

Sustainability Risks Policy

June 2025

Scope

This policy applies to investment portfolios managed by Hermes Investment Management Limited ("HIML"), Hermes GPE LLP ("HGPE") and Hermes Alternative Investment Management Limited ("HAIML"). It also applies to investment portfolios managed by Hermes Fund Managers Ireland Limited ("HFMI") where discretionary investment management has been delegated to HIML and/or HGPE, and to all sub-funds of Federated Hermes Investment Funds plc. HIML, HGPE, HAIML and, to the extent this Policy is applicable to it, HFMI are collectively referred to as "Federated Hermes" in this document.

For those investment portfolios managed by HFMI 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 which are in scope of this policy), how they integrate sustainability risks as part of their investment decision-making and risk monitoring process for the funds they manage is more fully described on the [website](#). For those investment portfolios in scope of the EU Sustainable Finance Disclosure Regulation ("SFDR"), this Policy meets requirements to formalise and disclose how sustainability is integrated into the business and investment processes. For a list of funds that are in scope of SFDR see Appendix A.

The processes and approach outlined within this statement are also relevant across the other Federated Hermes funds and segregated mandates in scope of this policy, including those not in scope of SFDR. As at 10th June 2025, this includes our real estate, private debt and infrastructure funds, and those of our private equity funds not in scope of SFDR.

This policy is reviewed and updated annually, with oversight by the Federated Hermes Limited Sustainability Regulations and Stewardship Oversight Committee.

Definitions

Responsible investing is an active approach to managing assets in the long-term financial interests of investors in which:

- due diligence considerations include both traditional performance metrics and relevant and material sustainability metrics including those relating to governance, environmental and social factors in order to provide a more expansive and deeper understanding of an issuer and the drivers of its value;
- responsibilities of ownership, including investee engagement and voting proxies in the best interest of shareholders as well as ongoing due diligence during the ownership phase, are undertaken with care and commitment.

Active ownership is the use of the rights and position of ownership through active engagement to influence the activities or behaviour of investee companies to further the long-term interests of investors. This consists of objective-driven dialogue seeking positive and lasting change in the governance, purpose, strategy, and operations and

its relationship with key stakeholders including that of the environment and society.

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

Sustainability risks are risks which could prevent an investee's business model and performance from being sustainable (i.e., enduring). These are likely to include environmental, social or governance events or conditions that, should they occur, could cause actual or potential material negative impact on the value of the investment in the short, medium, or long term.

ESG risks are those risks pertaining to environmental, social and governance considerations. Whilst sustainability risks may be broader, for the purposes of this paper we have used the terms 'sustainability' and 'ESG' interchangeably.

ESG integration is the process in which relevant and material Environmental, Social and Governance factors are incorporated into the investment analysis in a manner that is complementary and additive to the fundamental research and analysis process.

Active fundamental strategies use in-depth discretionary research and analysis of securities to inform investment decisions. Portfolio managers and analysts conduct qualitative and quantitative analysis of individual companies, industries, and macroeconomic trends. They often meet with company management, assess financial statements, and evaluate competitive positioning to form investment theses.

Active quantitative strategies use a systematic model and data-driven analysis of securities to inform investment decisions. They use mathematical models and large datasets to identify patterns, forecast returns, and manage risk. Human discretion is limited to model design and oversight, not individual security selection.

Sustainability risks

Sustainability risks may emerge from internal issues (such as governance structures, how the board holds executives accountable, lack of board diversity, or reputational issues arising from health and safety, human rights or environmental violations) or external sources (such as supply chains, regulatory change caused by industry change or inequality). Inadequate sustainability practices of investee companies can lead to, among other things, inefficiencies, operational disruption, litigation, and reputational damage and vice versa with best practice sustainability activities. These factors have the potential to affect the value of investments and create more risks for investors.

Examples of potential sustainability risks are:

- **Governance risks**, such as board effectiveness and executive remuneration practices, minority interest protections, transparency, and anti-corruption measures.

- **Consumer risks**, including shifting consumer demands.
- **Environmental risks**, such as climate change, resource depletion, biodiversity loss and pollution.
- **Technology risks**, such as technological advancements and their impact on product / service offerings and job levels.
- **Social risks**, such as human and labour rights, human capital management and wider social impacts, including community engagement.

Why we integrate sustainability risks and stewardship insights

Federated Hermes is guided by the conviction that responsible investing is the best way to create enduring wealth for investors. Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns, including through contributing to positive outcomes in the wider world, consistent with client objectives and applicable requirements.

While the most pressing material risks are those that will crystallise in the short term, we are long-term investors that strive to deliver enduring, responsible wealth creation for our end investors. We integrate our deep understanding of sustainability considerations into our analysis of every company and our investment decisions. The consideration of sustainability factors involves the integration of risk factors including a company's relationship with its stakeholders as well as its impact, through both its operations and the products and services it offers, on the environment and wider society. For the largest systemic risks, such as climate change, we use our influence as active owners to drive positive change.

Federated Hermes does not see the integration of sustainability information into investment decisions as a separate category of investing. Rather, we believe that material sustainability risks and opportunities should inform all investment decisions. That is why we integrate sustainability considerations into all of our products and across all parts of our investment processes, from idea generation and portfolio construction to exit. We have also invested in strong engagement and advocacy capabilities to seek to mitigate sustainability risks in our investments, as we describe further below.

The role of engagement and advocacy in managing sustainability risks

Engagement and advocacy are key to managing sustainability and broader business risks and opportunities. To effectively measure and manage sustainability risks, we aim to be a good steward and owner of companies and assets through our asset engagement and advocacy. These activities are resourced by extensive in-house technical expertise in our investment and stewardship teams and the Responsibility Office.

As a responsible owner, we actively engage with companies and the other assets we invest in to align their actions with the long-term interests of the end investor. This engagement encourages appropriate governance structures and

behaviours and a clear business purpose and strategy, taking into account the interests of all relevant stakeholders including the environment and society at large. We may modify or tailor our approach to engagement with companies on certain topics in line with local law and regulation in the relevant jurisdiction.

We have a well-established outcomes-based philosophy that underpins our approach to engagement and stewardship.

There are clear and well-established protocols on how to identify engagement objectives, to escalate and to measure an engagement's effectiveness.

In public markets, the majority of dialogues that form Federated Hermes' engagement with investee companies identified for focused engagement are conducted by our stewardship services team, EOS at Federated Hermes Limited ("EOS"). Members of EOS may be joined by relevant portfolio managers or analysts from our investment teams. Our investment teams also regularly discuss salient ESG issues with company management directly. The Responsibility Office ensures that our investment teams and EOS work closely together with a joined-up approach. 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. The Federated Hermes Limited Global Voting Policy and Guidelines, which are aligned with EOS' Global Voting Guidelines, inform the voting decisions made by our investment teams. Our Guidelines are informed by a hierarchy of external and internally developed global and regional best practice guidelines. Voting rights are exercised with a view to achieving best practice standards of corporate governance and equity stewardship and with the aim to support the delivery of long-term value in our funds.

Within private markets, our **real estate team** has an extensive community and occupier engagement programme. The investment team works with our property managers on site to engage with the delivery teams, occupiers and visitors.

Our **private debt teams** focus on identifying current and potential meaningful ESG risks before investing, due to the difficulty of divesting and, for direct lending, the capped upside. Because of a lack of third-party data, the teams use more qualitative information – often gained through dialogue with the borrower – as well as information contained in the due diligence packs. Should a material ESG or other sustainability issue arise during the life of the investment, the investment team will seek to engage directly with the borrower. The sustainability subject matter expertise of EOS informs the investment teams' own engagements with investee companies and assets.

For our **infrastructure team**, the asset management team for each investment is responsible for the ongoing monitoring of the investment including annual strategic reviews and engagement at the portfolio company-level, through board representation on operating or holding companies, as applicable. Post initial acquisition, annual strategic reviews

inform our strategy at asset and at portfolio-level. Strategic reviews incorporate an assessment of sustainability risks, opportunities and impacts. Asset and portfolio level objectives are developed in an integrated nature with sustainability.

Our **private equity team** seeks to improve and protect the financial value of investments through assessing, monitoring and seeking improvements to material sustainability risk areas. For a small proportion of our assets where our team have some control and/or the ability to influence company decisions directly, we seek to work closely with investee companies to monitor, challenge and improve sustainability performance. However, in almost all cases our team has limited control and/or ability to influence decisions directly (whether for direct or indirect co-investments). In these instances, the team will work closely with the lead GPs to assess, monitor, and seek to improve sustainability performance of the underlying investee companies.

Our Engagement Policy, which is available on our [website](#), sets out the details of how engagement is undertaken across asset classes.

In addition, we have a substantial advocacy programme, where we engage with public policymakers, regulators and industry bodies to enhance industry norms, market rules and regulatory requirements in relation to corporate governance, stewardship and environmental and social policy globally and regionally. We engage constructively to address governance, environmental, social and other market failures that may prevent the financial system from operating in the best interests of its ultimate asset owners, including in relation to sustainability risks. We are involved in a wide range of industry initiatives. 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.

Our advocacy work also acts as a source of information to inform our engagement and investment processes.

More information on our advocacy work, the initiatives in which we are involved, our engagement and our voting activities is available in our Stewardship Report on our [website](#).

Integration of sustainability risks and engagement insights in investment decisions

We integrate sustainability considerations and, where possible, engagement insights into our investment processes in our products, across all asset classes. The integration of qualitative information, including engagement insights, is not conducted for our active quantitative funds.

Investment teams incorporate sustainability factors into their investment process by accessing sustainability and, where applicable, engagement information using our in-house expertise and proprietary and third-party research and by undertaking their own research. Research and analysis by our investment teams includes an evaluation of performance on

governance, strategy, financials, material risk and sustainability factors, and the interplay between these elements.

Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress – is a key input into this process and investment decisions at a portfolio and individual asset level for funds that are able to integrate qualitative information in their investment process. Such engagement is carried out in a co-ordinated manner both by our investment teams and by EOS to maximise the impact of our engagement. These factors influence decisions to invest and are also actively monitored after investment, with the potential to influence decisions to sell an asset or increase the size of our investment. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and, where effective, reduce the investment risk and enhance the opportunity from the investment.

Active ownership is an important pillar of our investment approach. The voting and engagement activities of our stewardship and investment teams can promote positive change within companies, unlocking value not readily identifiable through analysis of investee companies' financials and also providing a forward-looking view of sustainability and broader performance that can lead to opportunities.

Whilst the philosophy and approach are consistent across all our investment teams, each investment team has developed its own methodology and framework for integrating material sustainability and engagement insights into its investment process that is compatible with its asset class and investment strategy.

Public markets – Active fundamental

Our public markets investment teams managing active fundamental strategies incorporate sustainability factors into their investment process through primary research and by using a range of in-house and team-specific proprietary stewardship, ESG and sustainability tools. These shed additional light on an investee company's or asset's sustainability risks and opportunities and the effectiveness of engagement in addressing these. This information is considered throughout the investment process in a way that is tailored to the specific investment strategy. Sustainability factors and engagement insights can be a component of a screen, a source of ideas, an input into fundamental analysis or an adjustment to valuation drivers and/or a portfolio construction factor. We continue to monitor these sustainability factors post-investment.

Through our proprietary 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 into the investment process, as well as to the ongoing monitoring of and engagement with companies.

Some of the public market strategies have exposure to private companies. For the majority of the private companies,

sustainability data are often not readily available. Where the teams are unable to source this data via third parties or directly from the company, they may rely on estimates or modelled data.

Similarly, for our sovereign investments, sustainability data are often not available in easily ingestible formats. Therefore, the investment team source majority of the data themselves through various mediums and utilise a proprietary sustainability scoring framework to assess their investments.

Public Markets – Active quantitative

Our public markets investment teams managing active quantitative strategies systematically integrate the consideration of sustainability risk and the incorporation of relevant sustainability factors into their quantitative models. This integration includes the application of sectoral and normative exclusionary screens and embedding other sustainability and governance related constraints; further detail on such can be found in the Supplement of the relevant Fund. The quantitative models are updated regularly, as required, ensuring sustainability risks are considered alongside traditional financial metrics in investment decision-making.

Qualitative insights, including engagement insights, are not integrated into the investment process for these strategies, given their fully quantitative approach.

Private Markets

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

The **private debt teams** consider sustainability behaviours when carrying out credit analysis for each potential investment. Sustainability considerations are tabled at the Private Debt Investment Committee and are considered as part of the research presented for all new transactions. Material sustainability issues will often form part of engagement with the company prior to investment and once invested.

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

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

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

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

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

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

Sustainability regulatory risk assessments are then used to identify typical risks that should be incorporated when devising the parameters entered into the investment models (using discounted cash flow analysis). Typically, the team integrates sustainability information that can affect investment fundamentals such as refurbishment budgets, risks of voids, lease lengths and obsolescence. Sustainability criteria and assessments are integrated into the investment decision papers submitted for approval to the Investment Executive Committee.

The Head of Responsible Property Investment sits on the Investment Executive Committee to review and ensure that integration of Environmental, Social and Governance factors is appropriately covered.

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

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

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

Sustainability considerations are fully integrated into all of our **infrastructure** products and activities.

We select investments based on strict investment criteria and restrictions in accordance with our clients’ needs. Sustainability considerations are assessed together with all other risks and opportunities identified in the course of due diligence. They are factored into Investment Committee papers during our investment process. Conclusions are factored into the investment decision, valuation, transaction documentation and/or transitioned to our asset management team for further engagement after completion. We see ourselves as long-term stewards of critical infrastructure assets. We engage actively with our existing investments on all areas of potential sustainability risk and opportunity supported by robust data monitoring.

Due to the nature of the asset class and our position as a co-investor, **our private equity team** aim to identify sustainability risks at the point of investment due to the difficulties faced in escalating activities during the investment hold. Sustainability risk assessments are also conducted on lead GPs for all new fund investments. The team assess all investments using a proprietary responsible investment framework to guide decisions. The team has one framework for funds and one for direct co-investment.

Post investment, all direct co-investments are monitored by the investment team with findings presented to the Federated

Hermes’ Portfolio Review Group (“PRG”). The team firmly believe that acting responsibly does not impede results. Creating a positive effect on society and the environment – responsible investing – is closely aligned to our objective of seeking to deliver above market returns for our investors.

Independent oversight

All of our investment activity is supported by our Risk team and Responsibility Office, which operate and function independently from the investment teams, and with separate, independent reporting lines to the Governance Oversight Committee (“GOC”).

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.

Additionally, the Risk team in its role as the second line of defence, provides independent oversight and challenge to our approach to corporate sustainability and responsible business management given it is a key driver of our firm’s reputation, both positive and negative. For instance, our reputation can be damaged if we do not define our sustainability approach in line with stakeholder expectations, do not authentically deliver or communicate it, or if external stakeholders (maliciously or otherwise) seek to misinterpret our sustainability position. 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 sustainability objectives and activities.

Sustainability risk is fully 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.

Our Responsibility Office is responsible for coordinating and supporting the development of our policies and their subsequent integration across our funds and stewardship services. The Responsibility Office is tasked with monitoring and overseeing every investment team’s approach to integrating sustainability considerations into their investment decisions and the monitoring of investees. To that effect, the Responsibility Office meets with every investment team on a quarterly basis to review the portfolio holdings from a stewardship and sustainability perspective and flag, if necessary, particular holdings which primary research or our third-party ESG data vendors might have highlighted as controversial.

The Responsibility Office also assesses each of the investment teams on their sustainability integration approach using an in-house sustainability Integration assessment matrix. These

three areas are then broken down further and reviewed to assess the following:

- **Investment process** – This assesses the philosophy of the team with regards to sustainability, whether it has a good understanding of material sustainability factors for its investment universe and reviews the activities the team undertakes to ensure it remains abreast of developments in the market on sustainability topics. In addition, it also assesses where in the investment process the team integrate sustainability factors and stewardship insights and how this impacts investment decisions.
- **Communication** – This assesses how clearly the investment team and the rest of the business articulate the sustainability and stewardship approach of an investment strategy and how it reports on its sustainability performance.
- **Advocacy** – This assesses if and how actively the teams are involved in initiatives, both internally and externally, on sustainability themes as well as sustainability and stewardship integration in asset management.

For our **infrastructure team**, all risk related matters are considered by the investment teams and are escalated to the IIC (“Infrastructure Investment Committee”) and if necessary to the Hermes GPE LLP Governing Body. For our **private equity team**, the Private Equity Investment Committee (“IC”) is responsible for all investment risks, including sustainability risks. Sustainability matters will be discussed on a quarterly cadence at the Portfolio Review Group (“PRG”), an advisory committee that includes private equity senior management, the PRG will advise on any recommended actions to address sustainability risks, and the IC will ultimately decide and ensure implementation of any decision.

Appendix A

The following funds are in scope of the EU Sustainable Finance Disclosures Regulation, as at 10th June 2025:

Federated Hermes Asia ex-Japan Equity Fund
Federated Hermes China Equity Fund
Federated Hermes Climate Change High Yield Credit Fund
Federated Hermes Direct Lending Fund
Federated Hermes Emerging Markets Debt Fund
Federated Hermes European Direct Lending Fund
Federated Hermes European Direct Lending Fund II
Federated Hermes European Direct Lending Fund III
Federated Hermes European Real Estate Debt Fund
Federated Hermes Global Emerging Markets Equity Fund
Federated Hermes Global Emerging Markets ex. China Equity Fund
Federated Hermes Global Equity ESG Pathway Fund
Federated Hermes Global High Yield Credit Fund
Federated Hermes Global Private Equity Co-Investment Fund VI SCSp
Federated Hermes Global Short Duration Bond Fund
Federated Hermes Global Small Cap Equity Fund
Federated Hermes GPE Innovation Fund II SCSp
Federated Hermes Global SMID Equity Engagement Fund
Federated Hermes Global High Yield Credit Engagement Fund
Federated Hermes MDT US Equity Fund
Federated Hermes Sustainable Global Equity Fund
Federated Hermes Sustainable Global IG Credit Fund
Federated Hermes Unconstrained Credit Fund
Federated Hermes US High Yield Credit Fund
Federated Hermes US SMID Equity Fund
Hermes GPE PEC V LP

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:

