

# Federated Hermes Global Equity ESG

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H1 2025



# Contents

1. <b>Market and performance review</b> , H1 2025	3
2. <b>Engagement overview</b>	5
3. <b>ESG outcomes</b>	8
4. <b>Thematic focus:</b> Our new AI assessment of engagement sentiment	9
5. <b>Case study:</b> Sumitomo Financial Group	13
6. <b>Case study:</b> UGI	14



## SECTION 1

## Investment review, H1 2025

## Key points

- Global equities delivered impressive gains in H1 2025, navigating a volatile landscape marked by trade tensions, geopolitical shocks, and shifting investor sentiment.
- Despite significant volatility, the Strategy outperformed (gross of fees), with our diversified approach helping to mitigate some of the macro-driven swings.
- The portfolio remains well-diversified and is constructed to reduce macro risk, with risk primarily driven by stock selection. It maintains exposure across the style spectrum, with modest tilts toward large-cap and Quality, and sector weights close to benchmark.
- Renewed optimism in global equity markets – driven by a rebound in US stocks – underscores the importance of diversification and a focus on fundamentals amid ongoing uncertainties from tariffs and geopolitical tensions.

## Market review

Early optimism at the beginning of the year around President Donald Trump's pro-growth agenda – focused on deregulation and tax cuts – initially lifted US markets. However, momentum faded due to escalating trade tensions, inflation concerns, and the potential economic impact of government layoffs. The launch of DeepSeek, a powerful Chinese AI model, added pressure to AI-related stocks, particularly the so-called 'Magnificent Seven' mega-cap tech names.

In contrast, European equities benefited from a rotation out of US assets, supported by improving economic data and a more growth-oriented German administration. China experienced a brief rebound driven by stimulus and enthusiasm around DeepSeek, but this was short-lived. Renewed US tariff threats – culminating in the 'Liberation Day' announcement in early Q2 – reignited trade tensions, triggering a sharp global equity sell-off and pushing the VIX Index, a reliable marker of volatility in equities, to its highest level since the pandemic.

Sentiment stabilised after the US paused reciprocal tariffs for non-retaliating countries and reached a truce with China in May. A strong earnings season – particularly among the Magnificent Seven – supported a US equity rebound. Geopolitical tensions escalated late in Q2 following Israel's strike on Iran, but swift US intervention led to a ceasefire, containing broader fallout. Despite persistent volatility, investor risk appetite remained resilient.

Factor performance was mixed. January was muted, while February saw Value outperform in Europe and Japan, and growth lead in North America. March favoured valuation over sentiment, but April and May marked a pivot back to growth and sentiment. In June, sentiment remained dominant, while profitability and capital structure weakened – suggesting macro forces outweighed fundamentals.

Performance review<sup>1</sup>

The Strategy marginally outperformed the MSCI ACWI (gross of fees) over the period. Our diversified approach helped mitigate macro-driven volatility. At the sector level, notable contributions came from stock selection in Consumer Discretionary, Utilities, Health Care, and Energy. Industrials, Consumer Staples, and the overweight in Health Care were the largest detractors. Regionally, value was added through stock selection in Asia-Pacific ex-Japan and Japan, while Europe was the most significant detractor.



<sup>1</sup> Management fees are not included and will have the effect of reducing performance. **Past performance is not a reliable indicator of future performance.**

## H1 review

### Performance contributors

<b>UniCredit</b>	Reported strong Q1 and Q2 results, driven by higher revenues and cost control, enabling increased capital distribution. Approval to raise its stake in Commerzbank provided further support.
<b>UGI</b>	The company benefited from strong demand and higher natural gas prices.
<b>Aker BP</b>	Rose alongside the oil price, which increased due to Middle East tensions following Israel's strike in Iran.
<b>Tesla</b>	Not owning Tesla also provided a significant contribution to performance.

### Performance detractors

<b>FedEx</b>	Declined after cutting guidance, citing industrial weakness and concerns over trade tariffs.
<b>General Mills</b>	Disappointed with earnings and lowered FY2025 outlook due to slowing US snack sales and elevated inventories.
<b>Broadcom</b>	Came under pressure amid fears that DeepSeek could disrupt demand for high-end chips and computing infrastructure.

## Positioning

Our approach focuses on investing in a diverse range of companies with attractive long-term characteristics and strong or improving ESG profiles. We do not take top-down macroeconomic views; instead, all investment decisions are made from a bottom-up perspective. Our risk-focused portfolio construction – anchored by MultiFRAME, our proprietary risk model – ensures the portfolio is not overly exposed to macro risks. As a result, the portfolio's risk budget is primarily driven by stock selection.

The portfolio is diversified across the style spectrum, with a tilt toward large-cap and Quality. Sector exposures are close to benchmark weights, further emphasising diversification. The most notable overweights are in Health Care and Information Technology, while Energy and Consumer Discretionary are the largest underweights.



## Outlook

Global equity volatility has stabilised, and investor sentiment is turning more optimistic. The S&P 500 has fully rebounded from its post-Liberation Day dip, driven more by macroeconomic trends than corporate fundamentals. With US interest rates at 4.5% and inflation easing to 2.4%, pressure is mounting on the Fed to cut rates. A rate reduction could unlock sidelined capital, potentially boosting equities further. However, while Trump's 'One Big Beautiful Bill' is seen as growth-friendly, it raises concerns about rising national debt and potential inflation from increased consumer spending.

In Europe, lower interest rates and targeted stimulus – particularly in Germany – are creating a supportive environment for businesses. Valuations remain relatively attractive, and corporate profitability is holding steady. In China, while there is enthusiasm in sectors like technology, AI, and green energy, overall sentiment remains subdued. Ongoing concerns about the real estate sector continue to weigh on consumer confidence and broader economic momentum.

Uncertainties around tariffs, geopolitical tensions, and the upcoming earnings season could either reinforce or undermine current market optimism. In this environment, maintaining diversification and a disciplined focus on fundamentals will be essential to navigating potential shifts effectively.

**In Europe, lower interest rates and targeted stimulus – particularly in Germany – are creating a supportive environment for businesses.**

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## SECTION 2

## Engagement overview

Alongside our stewardship colleagues in EOS at Federated Hermes Limited,<sup>3</sup> we seek to drive positive change through board and executive-level interactions. Our engagements with portfolio companies take the form of face-to-face meetings with board members, chairs, lead independent directors and chairs of board committees. We also gather information

relating to specific engagement objectives and issues through our interactions with divisional heads and investor relations teams. Our proprietary milestone system allows us to track our engagement progress through four key stages from initial raising of concerns through acknowledgement of the issue and commitment to change, to implementation.

Figure 1: Measuring progress – Milestones



Source: Federated Hermes Limited.

We benefit from the wider research universe covered by EOS at Federated Hermes Limited.<sup>1</sup> The diverse team have backgrounds in law, banking, sciences, academia, accountancy, climate change and corporate strategy, and collectively they are fluent in 10 different languages. This expertise, combined with their cultural understanding and connections, enables local language dialogues which are of great importance.

As ever, voting and engagement are useful as a means of holding companies to account and are an important factor in our assessment of governance. We view them as a key part of demonstrating active ownership and ensuring companies meet the needs of shareholders.



### Staying the course: Our voting & engagement update

The ESG backlash in the US has prompted a noticeable evolution in the tone and language of investor engagement. That said, we continue to have meaningful conversations with companies showing strong willingness to engage across a broad spectrum of topics.

While companies remain open to dialogue, the framing of conversations has become more strategic and measured, particularly around socially oriented themes. This shift reflects a broader recalibration in how corporates and investors approach ESG – balancing regulatory sensitivities with long-term value creation.

Proxy season engagement has increasingly centred on board effectiveness, with investors scrutinising board composition. Meanwhile, human capital management has become a more complex area for engagement, shaped significantly by the legal environment in the US. This is evident in the reduction in the overall number of shareholder proposals, which has been driven by those related to social themes.

That said, we continue to see meaningful engagement opportunities in areas such as board-level oversight, employee engagement, and labour costs and talent management, particularly succession planning below the executive level.

Geopolitical risk has become a defining feature of the current engagement landscape. Ongoing conflicts and tensions in regions such as Russia-Ukraine, the Middle East, South East Asia, and the Arctic are creating uncertainty for

<sup>1</sup> EOS at Federated Hermes Limited (EOS) is a world-leading stewardship service provider. Founded in 2004 on a legacy dating back to 1983, EOS delivers corporate engagement and proxy voting services.

companies with global exposure. As businesses adapt by reconfiguring supply chains and reassessing regional strategies, this geopolitical recalibration presents both risks and opportunities – and a new frontier for stewardship.

The policy environment is also shifting, with new governments in the US, UK, Canada, Germany, Poland, Australia, and South Korea. Meanwhile, trade tariffs and regulatory changes are adding further complexity for companies navigating an already challenging geopolitical backdrop. In addition, a wave of US Executive Orders has led companies to reassess their approaches to climate strategy and talent management.

On climate, the world remains off track in pursuing efforts to limit global warming to 1.5°C.<sup>2</sup> The commercial implications of this are growing, with rising physical risks increasing the likelihood of a disorderly transition. Understanding the commercial opportunities and risks is important in enabling feasible engagement in helping companies identify credible pathways to net zero that are aligned with shareholder value. Indeed, we are seeing increasing numbers of companies setting or committing to set science-based targets, globally.

Finally, societal mega-trends are becoming more business critical. Artificial Intelligence (AI) is now mainstream in

corporate strategy, while nature and biodiversity risks are being recognised as material financial risks. At the same time, demographic shifts, immigration trends, and the energy and digital transitions are reshaping how companies manage their human capital.

Despite the shifting tone of investor engagement and the politicisation of ESG in certain markets, our recent study – ESG is here to stay – and we're better for it – reaffirms that ESG remains a critical driver of long-term value creation. Companies with strong ESG credentials have consistently outperformed those with weaker profiles, and those actively improving their ESG practices can unlock significant shareholder value.

The current landscape requires a more nuanced and strategic approach to ESG, shaped by geopolitical tensions, evolving regulatory frameworks, and societal mega-trends. While there are pressure points within human capital management and climate strategy, they remain central to engagement. Moreover, emerging themes like AI, biodiversity, and demographic shifts are redefining materiality. In this context, ESG is not a passing trend – it is a lens through which resilient, forward-looking companies navigate complexity and can deliver sustainable performance.

## Engagement progress, H1 2025

Total number of engagement objectives:

**119**

Number of companies engaged:

**70**

## Companies engaged by region:

North America **37**

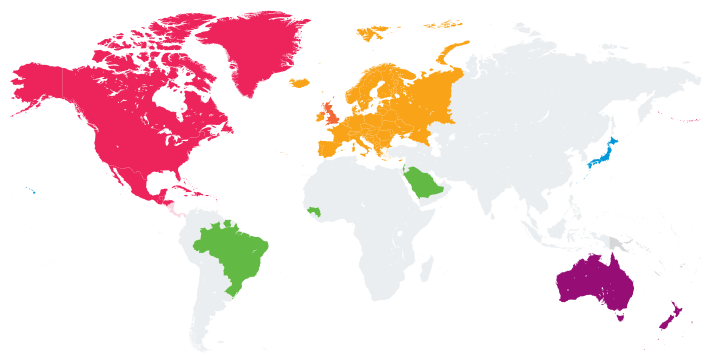
United Kingdom **4**

Emerging and developing markets **5**

Europe **13**

Developed Asia **10**

Australia & New Zealand **1**



## Voting

Voting is a key part of demonstrating active ownership and ensuring companies are meeting the needs of shareholders.

## Voting breakdown

Meetings where we voted in favour:

**40%**

Meetings where we voted against, against and abstained, or with management by exception:

**60%**

Source: Federated Hermes Limited, as at 30 June 2025.

<sup>2</sup> The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2° Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5° Celsius.

## Engagement objectives by theme



Source: Federated Hermes, as at 30 June 2025.

## Environmental: issues and objectives engaged



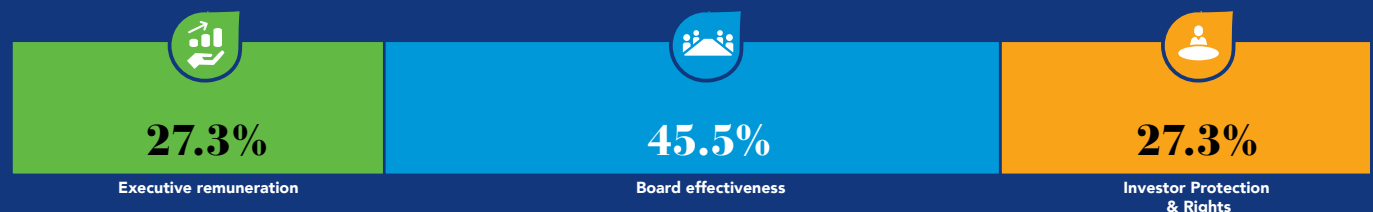
Source: Federated Hermes, as at 30 June 2025.

## Social and ethical: issues and objectives engaged



Source: Federated Hermes, as at 30 June 2025.

## Governance: issues and objectives engaged



Source: Federated Hermes, as at 30 June 2025.

## Strategy, risk and communication: issues and objectives engaged



Source: Federated Hermes, as at 30 June 2025.

## Milestone status of engagement



Source: Federated Hermes, as at 30 June 2025.

## SECTION 3

## ESG outcomes

We recognise that every company has both positive and negative real-world impacts when it comes to its operations. Here we present a snapshot of the strategy's environmental metrics, which help us to identify our risk exposures and manage our targets.

## Carbon intensity

Tonnes per US\$m of sales (scope 1 and 2)

Portfolio

Benchmark:

**60.88** **147.90**



**59%**

lower than the  
benchmark index

## Carbon footprint

(scope 1 and 2) per US\$m invested

Portfolio

Benchmark:

**16.29** **42.51**



**62%**

lower than the  
benchmark index

## Science-based targets

We continue to see increased momentum behind climate action and carbon risk management, in line with the rollout of the TCFD framework. The fact that more of our portfolio companies are committing to TCFD reporting – and to net zero or science-based decarbonisation targets – is evidence of this trend. As at 30 June 2025, the proportion of the portfolio that has set or committed to setting science-based targets<sup>1</sup> is as follows:

2025 06

Near Term

Committed

3

Targets Set

45

**51%** of companies with targets  
or commitments

Source: Federated Hermes, as at 30 June 2025.

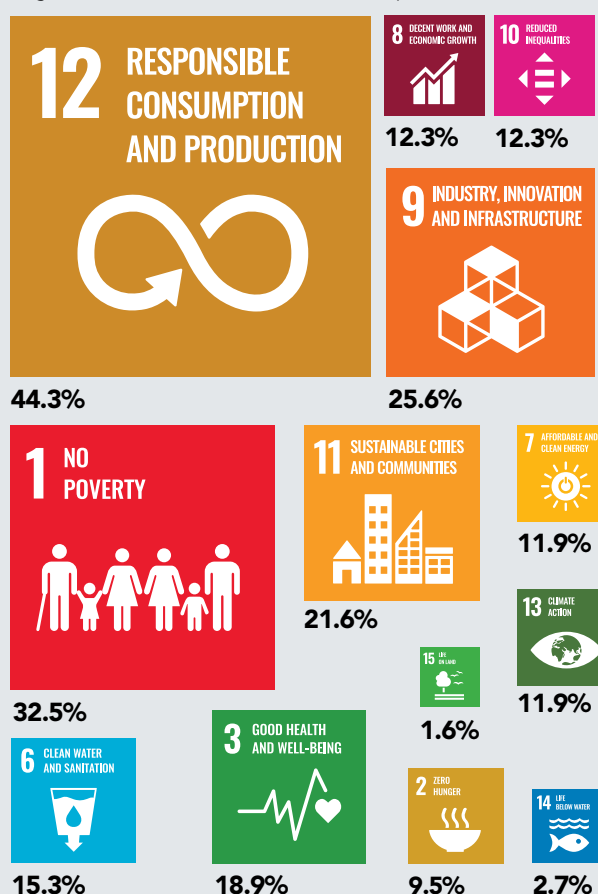
## Environmental opportunities exposure

**44%**

Source: MSCI as at 30 June 2025. This refers to the exposure of the portfolio to companies with >0% green revenues.

## SDG exposure

Here we demonstrate our SDG exposure – that is, companies where there is revenue exposure to investable themes aligned to the UN Sustainable Development Goals (SDGs).<sup>1</sup>



Source: Federated Hermes Limited, as at 30 June 2025. Note that percentages shown add up to more than 100% as companies can be exposed to more than one SDG.

<sup>1</sup> **Sustainable Development Goals (SDGs):** The SDGs are a set of 17 interconnected goals that were adopted by all UN member states in 2015. They are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere, by 2030. Learn more here: <https://www.un.org/sustainable-development/>

<sup>2</sup> **The Science Based Targets initiative (SBTi):** Established in 2015, the SBTi is designed to help companies to set greenhouse gas (GHG) emission reduction targets in line with climate science. The initiative defines and promotes best practices in emissions reductions and includes a team of experts to provide companies with independent assessment and validation of their targets.



## SECTION 4: THEMATIC FOCUS

## Our new AI assessment of engagement sentiment: Seeking to drive ESG alpha through innovation

The Federated Hermes Global Equity ESG team has long integrated EOS at Federated Hermes Limited, our dedicated stewardship and engagement team, into our investment process. EOS provides both qualitative insights from thousands of company meetings and quantitative metrics that enhance ESG analysis and decision-making.

These insights feed directly into our proprietary QESG Score, which blends data from voting outcomes, milestone tracking, and engagement conversations to assess companies' progress on material ESG risks – those that could impact long-term shareholder value.

Our focus on ESG improvers – companies demonstrating strong or improving ESG standards – has been central to our philosophy since inception. EOS's forward-looking intelligence complements third-party data from providers like MSCI, Trucost, and Sustainalytics, and is used not only in stock selection but also in ongoing company reviews and investment validation.

**Our focus on ESG improvers – companies demonstrating strong or improving ESG standards – has been central to our philosophy since inception.**

### AI-powered engagement analysis

In 2024, the Global Equity ESG team made a breakthrough by applying large language models (LLMs) to over 20,000 EOS engagement transcripts. This innovation enables:

- Sentiment extraction across 16 ESG themes
- Unsupervised machine learning for time-series analysis
- Clustering of key engagement topics
- Quantification of sentiment shifts over time

These insights are now embedded into the subjective layer of the investment process, offering a more nuanced view of company trajectories. For instance, an industrial holding previously flagged for weak climate disclosures showed improving sentiment in EOS engagements – which was later validated by market recognition.

### The history of EOS

EOS at Federated Hermes Limited (EOS) is a world-leading stewardship service provider.

Founded in 2004 on a legacy dating back to 1983, EOS advises on more than US\$2.2tn in assets to deliver corporate engagement and proxy voting services.

### EOS at a glance:

- >45 people with diverse backgrounds, nationalities and sector specialisms
- 994 companies engaged in 2024
- 14,701 voting recommendations for meetings made in 2024
- 87 discussions held with regulators and stakeholders in 2024

Source: Federated Hermes, as at 30 June 2025.



What are Large Language Models (LLMs)?

A large language model is a type of AI program trained on huge data sets – hence the name – to understand, predict and generate human language. LLMs form a key part of the ongoing ‘AI boom’, with the largest and most capable LLMs being generative pretrained transformers (GPTs) which are used in popular generative AI chatbots such as ChatGPT.

These findings are visualised in the ESG Dashboard (Figure 1, below) a proprietary tool first launched in 2010 and continuously refined over time.

EOS’s evolution – from advising a handful of clients to representing over US\$2.2tn in assets under advice – has amplified its influence, enabling deeper engagements and more impactful stewardship.

Figure 1: ESG Dashboard



What is the ESG Dashboard?

Our proprietary ESG Dashboard provides a concise overview of a company's ESG profile across a variety of metrics, compared to peers. It helps direct the team towards areas that may need further investigation, such as controversies, product involvement or differences in ratings provider assessments, as part of our due diligence.

We can dynamically select the peer group, going from a 10,000ft view of the universe, down to the sub-industry and country level to understand the company's overall position and how it compares to its closest peers.

The Dashboard also provides an overview of historic and current EOS engagement activities. It provides information on where progress has been made, the duration of the engagement and the associated meeting notes, helping direct our conversations with the EOS engagers in our regular meetings.

Benchmarking ESG performance: Company-relative insights

The model broadens the coverage of companies allowing us to benchmark companies more accurately against sector peers, enhancing our ability to identify leaders and laggards in ESG performance.

For example:

- Governance sentiment in Financials has trended negatively over the past five years.
- One portfolio holding, Visa, however, stands out with marked improvements in Governance sentiment.

- Top engagement topics in Financials include:
- Composition & structure
  - Board & management effectiveness
  - Enterprise risk management
  - Long-term strategy
  - Pay design & transparency

These topics have all been discussed with Visa, where they have strong averages versus other financials.

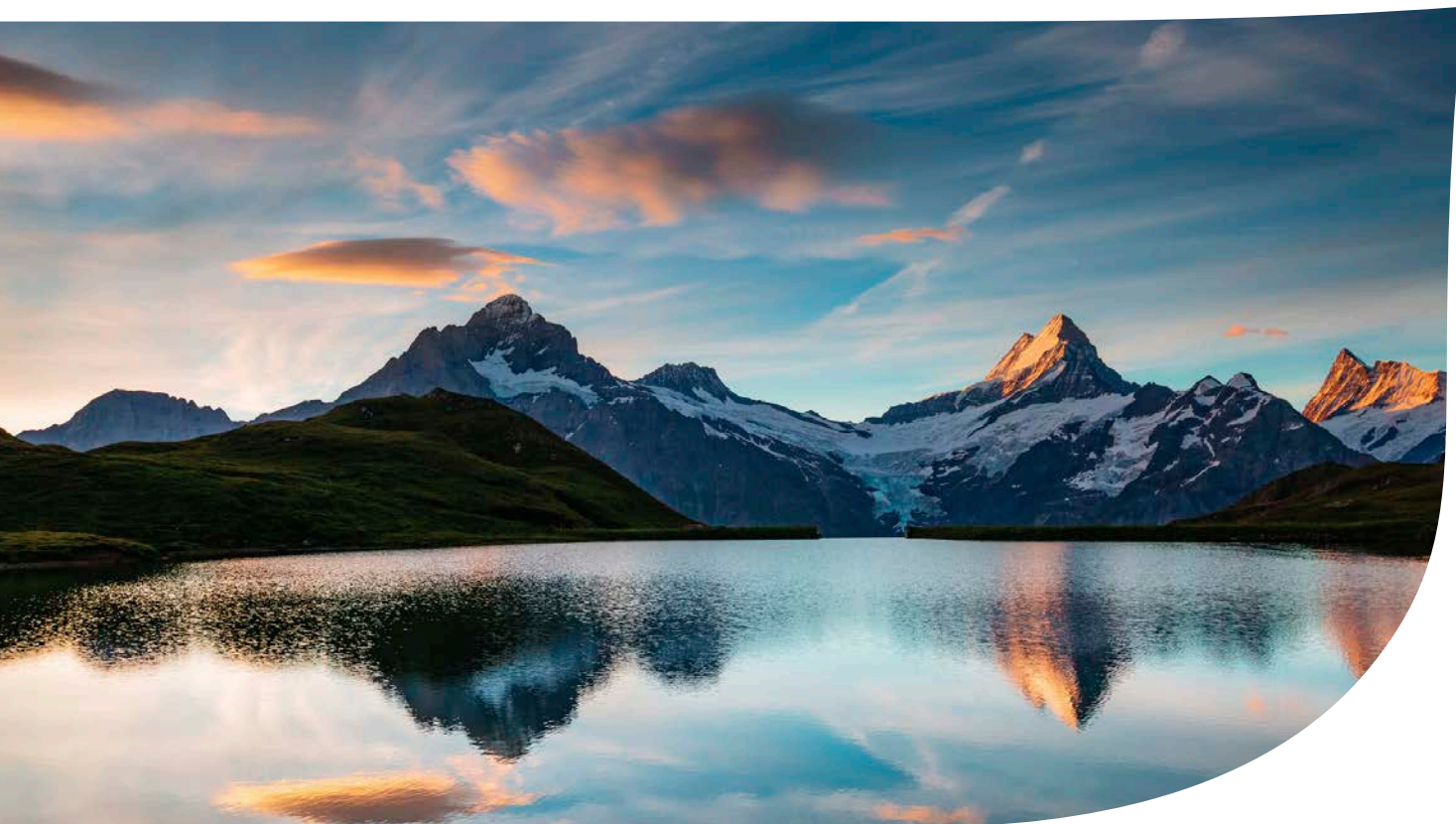
Another portfolio holding example is Nvidia. Despite not seeing engagement objective progress recently, we can use the LLM to determine that sentiment is positive across several issues based on our ongoing conversations with the company. Topics discussed with Nvidia since start of 2024 include:

- Access & affordability
- Basic shareholder rights
- Board & management effectiveness
- Business purpose
- Climate opportunities
- Composite & structure
- DEI & innovation
- Greenhouse gas emissions
- High geographic risk
- Long-term strategy
- Pay design & transparency
- Succession & stability
- Water stress

Figure 2: EOS LLM engagement sentiment score, Nvidia – cumulative







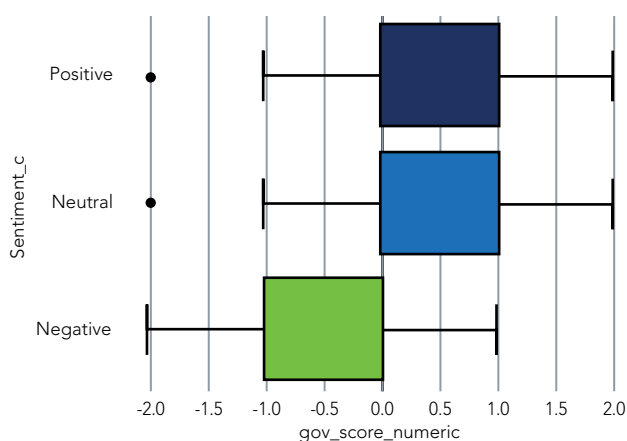
### Expanding our coverage

The LLM model now covers companies previously lacking engager sentiment ratings – expanding our coverage by approximately 50%. This enhancement allows for:

- Sentiment scoring across ESG themes, even without direct qualitative ratings
- Benchmarking against existing engager sentiment data
- Bias detection in ESG rankings

The model occasionally flags negative governance sentiment where human engagers rate the engagement positively. This divergence is visualised in figure 3, below, plotting the LLM governance score versus engager sentiment, highlighting the model's ability to uncover hidden risks.

**Figure 3:** Case study – when the model went against the engager



### Conclusion

Federated Hermes continues to lead in ESG integration, using AI not just to inform but to drive alpha. We plan to continue making use of this innovation as part of our stock selection and portfolio monitoring process. Additionally, we will continue to interrogate the data and test our investment thesis over time as part of our ongoing alpha model improvement. In the current environment, sentiment around ESG topics will be crucial in identifying long-term improvers from an ESG perspective.

**We plan to continue making use of this innovation as part of our stock selection and portfolio monitoring process.**

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## SECTION 5: CASE STUDY

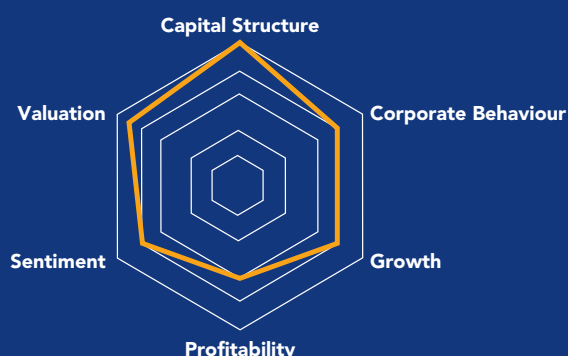
## Sumitomo Mitsui Financial Group

**Sumitomo Mitsui Financial Group (SMFG) is one of Japan's leading megabanks, operating across traditional banking, securities, and a range of financial services including credit cards and consumer finance.**

The bank stands to benefit from rising Japanese interest rates, with recent comments by the Bank of Japan's (BoJ) deputy governor and a new trade agreement with the US strengthening this outlook. These developments are seen as signs of confidence in Japan's economic recovery – a positive backdrop for banks like SMFG, which should see improved profitability.

The company is highly rated in most factor categories, but especially so across Capital Structure, Corporate Behaviour, Growth, Sentiment, and Valuation, as illustrated below. It boasts a strong QESG score, positioning it favourably against both domestic and international peers, and its recent MSCI ESG rating upgrade to 'AAA' reinforces its leading position.

## Alpha Model assessment



Source: Federated Hermes, as at 30 June 2025.

Governance and risk culture are particularly important for banks. SMFG emphasises a proactive and principled risk culture. Mitigation and risk awareness is supported by internal surveys, training programs, top-down communication and reward systems to reinforce risk-conscious and ethical behaviour.

The bank has issued approximately €1.7bn in green bonds – including €500m in 2024 – demonstrating its ability to capitalise on sustainable finance opportunities. These proceeds have supported projects estimated to reduce annual CO<sub>2</sub> emissions by 15.9 million tonnes, with SMFG's share accounting for around 4.1 million tonnes.

## Engagement

Engagement with SMFG has focused on several strategic areas, particularly climate change, governance and disclosure practices, with sentiment around our interactions positive, especially on environmental and governance topics.

**Figure 4:** EOS LLM engagement sentiment score



Source: Federated Hermes, as at 30 June 2025.

Recently, SMFG's engagement efforts have centred on climate-related initiatives, following its exit from the Net Zero Banking Alliance. The bank has reaffirmed its commitment to climate action by pledging to reduce financed emissions and participating in global initiatives such as GFANZ (Glasgow Financial Alliance for Net Zero).

It is also aligning with global peers and preparing for disclosure requirements under Japan's Sustainability Standards Board. Discussions have included climate scenario analysis, expected credit loss assumptions and the potential for more detailed disclosures aligned with the Network for Greening the Financial System's (NGFS) scenarios. SMFG is also exploring ways to report sustainable finance targets, such as clean energy versus fossil fuel financing ratios.

Client transition plans remain a key focus for the company. SMFG aims for 1.5°C alignment but recognises that some clients are not yet ready. It uses a sustainability finance playbook and rating system to assess client progress, with escalation protocols for high-risk cases. The bank is also exploring improved transparency around methane disclosures, including potential alignment with the Oil & Gas Methane Partnership.

On governance, SMFG acknowledged that its audit function does not directly cover climate risks, but that these are discussed internally with input from the risk committee. We have encouraged the board to enhance its climate expertise and consider appointing a lead independent director, although the company believes its current structure allows for adequate oversight. While we welcome these improvements in the company's governance structure, we remain concerned about the board's effectiveness and its refusal to grant our request to meet with the independent directors.

In summary, SMFG combines strong fundamentals, improving macroeconomic tailwinds and a proactive ESG strategy. Engagement on climate strategy, governance, and disclosure has been encouraging, but we continue to push the company to improve further, especially on-board effectiveness and group governance oversight.

SECTION 6: CASE STUDY



UGI Corp

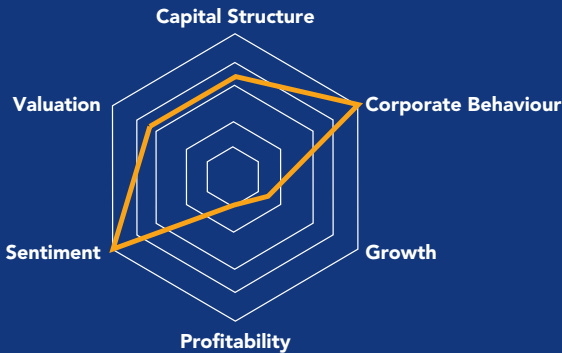
**UGI Corporation is a diversified energy company providing natural gas and electric utility services, propane distribution, and energy marketing solutions. Approximately 70% of its revenue is generated in the US – primarily through AmeriGas and its regulated utilities – with the remaining 30% derived from European operations via UGI International.**

UGI has taken steps to streamline its portfolio, including the divestiture of its operations in Hawaii and Italy. AmeriGas is undergoing a structural reset, shifting its focus toward higher-value retail customers and away from lower-margin wholesale accounts. Meanwhile, UGI’s midstream business – supported by a network of pipelines, compressor stations, and Liquefied Petroleum Gas (LPG) storage facilities – is well-positioned to meet growing energy demands from AI and cloud infrastructure investments, particularly in Pennsylvania, where significant development is underway.

UGI scores highly in the Alpha Model, as seen below, driven by strong Capital Structure and Corporate Behaviour metrics. Positive investor sentiment and attractive valuation further support its high rating. The company also outperforms peers across ESG metrics, with governance standing out as a particular strength.

On the environmental front, UGI has committed to reducing Scope 1 emissions by 55% by 2025. This target is underpinned by infrastructure upgrades and a planned US\$500m investment in renewable energy projects, including renewable natural gas development and solar panel installations.

Alpha Model assessment



Source: Federated Hermes, as at 30 June 2025.

In its latest Sustainability report, released in June 2025, UGI reaffirmed its commitment to the identified UN Sustainable Development Goals (SDGs) and the topics highlighted in the company’s materiality assessment, as shown below.

Figure 5: The five main goals aligned to UGI’s mission





Figure 6: Key ESG topics identified by UGI’s Materiality Assessment



Source: UGI 2024 ESG Report.

Engagement

Climate strategy remains a central focus of our engagement with UGI. Discussions have centred on target alignment – particularly around Scope 3 emissions, physical climate risk, methane management, renewable energy investments, and the just transition. While UGI has not yet committed to Scope 3 targets, it has cited the absence of a viable, sector-specific framework as a key barrier. The company is actively involved with the Electric Power Research Institute (EPRI), which is developing a decarbonisation pathway for US utilities. UGI is also having ongoing discussions with the Science Based Targets initiative (SBTi) and while it has not yet joined, we are encouraging the company to pursue this.

UGI continues to support European customers seeking cleaner energy solutions and is exploring opportunities in renewables and potentially nuclear energy. Although it has not made significant changes to its climate strategy in response to recent US market developments, the company remains engaged with global trends through partnerships and industry associations. We have encouraged the company to enhance its disclosures on both physical and transition climate risks. At the company’s request, we also shared best practice examples of physical risk disclosures from a peer.

Governance

UGI’s corporate governance practices remain strong and continue to exceed those of most global peers. The company has refreshed its board and senior leadership team, including the appointment of a new CEO at the end of 2024. Although the board is now chaired by a former CEO, it maintains majority independence across the board and key committees. We commended UGI for the strong cognitive diversity on its board and its continued commitment to board-level oversight of business ethics.

We were pleased to learn that stock options have been removed from the executive compensation program, aligning with best practices. We encouraged the board to strengthen its approach by increasing the CEO stockholding requirement from six times to ten times salary and by reducing the cash severance multiple from three times to below two times. The company was receptive to this feedback, indicating a willingness to evolve its compensation practices in line with market-leading standards.

UGI Corporation is demonstrating meaningful progress in reshaping its portfolio, strengthening governance, and advancing its climate strategy. While challenges remain – particularly around Scope 3 emissions and clean energy investment targets – we are encouraged by the company’s proactive engagement, strong governance foundation and improving operational focus.

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**The strategy has environmental and/or social characteristics and so may perform differently to other strategies, as its exposures reflect its sustainability criteria.**

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