments, the private equity team also aims to leverage the transition to net zero as a key investment theme. The private equity investment strategy is guided by a thematic investment framework that identifies structural long-term trends we expect to shape the landscape of global economic activity over the next decades. This framework is aligned to the UN's Sustainable Development Goals.

The 'Net Zero Economy' theme focuses on investments relating to sustainability and the energy transition. This megatrend will capture opportunities that are arising from the convergence of technological progress and demand for new solutions to reduce the impact of human activity on the planet. We summarise our current thematic thinking below:

- Given the significance of climate change across business, consumers and government since our original introduction of the sustainability theme in the early 2010s, we have holistically reviewed our target sectors in light of the required transformation of the economic system to achieve carbon neutrality.
- The transformation to achieve net-zero outcomes cut across traditional sectors to encompass companies within 'next generation' energy, the future of food and mobility sectors to the broader production and consumption cycle, including ESG metrics measurement and technology.
- We expect the increasing demand for net-zero-aligned products coupled with the competitive advantages of more sustainable supply chains, will create a rich vein of opportunities to be addressed by the private equity market, which this megatrend intends to capture.

CASE STUDY – PRIVATE EQUITY

Cloudferro



In May 2024, the private equity team completed an investment in Cloudferro, alongside Innova Capital. Headquartered in Poland, CloudFerro is a provider of cloud-based data hosting and data processing services, predominantly for Earth Observation ("EO") data collected from satellites.

The company contracts with various European public, scientific and research institutions, to process, store and manage vast quantities of EO data. It has been rapidly scaling in recent years through winning several prominent contracts, most notably representing the EO component of the broader European Union space program (Copernicus projects).

By providing independent and reliable emissions calculations and monitoring, EO is an essential tool in the understanding of climate change and can significantly contribute to mitigation efforts, in line with our "Net Zero Economy" investment theme.

Metrics

We use Holtara, an ESG service provider, for emissions estimations for holdings in our private equity funds. They use an input output model, where net asset value ("NAV"), sector and geography are inputted and the model outputs emissions. The limitations of this model are that it relies on sector and geographic averages.

For private equity, the WACI increased 4.6% between 2023 and 2024. The increase in emissions was a result of two of our funds being in their investment period and having deployed capital in 2024, as well as using updated median sector values from Sustainalytics, which reflect an improvement in carbon reporting practices, especially for Scope 3 emissions. 100% of the data is estimated.

Private debt

Scenario analysis

Due to the lack of disclosed data, we have not been able to conduct asset-specific analysis for real estate debt and direct lending investments. We do have an industry/sector level analysis we conduct for our direct lending assets that use averages to help us estimate value at risk. To avoid presenting potentially misleading information, we have omitted this from this reporting. As data becomes more readily available, we hope to further our scenario analysis across this asset class.

Assessment, integration and engagement

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

When carrying out credit analysis for each potential investment, the real estate debt team considers exposure to climate risk of the real estate assets as well other sustainability risks specific to each investment. Following investment these risks are then monitored at least annually during the loan period. Material sustainability issues will often form part of engagement with the borrower prior to investment and once invested.

For our direct lending team, the key is to identify meaningful ESG 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 ESG analysis by carrying out an assessment on ESG risks for every investment opportunity. In addition, the team focuses acutely on the sensitivity of the company's cashflows to the identified potential ESG risks. With that in mind, the direct lending team will evaluate if investors are adequately remunerated for the ESG 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.

Metrics and Targets

For direct lending, the WACI decreased by 78% between 2023 and 2024. The significant reduction in emissions were due to two borrowers, who both had large Scope 1, 2 and 3 carbon emissions, repaying their loans. We also noted a couple of borrowers that had previously reported carbon emissions that no longer do; as such, the WACI has diminished in part due to fewer borrowers reporting emissions compared to 2023. 26% of the data is reported and for the remainder we have no data.

Our real estate debt interim targets:

- **Net zero commitment for real estate development and managed assets operations and for real estate debt by 2035.**

Progress against our real estate debt target: all our current loans will be re-paid before 2035. We assess the climate risks associated with these loans and when a loan repayment period goes beyond 2035, we will report on our progress against our interim targets.

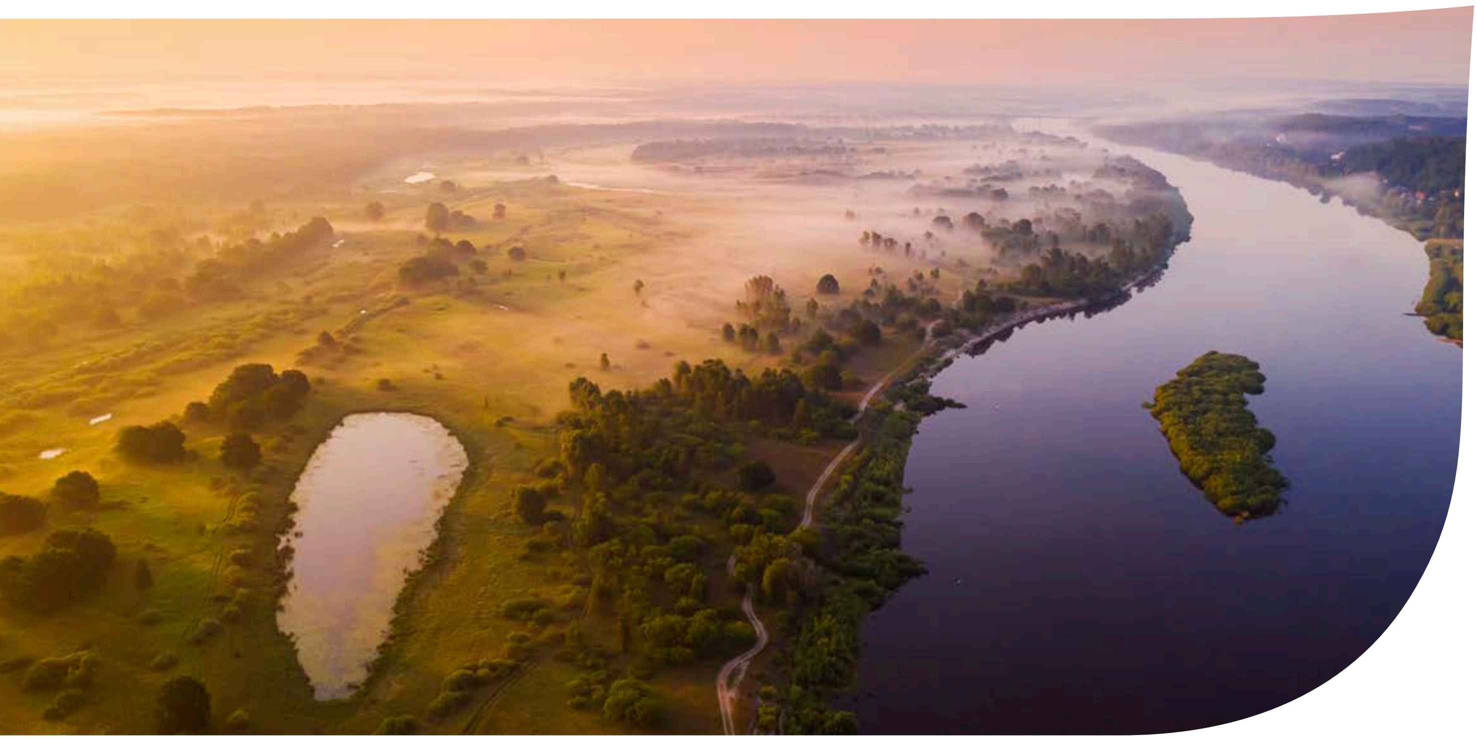
For real estate debt, the WACI decreased 14.2% between 2023 and 2024. The size of the portfolio has remained broadly the same compared to the previous year. However, the portfolio has a lower exposure to hotel assets, which are energy intensive due to being operational 24 hours a day; this has supported a reduction in WACI year-on-year. Due to the way our real estate debt emissions data is collected, we do not have the breakdown of the data split by scope; Scope 1, 2 and 3 data that the real estate debt team receive is combined. 64% of the real estate debt AUM is reported data and 36% is estimated. Real estate debt receives meter readings and the amount of renewables produced and used onsite from their borrowers which are then used in the CRREM model. Where the team do not get direct emissions data from their borrowers, they use a third-party to estimate emissions data to fill in the gaps. The real estate debt team do not currently include embodied carbon emissions in their Scope 3 data, as there is currently no clear standard on how to measure this in existing buildings.

The path ahead

We remain committed to playing our part in achieving the goal of the Paris Agreement to limit the temperature increase to 1.5°C, even as we acknowledge the challenges presented by the current global emissions trajectory and temperature trends, including an overshoot of this critical global threshold. We will continue to allocate capital and leverage our engagement and proxy voting capabilities in a way that seeks to mitigate our clients' exposure to climate and nature risk. We will continue to support a focused range of advocacy initiatives in an effort to encourage a transformation of the whole industry. Federated Hermes has sought to report on a wide range of environmental metrics, in an effort to understand the climate-related risks, and where possible nature-related risks, our portfolios are exposed to. We continue to further incorporate nature into our approach and explore metrics to better identify the positive opportunities offered by the transition.

> **We will continue to allocate capital and leverage our engagement and proxy voting capabilities in a way that seeks to mitigate our clients' exposure to climate and nature risk.**

The TCFD and TNFD recommendations on metrics formed the basis for ongoing dialogue across our firm on how to provide robust, best-in-class disclosure. At the same time, we are aware that the methods and data required to evaluate climate and nature exposure are still advancing and maturing, and as such we will continue to focus our efforts on incorporating the most robust and forward-looking approaches over time.



Appendix I - Climate-related Financial Disclosures Entity Report for Hermes GPE LLP 2024

Task Force on Climate-related Financial Disclosures

Entity Report for Hermes GPE LLP 2024

About the Firm

Hermes GPE LLP ("**HGPE**" or "**the Firm**") is an asset manager based in the UK that is authorised and regulated by the Financial Conduct Authority ("**FCA**"). The Firm is a subsidiary of Federated Hermes Limited ("**FHL**"), and its ultimate parent undertaking is Federated Hermes, Inc. ("**FHI**").

Purpose of this document

As an FCA-regulated asset manager, HGPE is required to make certain climate-related disclosures regarding its consideration of climate-related matters when managing assets on behalf of its clients.[1] The Firm is required to publish a "**TCFD entity report**" that is consistent with the Task Force on Climate-related Financial Disclosures ("**TCFD**") Recommendations and Recommended Disclosures.[2] The TCFD entity report must describe the Firm's governance, strategy and risk management arrangements with respect to climate-related matters, as well as relevant climate-related metrics and targets.

Approach to disclosure

Federated Hermes takes an integrated approach to the management of climate- and nature-related risks and opportunities across its business. We publish a Climate- and Nature-related Financial Disclosures Report for FHL and certain of its subsidiaries including the Firm (the "**FHL TCNFD Report**"). This document supplements, and should be read in conjunction with, the FHL TCNFD Report for 2024. The table below identifies parts of the FHL TCNFD Report for 2024 that are relevant to HGPE.

Reporting period for this TCFD entity report

This document, together with the FHL TCNFD Report for 2024, comprises the TCFD entity report for HGPE for the period of 1 January 2024 to 31 December 2024 ("**2024 HGPE TCFD Report**"). The data in the 2024 HGPE TCFD Report is as of 31 December 2024 unless otherwise indicated.

Scope of this TCFD entity report

The 2024 HGPE TCFD Report provides information relating to HGPE's TCFD "in-scope" business which consists of the private market strategies of private equity and infrastructure. These investment strategies are available to investors through our range of unauthorised/unlisted Alternative Investment Funds (AIFs) and individual management arrangement (also known as segregated mandates).

References to "Federated Hermes" in this document refer to FHL, the Firm and the other subsidiaries of FHL within the scope of the FHL TCNFD Report (see page 6).

Product specific disclosures

In the event that there is any material difference between the relevant governance, strategy or risk management arrangements disclosed in this 2024 HGPE TCFD Report and the approach taken for a particular product within HGPE's TCFD in-scope business.

Compliance statement

We confirm that the disclosures made in this document together with the parts of the FHL TCNFD Report relevant to HGPE's consideration of climate-related matters (as indicated in the table below), comply with the requirements relating to TCFD entity reports at Chapter 2 of the FCA's Environmental, Social and Governance Sourcebook.

Steve McGoohan

Member of the Hermes GPE LLP Governing Body

Hermes GPE LLP

[1] Required by chapters 2.1 and 2.2 of the Environmental, Social and Governance Sourcebook issued by the FCA.

[2] The Recommendations of the Task Force on Climate-related Financial Disclosures (Final Report) dated June 2017 ("**TCFD Report**") as supplemented by other documents published by the TCFD including the Annex to the TCFD Report entitled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' dated October 2021.

Governance

Recommended disclosure (a) – Board/governing body oversight

Describe the board/governing body's oversight of climate-related risks and opportunities.

Please see the "Governance" section (pages 10-13) in the FHL TCNFD Report. The following table identifies the governance bodies that are relevant to the Firm's operations, and the frequency of consideration of climate-related issues.

Governance body	Responsibility for climate-related risks and opportunities	Frequency of climate focussed discussions
HGPE governing body	Oversight of HGPE's business, including its operations, systems and controls, and the conduct of activities and provision of services by HGPE.	1[3]
Governance Oversight Committee (GOC)	Oversees sub-committees, group committees, departments, business units, control functions and senior personnel involved in HGPE's business. Acts under the authority of, and reports to, HGPE's governing body.	0
Sustainability Regulations and Stewardship Oversight Committee (SRSOC)	Oversees the formulation and delivery of engagement, voting and climate policies that are adopted by HGPE, and is responsible for proposing climate-related targets that may be adopted by Federated Hermes and apply to HGPE. The SRSOC is supported by Federated Hermes' Responsibility Office and stewardship team, (described below). The SRSOC also oversees compliance with climate-related disclosure requirements. Acts under the authority of, and reports to, the GOC.	Quarterly

Recommended disclosure (b) – Management role

Describe management's role in assessing and managing climate-related risks and opportunities.

Please see the "Governance" section (pages 10-13) in the FHL TCNFD Report, in particular the "Key functions supporting board oversight and management" (pages 11-12). The following table identifies the way the Firm's management and senior leaders are able to monitor and assess climate-related risks and opportunities.

Committees, working groups and functions supporting management	Responsibilities
Responsibility Working Group (RWG)	Acts as a communication forum that discusses a range of topics that relate to the delivery of responsible wealth creation for clients that have appointed HGPE to provide investment management services. The RWG shares best practices across Federated Hermes Limited including HGPE.
Climate and Nature Working Group (CNWG)	Provides feedback and recommendations on climate and nature related issues to business functions, including those supporting HGPE, with a view to developing and implementing a climate change and nature strategy and risk management approach across Federated Hermes Ltd, including HGPE.
Committees, working groups and functions supporting management	**Responsibilities**
Investment teams	HGPE's investment teams are ultimately responsible for its provision of investment management services and the integration of sustainability matters. The investment teams are overseen by the following investment committees: • For the infrastructure investment strategy, the Infrastructure Investment Committee, which is accountable for all sustainability matters related to the infrastructure investment strategy and assets within infrastructure portfolios. • For the private equity investment strategy, the Private Equity Investment Committee (PEIC), which is responsible for all investment risks, including climate change risk. The Private Equity Portfolio Review Committee, a sub-committee of the PEIC, assesses portfolio-level ESG risks including climate change risks on a quarterly basis. These Committees are accountable for all sustainability matters related to the private equity investment strategy and assets within the private equity portfolios. Investment teams have access to the Responsibility Office, including the ESG Integration team within the Responsibility Office, and EOS, including the tools, data, analysis and expertise of those functions.
Responsibility Office	Supports HGPE's implementation of Federated Hermes' responsible investor and responsible owner strategy. The Responsibility Office makes data, tools and analysis available to HGPE personnel, undertakes policy and advocacy activities for the benefit of Federated Hermes, and monitors and proposes updates to the Climate Action Plan. It provides reporting to the SRSOC, GOC and HGPE's board of directors. The Head of Responsibility reports directly to the FHL CEO.
Risk and Compliance	These control functions provide independent oversight of HGPE's activities, including the Firm's management of climate-related risks and compliance with relevant law and regulation.

[3] Commencing in 2024 the HGPE governing body receives a formal annual update on the implementation of its climate investment and engagement activities, and other updates as necessary. (In previous years updates were provided to FHL.) The stated frequency does not include the HGPE governing body's consideration of climate-related matters at other times (such as when considering risk management, capital adequacy, and investment and product updates).

Strategy

Recommended disclosure (a) – Identification of risks/opportunities

Describe the climate-related risks and opportunities that the organisation has identified over the short, medium and long term.

Please see the "Strategy" section (pages 14-24) in the FHL TCNFD Report, and in particular the sub-section headed "Describing climate- and nature-related risks and opportunities" (pages 14-21). Please see "Corporate Strategy & Risk Management" (pages 25-35), and in particular the sub-section headed "The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning" (pages 25-27).

Recommended disclosure (b) – Impact on organisation and transition planning

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Please see the "Strategy" (pages 14-24), "Corporate Strategy & Risk Management" (pages 25-35), "Our investments – Strategy & Risk Management" (pages 39-72) sections in the FHL TCNFD Report, and specifically the sub-section called "The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning" (pages 25-27). Please also the Climate Action Plan sub-section (pages 21-23).

In relation to the Firm's corporate operations: Please see section headed "The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning" (pages 25-27), and in particular the sub-section headed "Alignment across our business and with our third-party suppliers" (page 26). Please also see section headed "Managing corporate environmental impacts" (pages 28-35) and sub-section headed "Corporate Travel Policy" (page 31).

In relation to the development of products manufactured by the Firm: Please see the sub-section headed "Product development" (pages 25-26).

In relation to the Firm's investment management activities: For the Firm's provision of investment management services and activities please see the "Assessment, Integration and Engagement" sub-sections for each asset class within the "Our investments – Strategy & Risk Management" section (pages 39-72). There may be differences in how our strategy is implemented for the different investment strategies provided by the Firm. For instance:

- For our infrastructure investment strategy, please see page 65
- For our private equity investment strategy, please see page 70

Recommended disclosure (c) – Scenario analysis

Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

Please see the "Strategy" (pages 14-24), "Corporate Strategy & Risk Management" (pages 25-35), "Our investments – Strategy & Risk Management" (pages 39-72) sections in the FHL TCNFD Report, in particular the sub-section headed "Impacts of risks and opportunities on our financial planning" (page 26). Please also see the "Assessing the resilience of our strategy under different scenarios" (page 43) sub-section, and the "Scenario analysis" sub-section for each asset class within the "Our investments – Strategy & Risk Management". This is supported by the "Climate Action Plan" (pages 21-23) and "The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning" (pages 25-27) sub-sections. This applies to the following investment strategies provided by the Firm:

- For our infrastructure investment strategy, please see pages 63-64

The following asset classes provided by the Firm are not covered by the scenario analysis described in the FHL TCNFD Report:

- Private equity investment strategies

Risk management

Recommended disclosure (a) – Identifying climate-related risks.

Describe the organisation's processes for identifying and assessing climate-related risks.

Please see the "Corporate Strategy & Risk Management" section (pages 25-35) in the FHL TCNFD Report, in particular the "Risk Management Function" (page 27) and "Sustainability-related standards and regulation" (page 28). Please also see the section headed "Our investments – Strategy & Risk Management" (pages 39-72) and the sub-sections headed "Investment risk management" (pages 39-43), and the "Assessment, Integration and Engagement" for each asset class within the section. The climate-related risk identification and assessment arrangements for the Firm are as follows:

- For our infrastructure investment strategy, please see page 65
- For our private equity investment strategy, please see page 70

Recommended disclosure (b) – Managing climate-related risks.
Describe the organisation's processes for managing climate-related risks.

Please see the "Climate Action Plan" (page 21-23) in the FHL TCNFD Report. Please also see the "Corporate Strategy & Risk Management" section (pages 25-35), in particular "Impacts of risks and opportunities on our financial planning" (page 26), "Risk management function" (page 27), "Sustainability-related standards and regulation" (page 28) and "Managing corporate environmental impacts" (page 28-35). Please also see the section headed "Advocacy" (pages 36-38). Please see the section headed "Our investments – Strategy & Risk Management" (pages 39-72) and the sub-sections headed "Investment risk management" (pages 39-43) and the "Assessment, Integration and Engagement" for each asset class within the section. This includes information for the following asset classes provided by the Firm:

- For our infrastructure investment strategy, please see page 65
- For our private equity investment strategy please see page 70

Recommended disclosure (c) – Integration into overall risk management
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Please see the "Corporate Strategy & Risk Management" section (pages 25-35) in the FHL TCNFD Report, in particular the "Risk management function" (page 27). Please also see the section headed "Our investments – Strategy & Risk Management" (pages 39-72) and the "Assessment, Integration and Engagement" sub-section for each asset class within the section.

Metrics and targets

Recommended disclosure (a) – Metrics for assessment of climate-related risks and opportunities
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Infrastructure

Federated Hermes infrastructure team collects ESG and climate-related KPIs on an annual basis directly from each of our portfolio companies, including Scope 1, 2, and 3 emissions. This is used to track the weighted average carbon intensity ("WACI") of the portfolio annually. Federated Hermes infrastructure team also engages with management teams of portfolio companies to understand whether executive remuneration is linked to sustainability outcomes, and this is tracked as part of our annual ESG data collection. We make this information available to our investors as part of our annual reporting. We also provided quarterly updates where applicable.

These metrics and other relevant ESG and climate metrics are considered in the investment process through assessing opportunities against our internal Federated Hermes Infrastructure ESG Materiality Matrix. If an investment progresses then targeted due diligence takes place to further analyse and, if possible, quantify the level of risk or opportunity, including that related to climate change. The outputs from this process are presented to the Infrastructure Investment Committee and considered as part of overall investment decision.

In 2021, we conducted a scenario analysis exercise to assess physical and transition climate risks and opportunities across our portfolio with Environmental Resource Management ("ERM"), a leading climate risk consultancy. We worked with ERM in 2024 to review recent updates to the climate scenario data used in the assessment in order to understand the potential for changes in the portfolio's exposure to climate-related risks and opportunities. This review will focus future scenario analysis to understand the latest exposures of each investment.

Private Equity

The private equity team use Holtara, an ESG service provider, for emissions estimations for holdings in our private equity funds, using an input output model, where net asset value ("NAV"), sector and geography are inputted and the model outputs emissions. The limitations of this model are that it relies on sector and geographic averages.

We use Scope 1 emissions (tCO_2e); Scope 2 emissions (tCO_2e); total operational carbon footprint - Scope 1 + 2 (tCO_2e); Scope 3 emissions (tCO_2e) and Scope 1 and 2 WACI (tCO_2e/£m val.) Where using "tCO_2e/£m val" we calculate WACI by £m of NAV so as to minimise estimated data from WACI by revenue.

Recommended disclosure (b) – Metrics for GHG emissions

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Infrastructure

Since 2017, Federated Hermes Infrastructure has collated and reported Scope 1, Scope 2 and Scope 3, where available, emissions data associated with the investments in our portfolio. By Net Asset Value we have 99% coverage of Scope 1 and 2 emissions reported by December 2024. Federated Hermes Infrastructure uses this data to calculate and report the WACI for the portfolio (including Scope 1 and 2 emissions). When calculating our portfolio's emissions, we use gross figures and do not include avoided emissions from renewable energy generation. We continue to support our portfolio companies to establish targets and reduce emissions further in line with the Paris Agreement.

Infrastructure	Scope 1 financed emissions (tCO_2e)	Scope 2 financed emissions (location-based where available) (tCO_2e)	Total Scope 1 + 2 financed emissions (tCO_2e)	Scope 3 financed emissions (tCO_2e)	S1+2 WACI (tCO_2e/£m revenue)	S1–3 WACI (tCO_2e/£m revenue)
All infrastructure holdings	317,992	7,908	325,900	42,232	444.3	525.3

Source: Portfolio companies, reporting year 2024.

Private Equity

Private Equity	Scope 1 emissions (tCO_2e)	Scope 2 emissions (tCO_2e)	Total operational carbon footprint – Scope 1 + 2 (tCO_2e)	Scope 3 emissions (tCO_2e)	S1+2 WACI (tCO_2e/£m val.)	S1-3 WACI (tCO_2e/£m val.)
All Private Equity holdings	35,198.30	22,786.40	57,984.80	329,293.00	15.1	100.7

Source: Holtara as at 31 December 2024.

Recommended disclosure (c) – Targets and performance against targets

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Infrastructure

We adopted a Federated Hermes Infrastructure portfolio level target in 2022 for all portfolio companies to be aligned with the Paris Agreement's 1.5˚C goal by 2025. We use a bespoke methodology focused on ensuring that portfolio companies have long-term net-zero targets for 2050 or sooner and near-term targets aligned with the 1.5˚C goal of the Paris Agreement. These targets should be science-based through validation, for example by the SBTi. Using this methodology, we undertake a Paris Alignment test for our portfolio companies which scores them and classifies their level of alignment as a key performance indicator to track progress. Our investments may have additional climate and energy-related targets, aside from emissions reduction targets, at the company level.

Progress against our targets: As at 31 December 2024, the infrastructure team used our proprietary Paris Alignment Test in which companies were scored and classified as "Aligned", "Aligning", "Committed to Net Zero" and "Not Aligned". The breakdown of the infrastructure Net Asset Value (as at 31 December 2024) were as follows:

- 16% Aligned
- 11% Aligning
- 62% Committed to Net Zero
- 9% Not Aligned

To achieve this target and appropriately manage climate-related risks and opportunities, our climate strategy and responsible investment policy is built around our active asset management approach through primarily direct equity stakes in portfolio companies that prioritises a strong governance foundation and focus on sustainability to deliver enduring, responsible wealth for investors. To achieve this, sustainability factors and the consideration of climate-related risks and opportunities are fully integrated into the investment lifecycle.

Private Equity

Private equity does not have specific metrics targets. We are targeting to improve the data quality of our GHG emissions, and we engage with our general partners ("GPs") and portfolio companies to receive this information. We receive data from our portfolio by 30 June 2025, which means that it is not possible include in this report. However, we expect to include actuals together with estimated figures in product level TCFD reports.

Appendix II - Climate-related Financial Disclosures Entity Report for Hermes Investment Management Limited 2024

Task Force on Climate-related Financial Disclosures

Entity Report for Hermes Investment Management Limited 2024

About the Firm

Hermes Investment Management Limited ("**HIML**" or "**the Firm**") is an asset manager based in the UK that is authorised and regulated by the Financial Conduct Authority ("**FCA**"). The Firm is a subsidiary of Federated Hermes Limited ("**FHL**"), and its ultimate parent undertaking is Federated Hermes, Inc. ("**FHI**").

Purpose of this document

As an FCA-regulated asset manager, HIML is required to make certain climate-related disclosures regarding its consideration of climate-related matters when managing assets on behalf of its clients.[1] The Firm is required to publish a "**TCFD entity report**" that is consistent with the Task Force on Climate-Related Financial Disclosures ("**TCFD**") Recommendations and Recommended Disclosures.[2] The TCFD entity report must describe the Firm's governance, strategy and risk management arrangements with respect to climate-related matters, as well as relevant climate-related metrics and targets.

Approach to disclosure

Federated Hermes takes an integrated approach to the management of climate and nature related risks and opportunities across its business. We publish a Climate and Nature Related Financial Disclosures Report for FHL and certain of its subsidiaries, including the Firm (the "**FHL TCNFD Report**"). This document supplements, and should be read in conjunction with, the FHL TCNFD Report for 2024. The table below identifies parts of the FHL TCNFD Report for 2024 that are relevant to HIML.

Reporting period for this TCFD entity report

This document, together with the FHL TCNFD Report for 2024, comprises the TCFD entity report for HIML for the period of 1 January 2024 to 31 December 2024 ("**2024 HIML TCFD Report**"). The data in the 2024 HIML TCFD Report is as of 31 December 2024, unless otherwise indicated.

Scope of this TCFD entity report

The 2024 HIML TCFD Report provides information relating to HIML's TCFD "in-scope" business, which consists of the provision of public equity markets and public credit markets investment strategies. These investment strategies are available to investors through our range of investment funds[3] and through individual management arrangements (also known as segregated mandates).

References to "Federated Hermes" in this document refer to FHL, the Firm and the other subsidiaries of FHL within the scope of the FHL TCNFD Report (see page 6).

Product specific disclosures

In the event that there is any material difference between the relevant governance, strategy or risk management arrangements disclosed in this 2024 HIML TCFD Report and the approach taken for a particular product within HIML's TCFD in-scope business, an explanation of such difference will be provided in Appendix III (see pages 83-95).

Compliance statement

We confirm that the disclosures made in this document together with the parts of the FHL TCNFD Report relevant to HIML's consideration of climate-related matters (as indicated in the table below), comply with the requirements relating to TCFD entity reports at Chapter 2 of the FCA's Environmental, Social and Governance Sourcebook.

Saker Nusseibeh, CBE
Director
Hermes Investment Management Limited

[1] Required by chapters 2.1 and 2.2 of the Environmental, Social and Governance Sourcebook issued by the FCA.

[2] The Recommendations of the Task Force on Climate-related Financial Disclosures (Final Report) dated June 2017 ("**TCFD Report**") as supplemented by other documents published by the TCFD including the Annex to the TCFD Report entitled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' dated October 2021.

[3] Our funds are established as sub-funds of Federated Hermes International Funds plc. Further details are available on our website, https://www.hermes-investment.com/uk/en

Governance

Recommended disclosure (a) – Board/governing body oversight

Describe the board/governing body's oversight of climate-related risks and opportunities.

Please see the "Governance" section (pages 10-13) in the FHL TCNFD Report. The following table identifies the governance bodies that are relevant to the Firm's operations, and the frequency of consideration of climate-related issues.

Governance body	Responsibility for climate-related risks and opportunities	Frequency of climate focussed discussions
HIML board of directors	Oversight of HIML's business, including its operations, systems and controls, and the conduct of activities and provision of services by HIML.	1[4]
Governance Oversight Committee (GOC)	Oversees sub-committees, group committees, departments, business units, control functions and senior personnel involved in HIML's business. Acts under the authority of, and reports to, HIML's board of directors.	0
Sustainability Regulations and Stewardship Oversight Committee (SRSOC)	Oversees the formulation and delivery of engagement, voting and climate policies that are adopted by HIML, [and is responsible for proposing climate-related targets that may be adopted by Federated Hermes and apply to HIML]. The SRSOC is supported by Federated Hermes' Responsibility Office and stewardship team, EOS (both described below). The SRSOC also oversees compliance with climate-related disclosure requirements. Acts under the authority of, and reports to, the GOC.	Quarterly

Recommended disclosure (b) – Management role

Describe management's role in assessing and managing climate-related risks and opportunities.

Please see the "Governance" section (pages 10-13) in the FHL TCNFD Report, in particular the "Key functions supporting board oversight and management" (pages 11-12). The following table identifies the way the Firm's management and senior leaders are able to monitor and assess climate-related risks and opportunities.

Committees, working groups and functions supporting management	Responsibilities
Responsibility Working Group (RWG)	Acts as a communication forum that discusses a range of topics that relate to the delivery of responsible wealth creation for clients that have appointed HIML to provide investment management services. The RWG shares best practices across Federated Hermes Limited, including HIML.
Climate and Nature Working Group (CNWG)	Provides feedback and recommendations on climate and nature related issues to business functions, including those supporting HIML, with a view to developing and implementing a climate change and nature strategy and risk management approach across Federated Hermes, including HIML.
Committees, working groups and functions supporting management	**Responsibilities**
Investment teams	HIML's investment teams are ultimately responsible for its provision of investment management services and the integration of sustainability matters. Investment teams have access to the Responsibility Office, including the ESG Integration team within the Responsibility Office, and EOS, including the tools, data, analysis and expertise of those functions.
Responsibility Office	Supports HIML's implementation of Federated Hermes' responsible investor and responsible owner strategy. The Responsibility Office makes data, tools and analysis available to HIML personnel, undertakes policy and advocacy activities for the benefit of Federated Hermes, and monitors and proposes updates to the Climate Action Plan. It provides reporting to the SRSOC, GOC and HGPE's board of directors. The Head of Responsibility reports directly to the FHL CEO.
Stewardship team (EOS)	Provides engagement services for the public markets – equity and credit – strategies provided by HIML. This includes engaging with investee companies held by portfolios managed by HIML and providing tools and data to support HIML's investment teams.
Risk and Compliance	These control functions provide independent oversight of HIML's activities, including the Firm's management of climate-related risks and compliance with relevant law, regulation and best practice.

[4] Commencing in 2024 the HIML board receives a formal annual update on the implementation of its climate investment and engagement activities, and other updates as necessary. In previous years updates were provided to FHL, with the HIML board considering climate-related risk specific to HIML (as a legal entity) through its internal capital adequacy and risk assessment (ICARA). The stated frequency does not include the HIML board's consideration of climate-related matters at other times (such as when considering risk management, and investment and product updates).

Strategy

Recommended disclosure (a) – Identification of risks/opportunities
Describe the climate-related risks and opportunities that the organisation has identified over the short, medium and long term.

Please see the "Strategy" section (pages 14-24) in the FHL TCNFD Report, and in particular the sub-section headed "Describing climate- and nature-related risks and opportunities" (pages 14-21). Please see "Corporate Strategy & Risk Management" (pages 25-35), and in particular the sub-section headed "The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning" (pages 25-27).

Recommended disclosure (b) – Impact on organisation and transition planning
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Please see the "Strategy" (pages 14-24), "Corporate Strategy & Risk Management" (pages 25-35), "Our investments – Strategy & Risk Management" (pages 39-72) sections in the FHL TCNFD Report, and specifically the section called "The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning" (pages 25-27). Please also the Climate Action Plan sub-section (pages 21-23).

In relation to the Firm's corporate operations: Please see section headed "The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning" (pages 25-27), and in particular the sub-section headed "Alignment across our business and with our third-party suppliers" (page 26). Please also see section headed "Managing corporate environmental impacts" (pages 28-35) and sub-section headed "Corporate Travel Policy" (page 31).

In relation to the development of products manufactured by the Firm: Please see the sub-section headed "Product development" (pages 25-26).

In relation to the Firm's investment management activities: For our public equity markets and public credit markets investment strategies, please see in particular the sections headed:

- Under the "Strategy" section, the "Describing climate- and nature-related risks and opportunities" (pages 14-21) and "Climate Action Plan" (21-23) sub-sections
- The "Advocacy" section (pages 36-38)
- Under the "Our investments – Strategy & Risk Management" section, the "Engagement" sub-section (pages 48-54)

There may be differences in how our strategy is implemented for different investment products – please see "Product specific disclosures" on page 78 above.

Recommended disclosure (c) – Scenario analysis
Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

Please see the "Strategy" (pages 14-24), "Corporate Strategy & Risk Management" (pages 25-36), "Our investments – Strategy & Risk Management" (pages 39-72) sections in the FHL TCNFD Report, in particular the sub-section headed "Impacts of risks and opportunities on our financial planning" (page 26). Please also see the "Assessing the resilience of our strategy under different scenarios" (page 43) and the "Public Market" sub-sections (pages 44-45). This is supported by the "Climate Action Plan" (pages 21-23) and "The impact of climate- and nature-related risks and opportunities on our business, strategy and financial planning" (pages 25-27) sub-sections. This applies to the following investment strategies provided by the Firm:

- Public equity strategies
- Public credit strategies

Risk management

Recommended disclosure (a) – Identifying climate-related risks.
Describe the organisation's processes for identifying and assessing climate-related risks.

Please see the "Corporate Strategy & Risk Management" section (pages 25-35) in the FHL TCNFD Report, and in particular:

- The description of the Risk Management Function that is in place for the Firm, under "Risk management function" (pages 27-28).
- The section headed "Our investments – Strategy & Risk Management" (pages 39-72) including the sub-sections headed "Investment Risk Management" (pages 39-43), "Assessment and Integration" (pages 45-48) and "Engagement" and "Engaging on climate change" (pages 48-54).

These climate-related risk identification and assessment arrangements apply to the following asset classes provided by the Firm:

- Public equity strategies
- Public credit strategies

Recommended disclosure (b) – Managing climate-related risks.
Describe the organisation's processes for managing climate-related risks.

Please see the "Climate Action Plan" (page 21-23) in the FHL TCNFD Report. Please also see the "Corporate Strategy & Risk Management" section (pages 25-35), in particular "Impacts of risks and opportunities on our financial planning" (page 26), "Risk management function" (page 27), "Sustainability-related standards and regulation" (page 28) and "Managing corporate environmental impacts" (page 28-35). Please also see the section headed "Advocacy" (pages 36-38). in particular the sub-section headed "Assessment and Integration" (pages 45-48) and "Engagement" and "Engaging on climate change" (pages 48-54). This applies to the following asset classes provided by the Firm:

- Public equity strategies
- Public credit strategies

Recommended disclosure (c) – Integration into overall risk management
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Please see the "Corporate Strategy & Risk Management" section (pages 25-35) in the FHL TCNFD Report, in particular the "Risk management function" (page 27). Please also see the section headed "Our investments – Strategy & Risk Management" (pages 39-72), in particular the sub-section headed "Assessment and Integration" (pages 45-48) and "Engagement" and "Engaging on climate change" (pages 48-54).

Metrics and targets

Recommended disclosure (a) – Metrics for assessment of climate-related risks and opportunities
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Across all our strategies we aim for high carbon data coverage. In 2021, we developed our own internal issuer hierarchy to improve data coverage in the public credit space. We also developed our own internal baseline methodology which excludes certain securities where there is lack of ESG data (cash, FX, long CDS, index or pooled product, sovereign, derivative where underlying is a government entity). We are also not yet able to measure the carbon footprint of our sovereign and structured credit. This is due to a lack of data and available methodologies in this space. This is an area of focus, and we are evaluating estimation methodology to fill in the gaps.

In addition to those exclusions described above, securities for which we have no data (reported or estimated), primarily due to lack of coverage by third-party data providers, are excluded from the calculation. This includes removal of these names from the AUM figures used in our carbon metric calculations. This ensures that we are not understating our carbon exposure by excluding companies with no data from the numerator but including them in the denominator. This has only been applied to 2022 data onwards.

We calculate aggregated emissions in line with the TCFD recommendations.

We use S&P for our GHG emissions data for publicly listed companies on Scope 1, 2 and upstream 3 emissions. They estimate emissions where there are gaps in reported data using their environmentally extended input-output (EEIO) model which combines industry-specific environmental impact data with quantitative macroeconomic data on the flows of goods and services between different sectors of the economy.

Recommended disclosure (b) – Metrics for GHG emissions
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

	Scope 1 and 2	Scope 3
Total carbon emissions (tCO_2e)	1,937,397.16	1,178,129.15
Carbon footprint (tCO_2e); per $million invested)	89.7	54.5
Weighted average carbon intensity (WACI) (tCO_2e) per $million revenue)	128.2	96.3

Source: Trucost for carbon emissions, as at 31 December 2024.

Recommended disclosure (c) – Targets and performance against targets Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.
Federated Hermes has adopted a Climate Action Plan, which sets targets (including interim targets) for reducing portfolio emissions. This involves setting minimum thresholds for: (i) the proportion of assets under management ("AUM") invested in companies that have emission reduction targets aligned with limiting the temperature increase to 1.5°C above pre-industrial levels in accordance with the Paris Agreement ("1.5°C Aligned"); and (ii) the proportion of financed emissions (Scope 1 and 2, and where material Scope 3) arising from AUM that are attributable to companies that have emission reduction targets that are 1.5°C Aligned. For the investment strategies provided by HIML, the following targets have been set for the public market's investment strategy: • We are targeting 25% of in-scope AUM, and 25% of financed emissions arising from that strategy, should be 1.5°C Aligned by 2025. This threshold will increase to 50% by 2027, and 80% by 2030. • We are targeting that for 90% of financed emissions arising from the strategy, the emitting companies will be 1.5°C Aligned or subject to direct or collective engagement and stewardship actions by 2027 (increased from 80% as at the end of 2022). For further information on the Metrics and Targets within our Climate Action Plan, including information on asset classes that are currently excluded (including amongst others direct lending, sovereign debt, FX and cash) please see page 55 onwards of the FHL TCNFD Report. This includes information on progress against our targets, including the alignment of HIML's public markets investment strategy as at 31 December in 2023 and 2024 (see Figure 17 on page 56).

Appendix III – ESG 2.2.1R (2) Climate-related Financial Disclosures Entity Report for Hermes Investment Management Limited 2024

With reference to the section called Product Specific Disclosures section of the Hermes Investment Management Ltd 2024 report in Appendix II (see page TBC) and the FCA Handbook ESG 2.2.1 R (2) rule, the below eight portfolios represent those which deviate because they have a secondary investment objective which is ESG/sustainability related, which presents potential different approaches to governance, strategy or risk management.

1. Federated Hermes Biodiversity Equity Fund

The investment objectives of the strategy are: (i) to achieve capital growth over a rolling five-year period; and (ii) to invest in companies that are helping to protect and restore biodiversity or are reducing the threat to biodiversity through their measurable contribution to reducing one or more of land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, or deforestation. within this, climate risk is a critical factor.

Identification

The team seeks to understand which stocks are environmental leaders and will utilise screens such as the environmental scores of companies to try and unearth new investment ideas. It is during this process that climate risks will be identified. Please note that the team does not screen out stocks solely based on environmental scores given that newer, less mature companies typically have lower scores due to lack of disclosure. Instead, engagement is used as a tool to supplement the team's understanding of these companies' environmental profiles.

The team has established a thematic framework consisting of the six themes (as stated in the objective above) identified as having the greatest direct impact on biodiversity: land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation.

Each theme is made up of one or more industry sub-vertical themes that in turn correspond to at least one of the UN SDGs. The strategy's initial investment universe will consist of all the companies within each of the industries that fall into each of these sub-vertical themes.

For example, the unsustainable farming theme, breaks down into three discrete industry sub-vertical themes: pasture farming, arable farming and olericulture & pomology. Industries such as meat alternatives and animal health products fall within the pasture farming sub-vertical theme. Thus, all the companies that fall within these two industries will form part of the initial investment universe for the strategy.

Assessment

The team investigates each company's impacts and dependencies on biodiversity. They look to develop a thesis for how a company is having a clear positive impact on biodiversity through reducing biodiversity loss from operations and/or providing solutions to help prevent loss or help restore biodiversity. They also seek to establish whether biodiversity and ecosystem services are relevant to the business and investigate where and how the company is dependent on nature and what risks are associated with these dependencies.

The team will create a detailed biodiversity note, outlining the business, highlighting the biodiversity theme(s) to which the company is contributing, and including a detailed explanation of the biodiversity thesis for the company. The final section includes focus areas for engagement with said company that will be discussed with and elaborated on by the dedicated engager.

The screened universe (combined with thematic research, engagement, and company meetings) will yield a watchlist of circa 150 companies. A long-term sustainability assessment is then undertaken. The team evaluates the ESG profile of companies by carrying out their own fundamental ESG assessment of companies. The team focuses on nine key aspects, including climate change during which climate related risks will be identified and assessed in depth.

Environmental

- Climate change (captures pollution and waste)
- Water
- Biodiversity (captures natural resource stewardship, e.g., sustainable food systems)

Social

- Human rights and labour
- Employee turnover/health and safety
- Conduct and culture (captures anti-bribery act, AI and data governance, i.e., cybersecurity)

Governance

- Board composition
- Executive remuneration (not purely about level of pay but also structure and how pay package aligns with investors
- Shareholder rights and protection (e.g., dual share classes, voting rights)

The team's proprietary Impact Database is a central feature of their research process. It enables them, as part of their impact assessment process, to quantify the impacts of companies with metrics that are aligned to the UN SDGs. While an idea might originate from an external source, they are all validated and researched internally.

They have carefully selected a number of impact metrics that they have grouped into relevant themes. These metrics capture the impact provided by each company's products and services and break down into the following two categories:

- Operations-based metrics that relate to a company's operations. Examples include impact data such as Scope 1 and Scope 2 carbon emissions or waste produced in operations.
- Solutions-based metrics that relate to the specific outcomes that a company is looking to provide. For example, the impact of a company looking to decarbonise heavy-duty motive might be measured by looking at the carbon emissions avoided through use of the company's technology (CO_2 Mt).

Two of the 11 themes relate specifically to climate risks and the team will consider the KPIs as shown below:

Class	Type	KPI
Climate Change	Operations	Annualised metric T CO_2 emitted (Scope 1 + 2)
	Solutions	Metric T CO_2 avoided
Clean energy generation	Solutions	MW installed renewable capacity
	Solutions	MWH renewable energy generated

In general, operations-based metrics are relevant for all companies held and are often dependent on some level of company disclosure whilst solution-based metrics differ in that they are company specific, i.e., since every company is unique, a thorough understanding of business models is required to accurately appraise impact.

The team has at their disposal a set of proprietary ESG tools to support this analysis as detailed above. The team will only invest in companies that are assessed to have strong ESG credentials. If the team chooses to invest, they will engage with companies on any possible areas of improvement and to encourage even greater positive net impacts.

Output from the team's detailed research process is summarised within each company's research note and discussed at team meetings to decide whether or not a company should be added to the portfolio. The team produces a detailed research pack to support and document each investment case, which includes: a biodiversity assessment, the company's positioning in the market, the investment thesis, potential risks to that thesis, valuation work, ESG considerations, biodiversity impact measurement and ongoing proposed engagement.

Research is archived, updated periodically as appropriate, and available to all members of the team. Research notes are also used to support engagement with company management.

Management/Monitoring

Post initial investment, and as part of their risk management process, the team have a dedicated engager and also work alongside our stewardship team, EOS, to monitor and document how investee companies are both progressing towards delivering their biodiversity impact and improving their ESG profiles. Additionally, the validity of each company's original investment impact thesis is also regularly reviewed and new information assimilated into expectations for the stock. The team's weekly meetings provide an opportunity to discuss research notes and stock updates including any recent changes to the thesis, concerns or recommendations to trade.

The main climate related indicators used are annualised metric tonnes of CO_2 emitted (Scope 1 & 2), metric tonnes CO_2 avoided, mW installed renewable capacity, mWh renewable energy generated, m3 water used, m3 water saved, metric tonnes waste generated, metric tonnes waste recycled, metric tonnes food loss/waste avoided, hectares forest or land restored or conserved, and number of species preserved.

2. Global SMID Equity Engagement Fund (Prior to 24 April 2025 this fund was Federated Hermes SDG Engagement Equity Fund)

The Global SMID Equity Engagement Fund forms part of the SDG Engagement Equity Strategy and has a dual objective, namely, to generate attractive investment returns and create positive social and environmental impacts through engagements with investee companies.

Identification

As part of the investment team's ex-ante investment and ESG assessments of potential investee companies (and subsequently on an ongoing basis) the team appraise a company's exposure to and management of climate-related risks. This assessment would be expected to appraise a company exposure to transition and physical climate-risks (as well as opportunities). This assessment is informed by a combination of quantitative and qualitative analysis of company disclosures, third-party research and data and company engagement.

Assessment

The team in turn considers whether any risks (or opportunities) identified can be qualitatively or quantitatively factored into an investment appraisal – this may be in the form of explicit adjustments to prospective revenues or costs, or more commonly, less explicitly in the form of potential rating implications or conviction levels. Alongside the assessment of the implication for the investment case, the team also considers whether the issue identified can be better managed (or capitalised upon) by the company and if so whether change can be brought about as a result of engagement.

Management/Monitoring

On an ongoing basis the team monitors an investee company's performance with respect to management of its climate-related risks. This extends to monitoring KPIs such as a company's absolute emissions levels and carbon intensity (tGHG per $m sales) and the adequacy of any targets that have been set to realise the necessary reductions in emissions generated across a company's operations or through its supply chain. Where concerns persist, engagement will increase in intensity and the progress of said engagement will in turn inform the investment team's ongoing view of the attractiveness of the holding.

3. Federated Hermes Sustainable Global Equity Fund

The Sustainable Global Equity strategy has a dual investment objective; to generate capital growth over rolling five-year periods while exhibiting a smaller environmental footprint than the index (in terms of reduced carbon, water and waste footprint).

Identification

Idea generation is the lifeblood of the investment process. The team takes a bottom-up approach which seeks to identify the most exciting ideas within a thematic framework. The strategy addresses four sustainable themes with each having a variety of investible sub-themes. Two of the overarching themes relate to the environment – environmental preservation and efficient production and resource usage – and two relate to society – health and wellbeing and social inclusion. Each theme is closely aligned to the UN SDGs and all stocks within the strategy are exposed to at least one of the four sustainable themes.

Example environmental themes and investable sub-themes include:

- **Environmental Preservation:**

  Energy Transition

  Biodiversity

  Future mobility

  Decarbonisation

  Electrification

- **Efficient Production & Resource Usage:**

  Circular economy

  Better and faster decision-making

  Water preservation

  Supply chain efficiency

  Green materials

Industry and company-specific fundamental analysis combined with company meetings, assists the investment team ascertaining relevant climate risks for a company.

Assessment

The team assesses the sustainability of each company from an ESG perspective, including climate risks. The research analysis centres on three inter-related aspects: the financial profile of the business, operating metrics and governance; and product impact. Broadly we assess three criteria when looking at the ESG profile:

- **Quantitative metrics:** we believe measurable ESG metrics are among the most important data points in trying to identify ESG leaders. The majority of reported data from companies relates to policy, which is typically a less valuable input into the team's process. The team assess and compare companies with peers on a variety of metrics, considering both the absolute level and the rate of change. The team makes use of proprietary tools such as the Carbon Tool, Portfolio Snapshot and ESG Dashboard. Any notable quantitative metrics from external ESG research providers will be considered at this stage.
- **Engagement/corporate openness:** In addition to support from the firm's centralised stewardship capability, EOS, the strategy also benefits from dedicated, embedded Stewardship expertise. The Head of Impact Engagement, Will Pomroy, devises and executes the engagement plan and sits alongside the equity investment teams in London. The firm-level capability, EOS, engages with many of the world's largest companies, interacting with companies on behalf of clients with over $1trn of assets under advice. Their rich insights help inform our company-specific and sector understanding, particularly on ESG issues. The team believes the approachability and openness of management and board directors can be a telling indicator of the culture within a business. In addition to responsiveness, other key considerations for the team when assessing on this metric include sustainability KPI's and goals, ongoing monitoring and measurement of those KPI's, audited sustainability report, and overall ESG disclosure.
- **Materiality:** the relative importance of different ESG metrics vary enormously depending on the stock, the industry, and the geography. Material ESG topics are those that could have meaningful financial consequences. To assess materiality, the team are principally guided by their understanding of the company, while utilising international frameworks like SASB as a sense check. The team recognise that materiality is a fluid concept, and changes over time depending on trends changes in the competitive landscape, regulation shifts, innovation and other factors.
- The team also assess the effect of the products and services on broader society. The team seek to identify companies whose products and services are aligned to one of the four sustainable themes, which in turn are mapped to the UN SDGs. In this analysis, the team analyse the net effect on broader stakeholders, considering positive, neutral, and negative effects. The team assess the intentionality, additionality, nature and balance of each company's products and services. Additionality is a particularly vital component in our impact analysis given the considerable value to products and services which have incremental benefit above what is already available.

Managing/Monitoring

The team actively monitors the characteristics of the portfolio. The overriding focus of the approach is on the merits of the individual stocks held, and this is the prime area they monitor daily. Given the sustainability focus, the team also monitors these attributes at a stock and portfolio level, and report on this to clients on a quarterly and annual basis.

Stewardship plays a vital role in the team's ongoing monitoring of the portfolio. With the assistance of EOS, the Sustainable Global Equities team internally monitors how companies are improving their ESG profile. The benefit of keeping records of achievements assists the team with assessing company progress towards meeting ESG targets and helps them with the key points of discussion when engaging with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective.

The sustainable outcomes are also measured and monitored using available third-party data relating to the carbon, water and waste metrics by comparing the following characteristics of the companies held with those in the benchmark:

- Total carbon emissions normalised by the market value of the portfolio, expressed in tons CO_2 per $ million invested
- Total waste (landfill, nuclear and incinerated) for a portfolio normalised by the market value of the portfolio, expressed in tonnes per $ million invested
- Total water used (cooling, processed and purchased) normalised by the market value of the portfolio, expressed in m^3 per $ million invested.

The investment team also monitor a range of climate indicators as part of the investment strategy:

- GHG emissions, carbon footprint, GHG intensity, exposure to fossil fuels and energy production from non-renewables.

4. Federated Hermes Impact Opportunities Equity Fund

The investment objective of the strategy is to generate attractive long-term capital appreciation, outperforming equity markets over the long term, through the selection of companies that provide an innovative solution to unmet needs in society, thereby delivering positive social and environmental impacts alongside attractive financial returns. Climate risk will be present within each company, either operationally e.g., Manufacturing company or be at the centre of its service or product e.g., Wind farms.

Identification

Some ESG datasets do provide data that can be used in an impact process – climate risk considerations such as trends in carbon emissions, or community spending, and women in the workforce – but the majority focus on companies' operations, as opposed to how their products and services contribute to delivering solutions to unmet needs.

The team therefore seeks to build a watchlist of companies it believes could be potential candidates for inclusion in the strategy via its three-part idea generation process, all of which contain an element of climate risk.

- Thematic Research: The team conducts research on its investible themes – energy transition, water, circular economy, future mobility, education, financial inclusion, health and wellbeing, food security and impact enablers – to better understand the dynamics in social and environmental unmet needs over the long term and how market-based solutions may be attractive. It also enables them to develop frameworks for how to best identify, assess and measure impacts, and discover companies that are best positioned to benefit from these structural growth trends.
- Company meetings: The team takes time to meet companies to better understand their business. They not only try to meet with senior management, but also with operational management and the board of directors, to get a more rounded, objective view.
- Investment teams and EOS: The team discusses impact and sustainability ideas and themes on a regular basis with experts from our other equity teams, as well as our private market teams.

Environmental

- Climate change (captures pollution and waste)
- Water
- Biodiversity (captures natural resource stewardship, e.g., sustainable food systems)

Social

- Human rights and labour
- Employee turnover/health and safety
- Conduct and culture (captures anti-bribery act, AI and data governance, i.e., cybersecurity)

Governance

- Board composition
- Executive remuneration (not purely about level of pay but also structure and how pay package aligns with investors
- Shareholder rights and protection (e.g., dual share classes, voting rights)

They also use more traditional ESG screens to make sure companies not only have a potentially attractive exposure to the UN SDGs but also operate in a sustainable way and reduce negative externalities that may undermine their mission.

Assessment

The team scrutinises each investment candidate thoroughly to make sure it is in line with their core belief of focusing on companies that provide solutions to sustainable development challenges. This UN SDG alignment is an essential condition for companies to make it onto the watchlist. Each company's impact has to be linked to at least one UN SDG.

Two of the nine impact themes developed by the team are climate risk related. Companies will be aligned to one or more of these themes and analysed with the aid of the ESG tools detailed above as well as their own subjective research and analysis derived through company meetings and engagement.

- **Energy transition:** Transforming the energy system to power a low carbon economy.
- **Circular economy:** Enhancing resource efficiency and waste reduction.

Having strong ESG credentials or being a thought leader in sustainability is not enough. A company's products must have a positive impact. Not only that, the product must be central to the company's existence (intentionality); a large utility may invest significantly in renewable energy, for example, but as a proportion of its overall income it would be less significant and, therefore not a core component of its business. However, a company which has placed wind power at the centre of its business strategy, would meet these criteria. It is also important to understand how the product has a positive impact beyond what would have otherwise occurred – its additionality. This has a clear link with innovation but also extends to services that have the potential to improve society.

Long-term sustainability validation is another key part of a company's assessment during which the team looks at ESG factors by carrying out their own fundamental ESG assessment of companies. The team focuses on nine key aspects, of which climate change is one.

The team produces detailed documents for each investment, with a description of the company's net impact contribution, its place in the market, the investment thesis, potential risks to that thesis, valuation (relative to historic levels and the peer group), ESG considerations, impact measurement and ongoing engagement. These reports are created to express the investment case for each stock in the portfolio as succinctly as possible to form the basis for discussions amongst analysts and the portfolio manager. The reports are periodically updated, or more frequently when there is significant change affecting the stock.

All research reports are maintained in a collective database so that all investment team members have access to this information.

Managing/Monitoring

The team will only invest in companies that are assessed to have strong ESG credentials. They will then work alongside our stewardship team, EOS, to monitor how companies are both progressing towards delivering impact and improving their ESG profile.

All stocks are bought on a long-term basis, as the impact and financial opportunity identified in the investment thesis will likely take time to play out. To ensure that downside risk is managed, the team monitors the progress of the company in achieving its goal as part of an important feedback loop. The original impact thesis is also revisited regularly to assess whether the opportunity still exists and to what extent, if at all, the financial impact has changed.

The main climate-related indicators used are annualised metric tonnes of CO_2 emitted (Scope 1 & 2), metric tonnes CO_2 avoided, MWh installed renewable capacity, MWh renewable energy generated, m^3 water used, m^3 water saved, metric tonnes waste generated, metric tonnes waste recycled, metric tonnes food loss/waste avoided, hectares forest or land restored or conserved, and number of species preserved.

5. Federated Hermes Global Equity ESG Pathway Fund (Prior to 24 April 2025 this fund was Federated Hermes Global Equity ESG Fund)

The investment objective of the Fund is to achieve long-term capital appreciation by investing in worldwide equity securities with favourable environmental, social and governance ("ESG") characteristics.

Identification

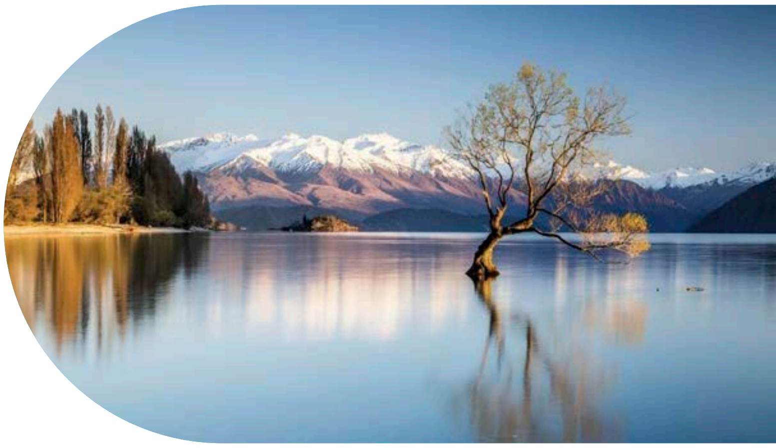
The team has built a bespoke quantitative assessment of the most important ESG issues, the QESG Score, which evaluates a company's ESG characteristics and identifies positive ESG change. The team believes that companies less exposed to ESG risks than peers will outperform over the long term. Further,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

The QESG Score is designed to capture a company's behaviour on various ESG issues, as well as observed change in its ESG behaviour. It enables the team to systematically analyse the investment universe and, therefore, every portfolio holding, from an ESG perspective. Furthermore, the team's qualitative overlay, coupled with the voting and engagement activities of EOS, our in-house stewardship team, ensures that the team are better able to gain a fully rounded view of a company to identify weak links that model may have missed and promote positive change.

The aim of the QESG Score is to assess which companies are best positioned in the face of increasing focus on the environment, society and corporate governance. We believe that all companies will face a wide range of opportunities and threats as increasing importance is placed on the role of the corporate sector in building a more responsible world.

The QESG Score is created to measure which companies will flourish in this environment, and which will flounder. We therefore anticipate that over time companies with a higher QESG Score will generate better stakeholder outcomes and, in particular, better shareholder returns.

Each facet of the QESG Score is embedded within the model individually and subject to the same non-linear transformations as other measures of corporate quality. This approach means that companies exposed to significant (and unnecessary) ESG risks or controversial behaviours or activities, that their peers do not face are highly unlikely to be viewed favourable within the team's idea generation model.



Assessment

The below is a framework of how the QESG Score assesses a company from an ESG perspective.

Wide-range of ESG data

- **EOS**
- Sustainalytics
- MSCI
- S&P Trucost
- CDP
- Bloomberg
- FactSet
- ISS

QESG Score

Example metrics			
	Environmental	**Social**	**Governance**
Policies and processes What does the company claim?	Emissions targets Renewable energy policies Disclosure quality	Human rights policy ESG certifications/awards Supply chain commitments	Quality of disclosure Board independence Board structure
Real-world performance What is the reality?	Emissions/resource use Exposure to green opportunities Exposure to controversies	Employee turnover 3rd party ESG ratings SDG revenue generation	Compensation and alignment 3rd party ESG ratings Exposure to controversies
Trend Is the company improving?	Change in emissions Improvement in ESG ratings Engagement progress	Resolution of controversies Improvement in ESG ratings Engagement progress	Vote progress Improvement in ESG ratings Engagement progress

The QESG score seeks to understand how the company is managing its ESG risks by:

- Assessing the companies' policies, procedures and processes. This identifies whether companies are, on the surface at least, saying the right things.
- Assessing the reality. How is the business actually managing its ESG risks. It's one thing to have policies and procedures in place, but if its ESG metrics do not reflect this or do not compare favourably to its peers, then it might indicate that the company is not managing these risks particularly well.
- Assessing how the company is changing. If a company is putting in place targets, such as net zero commitments or diversity and inclusion targets and is also demonstrating progress, then we would view this positively. This means that a lower QESG score, compared to peers, would not necessarily be a barrier to investment.

The QESG Score is also 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 ESG risks. The Dashboard helps the team further integrate ESG research into investment decisions and foster dialogue with EOS. The team has formal monthly meetings, as well as numerous ad hoc conversations with EOS, which ensures the team remains active owners of the companies held in the portfolio.

From an environmental perspective, we use a wide range of metrics from a broad list of data sources including the Science-Based Targets Initiative (SBTi), Transition Pathway Initiative (TPI), CDP, MSCI, Trucost, Sustainalytics and, crucially, our internal EOS team. EOS help us determine the credibility of a company's climate plan, net zero targets, encourage ambition in the setting of those targets and assess how the company is progressing.

Examples of constructive engagement include: encouraging the adoption of the TCFD recommendations for disclosing clear, comparable and consistent information about threats and opportunities related to climate risk, speaking with companies ahead of their AGMs to flag climate risk related issues that could be remedied, acting as active owners on behalf of shareholders, tracking companies' progress on climate change issues and sharing company best practice where possible. Moreover, our voting policies and membership of industry initiatives encourage companies to align their business models with the Paris Agreement.

Overall, we advocate a sensible approach to decarbonising portfolios that uses a variety of levers. These may include avoiding or reweighting away from problematic names or weighting towards firms with exposure to the sustainability theme, as well as engaging directly with companies to deliver desired outcomes.

Management/Monitoring

Our ESG Portfolio Monitor offers a portfolio perspective on ESG exposures, reporting on ESG characteristics of portfolio holdings (both in absolute and benchmark-relative terms) including voting and engagement data from EOS. The Monitor also highlights companies with potential controversies and ESG concerns. The tool acts to promote discussion on thematic ESG risks, as well as to identify the best and the worst companies according to various ESG metrics. By thoroughly rating companies on these extra-financial criteria, businesses (and investment managers) can be steered towards greater consideration of the ESG issues. This is complemented by direct dialogue with businesses that is made possible through EOS.

> **The tool acts to promote discussion on thematic ESG risks, as well as to identify the best and the worst companies according to various ESG metrics.**

As mentioned earlier, stewardship is fundamental to the team's monitoring of progress and in keeping companies accountable. We summarise our approach as informed, constructive, purposeful and patient. Our engagement with companies can be categorised under three key motives:

- Engaging for insight: Learning more about a business and its approach to issues.
- Engaging for risk management: Pushing for better processes and governance from firms to minimise risk.
- Engaging for impact: Encouraging changes to company strategy to directly improve environmental performance.

By engaging frequently with companies on ESG risks, as well as wider issues around policy and sustainable business practices, the insights from EOS create a powerful force for positive change. EOS sets specific objectives for engagement with companies. Firms' performance on set objectives is monitored against specific milestones. Lack of progress can lead to escalation – and may ultimately, if no action is taken, result in divestment.

6. Climate Change High Yield Credit Fund (CCUF)

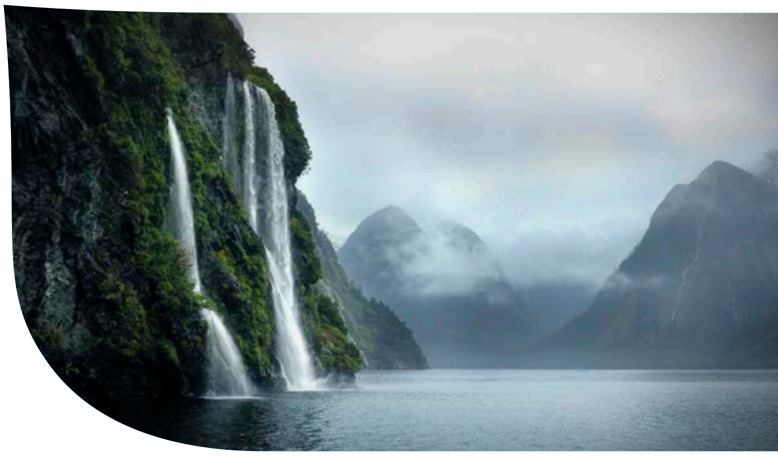
Identification

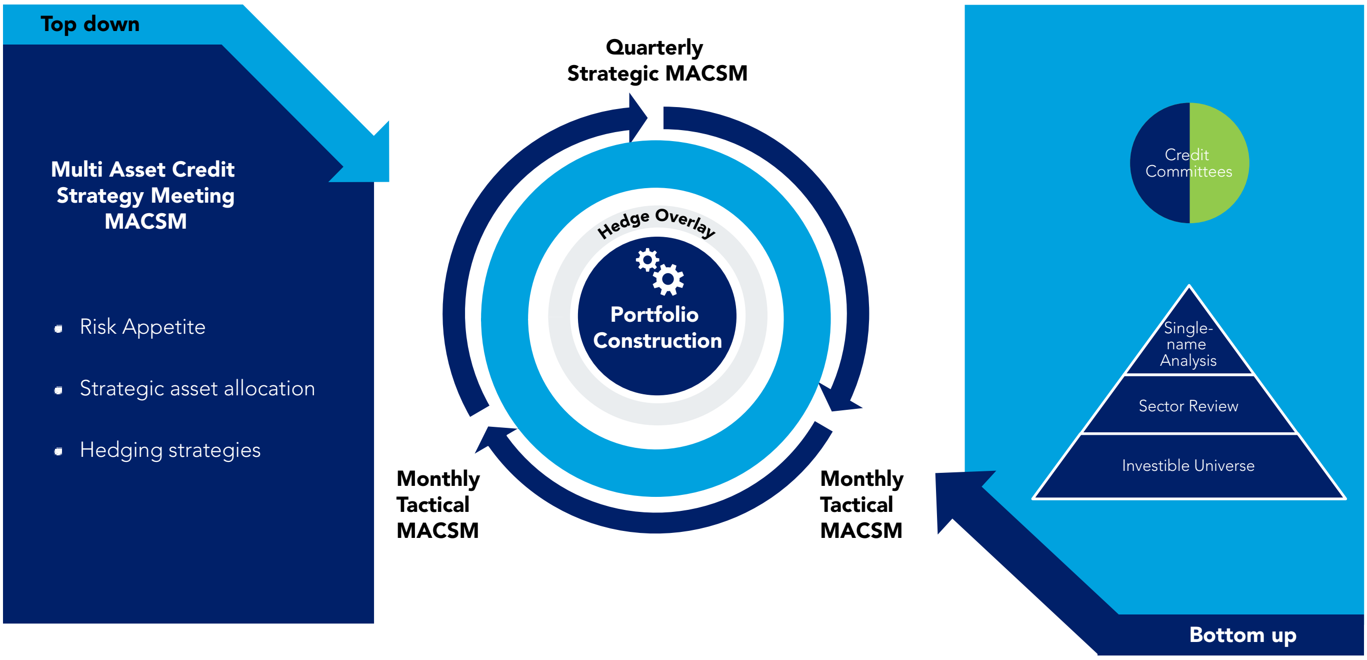
The Climate Change High Yield Credit strategy has a dual objective of delivering long-term, risk-adjusted outperformance, whilst also effecting positive environmental impacts by constructively engaging with companies on decarbonisation efforts and encouraging a more sustainable way of operating. Climate considerations are integrated in the investment process at various stages. Specifically, the strategy targets a total return above the benchmark over a rolling period of any five years alongside contributing towards the objectives of the Paris Agreement by investing in companies which are transitioning to net zero carbon emissions.

Assessment

We aim to identify issuers with attractive credit risks that are making a positive climate impact and set science-based emissions reduction targets consistent with global efforts to limit warming to well below 2°C. We systematically exclude climate laggards that demonstrate no desire to change and those exposed to controversial sectors, including fossil fuels. For the Climate Change High Yield Credit strategy, the team has created an investment process that is both like that of our existing successful high-yield strategy whilst also being an extension of it.

Through top-down analysis, the Credit team determines its risk appetite and the return prospects of different regions and sectors. These findings direct the team's disciplined, bottom-up research: identifying issuers with attractive credit risks and, crucially, determining which securities in their capital structures provide superior relative value consistent with the climate change framework. From a bottom-up perspective, in order to assess a company's willingness to decarbonise and its potential to reduce its carbon footprint, the team has developed the Climate Change Impact (CCI) score. The CCI Score uses a one-to-five ordinal scale that assesses a company's decarbonisation progress and the impact it has made towards a low-carbon transition. This score, together with the insights from the dedicated engagers, inform the team's portfolio construction.





Through various internal and external primary data sources, we screen for companies that show a willingness and ability to reduce GHG emissions while still creating economic value. Consistent with this "impact" approach, we recognise that certain companies, and indeed sectors, are at varying stages of progress. We know therefore that for heavy industrials, small steps and aligned momentum can be more material to the decarbonisation of the global economy than larger steps by low emitters. The portfolio will be largely comprised of both impact leaders (CCI 1) and names that show a credible transition path (CCI 2). These names have a convincing decarbonisation thesis, are at the vanguard of decarbonisation or have clearly defined goals towards it and have a highly material potential impact. A name can also receive the CCI 1 score if the company contributes to decarbonisation via alternative technologies that replace highly emitting sectors (Renewables & EVs) and carbon sequesters (Net positive carbon capture technology and sustainably managed forest-owning firms).

For our assessment of transition potential, portfolio construction and sizing purposes, the Climate Change Scores are defined along two dimensions: 1) potential for realised decarbonisation and 2) materiality of the impact of that decarbonisation process.

From Climate Change Database to investment decision, and back again

During the "transition" category, engagement is a catalyst for change. The imperative to engagement is to speak from the position of a financial stakeholder, where the right to engage is grounded. As a result, we prefer not to use negative screens for so-called brown sectors because, in doing so, we lose our right and our ability to influence companies to decarbonise.

Management/Monitoring

The Credit team's policy is to pursue engagements with companies that whilst scoring poorly from an environmental and social perspective, score well on governance and credit quality. In addition, these companies must also demonstrate a willingness and earnest desire to engage with us and effect positive change.

The engagement programmes with companies in the strategy's portfolio focuses on those areas where the greatest and most tangible positive outcomes can be generated in support of a low-carbon pathway. This approach provides for the ability to generate positive impacts in, amongst others, regions such as emerging markets where the need is often greatest. This impact can be affected directly through companies in emerging markets, or indirectly through a developed market company's global operation, supply chain or product and service offering.

For the Climate Change High Yield Credit strategy, engagement is a critical factor in encouraging companies to effect positive change. To that end, the team has a dedicated Sustainable Fixed Income team, and also draws upon the resources of our in-house stewardship team, EOS.

Whereas the credit team have historically focused engagement on ESG factors that impact financial materiality, the focus for the climate change strategy will be on selecting securities that are making progress from a decarbonisation perspective and engaging with those that show the potential to do so.

Attractive investment fundamentals and the potential for a constructive engagement programme are both equal prerequisites for investment. We recognise that any successful engagement strategy requires buy-in from company management and boards. Our approach is therefore to treat companies as partners.

7. Sustainable Global IG Credit Fund (SLUF)

Identification

The Sustainable Global Investment Grade Credit strategy aims generate a total return (through a combination of income and capital growth) over a rolling five-year period; and have a reduced environmental footprint compared to its Benchmark. To achieve this, the team invests at least 90% in a diversified portfolio of Investment Grade corporate bonds which are identified as "sustainable leaders" – forward thinking companies at the vanguard of their respective sectors who see value creation in protecting the planet and provide sustainable products and services. In privileging "sustainable leaders", the team seeks to gain exposure to the growth and development of such companies, which can compound over time. The approach employs both negative and positive screening techniques to concentrate investments in companies that demonstrate best-in-class sustainability characteristics.

Assessment

The credit team believes that by investing in a diversified portfolio of Investment Grade corporate bonds which are identified as "sustainable leaders" – forward thinking companies at the vanguard of their respective sectors who see value creation in protecting the planet and provide sustainable products and services, it can deliver superior risk-adjusted returns to investors and create real world impact to society. In addition, the team believes that a flexible and dynamic approach to duration and curve positioning is of paramount importance, in terms of protecting the portfolio against adverse macro events.

In terms of generating positive impact, the team seeks to identify sustainable leaders and to have a reduced environmental footprint which is measured (using available third party data relating to the carbon, water and waste metrics detailed below) by comparing the following characteristics of the issuers in respect of which the Fund holds debt with the Benchmark: (i) total carbon emissions (expressed in tons CO2 per $ million invested); (ii) the total waste (landfill, nuclear and incinerated, expressed in tonnes per $ million invested); and (iii) the total water used (cooling, processed and purchased, expressed as m3 per $ million invested).

Core to our investment philosophy is the belief that sustainable investment objectives reinforce financial objectives since the former can mitigate the physical and transition risks associated with the environmental crisis. At the same time, a strengthening financial profile increases the probability of delivering sustainable objectives.

> **Core to our investment philosophy is the belief that sustainable investment objectives reinforce financial objectives since the former can mitigate the physical and transition risks associated with the environmental crisis.**

Management/Monitoring

The Sustainable Fixed Income (SFI) team, led by Mitch Reznick, is part of the wider Fixed Income team and has responsibility for sustainability integration within our credit portfolios.This includes:

Setting sustainable investment objectives and implementing the processes

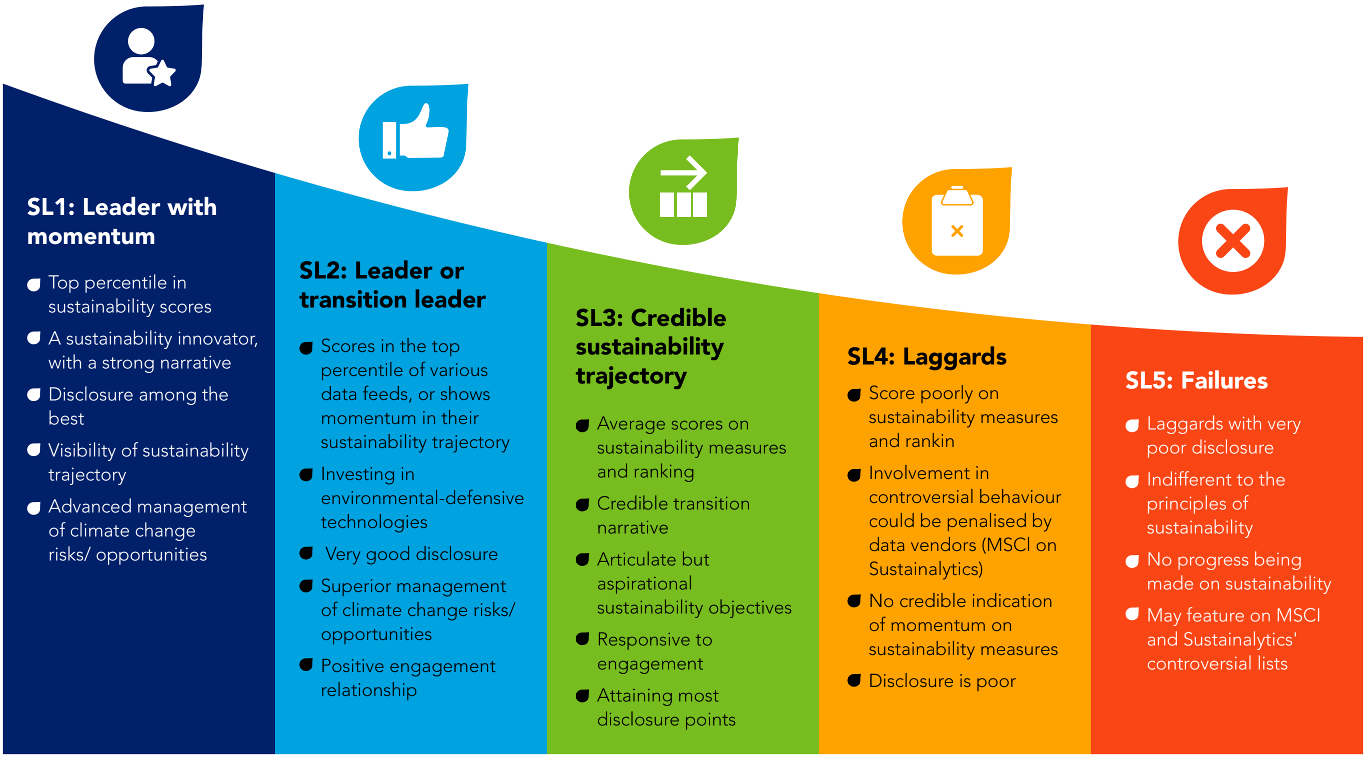
For investment solutions governed by a sustainable investment objective alongside a financial investment objective, SFI takes the lead in the development of the investment process for that objective, working with the relevant individuals and teams across the Federated Hermes Limited to see that these expectations come to fruition. This includes the development of the SDG Engagement High Yield Credit and Climate Change High Yield Credit strategies, as well as the development and maintenance of the sustainable investment processes and proprietary sustainability scores:

Sustainable Development Goals (SDG) Score (from one to five) – determines the ex-ante potential for a company to effect positive change on society and environment. SDG scores assess a company's willingness and ability to manage its operating process and/or the products it produces in a purposeful way for the benefit of society and or the environment.

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; capex spend; reporting, etc.) and 2) the impact of decarbonisation on the company and on the wider economy (i.e. materiality; time frame; avoided emissions; value change contribution).

From Climate Change Database to investment decision, and back again

Sustainable Leaders (SL) Scores (from one to five) – an ordinal assessment of sustainability leadership of companies, derived from the sector-weighted average combination of our proprietary QE and QS scores.



The SFI team also owns the Climate Change Database (CCDB), which provides climate and sustainability-related information on the credit universe. The team works with other teams within the broader Fixed Income team to develop investment methodologies. For example, the SFI team is currently working with the Credit Research team to develop a framework on the treatment of "brown" activities: wind down versus divestment, considering both financial and sustainability related implications.

The CCDB acts as a central repository for data related to climate change. This database currently covers the credit team's investable universe and is an amalgamation of different metrics from providers such as TPI, CDP, Trucost and SBTi. As such it builds on our carbon tool, offering further opportunities to integrate and interrogate different data sources. The database also holds our proprietary data such as QESG scores and insights from our EOS team, helping us identify leaders and companies in the transition.

8. Global High Yield Credit Engagement Fund (HSUF) (Prior to 24 April 2025 this fund was Federated Hermes SDG Engagement Credit Fund)

Identification

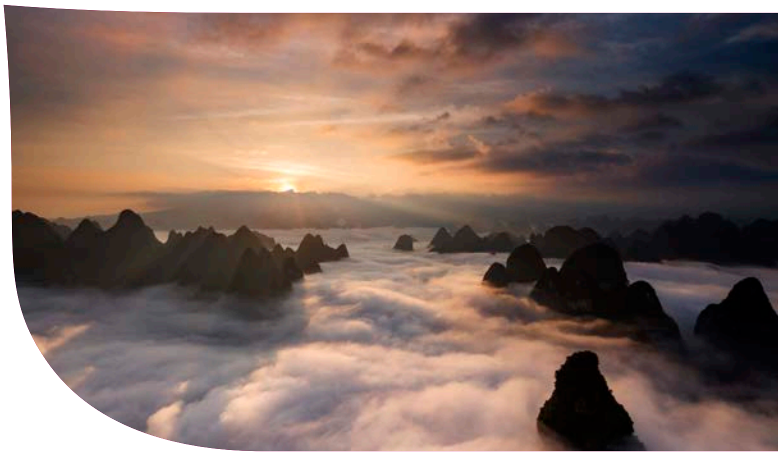
The Global High Yield Credit Engagement strategy aims to generate attractive investment returns and positive societal and environmental impacts through engagements with companies focused on the United Nations' Sustainable Development Goals (SDGs). The SDGs are an ambitious, universal set of objectives agreed by UN member states.

The strategy therefore provides the opportunity for credit investors to action the objectives set out within the SDGs alongside their investment objectives.

Assessment

What separates this thematic strategy from mainstream high yield strategies are the co-linear, self-reinforcing investment and societal objectives. The team expects to deliver returns to society by identifying global high yield companies with ex-ante potential to effect positive change in society, in the context of the SDGs, and working with them as active investors in an engagement relationship to facilitate that change. The investment opportunity that the strategy addresses is that engagement will enable positive change and will encourage investee companies to create more resilient businesses, as well as tackling pressing social or environmental needs. This positive change should over the medium to long term be reflected by decreasing credit spreads and will ultimately improve the net overall contribution of the industry to supporting delivery of the SDGs. Additionally, this integrated and collaborative engagement with companies provides a powerful feedback loop in linking the SDGs with the company's credit strength, which further supports the goal in delivering long-term outperformance.

At the same time, the team expects to deliver superior, risk-adjusted financial returns versus the global high yield market via an investment process that is over 18 years in the making. The team's flexible, proven investment thesis aims to exploit valuation anomalies across geographies, along credit curves, and within capital structures based on its acute focus on security selection. The analyst team covers investment grade and high yield credits and all components of the capital structure (senior secured, senior unsecured and subordinated credit), as well as cash bonds and CDS. This allows the team to leverage its credit view across the full spectrum of debt instruments and strategies and gives them the ability to diversify sources of alpha generation. The Global High Yield Credit Engagement strategy is the natural extension of our longstanding commitment to responsible investing and our leading work in stewardship through EOS.



Supportive fundamentals Good governance Attractive valuations	The under-engaged Potential for positive change	Returns to investors Returns to society Long-term vision
• Improving credit stories • Exploiting valuation anomalies across geographies, along credit curves, within capital structures • Companies with recurring presence in capital markets	• Use the SDGs as a framework for identifying, articulating, measuring positive impact opportunities • Willingness and ability of management to effect positive change • Investing in SDG 'laggards' that have the potential to become SDG leaders of tomorrow	• The potential for superior risk-adjusted returns • Lasting, measurable societal impact • Long-term investment horizon

In summary, we believe engagement has the potential to unlock value for all stakeholders – investors, companies, employees, local communities and the planet – and therefore help deliver the ambitious SDGs.

Management/Monitoring

Federated Hermes Limited has had sustainability at its core since its creation, with continuous improvements made over time. In 1996, we established the world's first dedicated voting and engagement service, leading the way for the development of stewardship, and led the group that drafted the UN-supported Principles for Responsible Investment, helping initiate a shift towards ESG integration and active ownership in investments.

The Credit team's policy is to pursue engagements with companies that either score poorly from an environmental and social perspective but score well on governance and credit quality. Companies must also demonstrate a willingness and earnest desire to engage with us and effect positive change.

The engagement programmes with companies will focus on those areas where the greatest and most tangible positive outcomes can be generated in support of those needs identified by the SDGs. This approach allows the ability to generate positive impacts in, including within, emerging markets where the need is often greatest, directly through companies based, or with operations in those regions and indirectly through a developed market company's global operation, supply chains or product and service offerings.

We work closely with our portfolio companies to help assess where and how to achieve the most positive impact on key beneficiary groups within their purview. For example, through engagement, we may identify new markets for much-needed products, more equitable employment models, or how the companies could exert changes through their supply chains.

For the Global High Yield Credit Engagement strategy, engagement is a critical factor in encouraging companies to effect positive change. To that end, the credit team has a dedicated engagement team and also draws upon the resources of the in-house stewardship team, EOS. The practice of engagement will not materially change from what we already do, drawing from over 30 years of stewardship experience. Whereas the credit team have historically focused engagement on ESG factors that impact financial materiality, the focus for the SDG Engagement High Yield Credit strategy will be on effecting change. The team expects that the SDGs will provide an excellent context for measuring, assessing and reporting change.

Attractive investment fundamentals and the potential for a constructive engagement programme are both equal prerequisites for investment. We recognise that any successful engagement strategy requires buy-in from company management and boards. Our approach is therefore to treat companies as partners.

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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: