Responsible Investment Policy

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Federated Hermes
Limited

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For professional investors only

Contents

Responsible Investment Policy

Scope

This policy applies to investment portfolios and funds 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 ("HFMIL") where discretionary investment management has been delegated to HIML and/or HGPE. All such investment portfolios and funds are listed in Appendix A. HIML, HGPE, HAIML and, to the extent this Policy is applicable to it, HFMIL are collectively referred to as "Federated Hermes" in this document.

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 policy. Those investment portfolios managed by HFMIL where discretionary investment management has been delegated to Federated MDTA LLC are not in scope of this policy.

The approach set out in this document does not apply to the funds that are out of scope of this policy, including our active quantitative funds. Please see the relevant Sustainability Risks policy for more information on the approach for these funds.

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

This policy sets out our overall approach to responsible investment, as well as our thematic approach to risks and opportunities related to climate change, deforestation and human rights.

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 responsible use of ownership rights and influence, through engagement with investee companies, proxy voting, and advocacy - to shape corporate behaviour and decision-making in ways that promote long-term value creation for investors, society, and the environment.

Engagement is a purposeful, long-term dialogue between a company and its investors that aims to influence the way in which a company is run in such a way as to enhance the value of the firm, in the long term financial interests of investors, 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 in public markets 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 in public markets 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 and opportunities

Sustainability risks and opportunities may emerge from internal issues (such as governance structures, how the board holds executives accountable, lack of diversity at board and senior management levels, or reputational issues arising from 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 risks or opportunities for investors.

Examples of potential sustainability risks and opportunities are:

- **Governance**, such as board effectiveness and executive remuneration practices, minority interest protections, transparency, and anti-corruption measures.
- **Consumer,** including shifting consumer demands.

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

Why we invest responsibly

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 and opportunities are those that will crystallise in the short term, we are long-term investors that strive to deliver enduring wealth creation responsibly for our end investors. 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 in line with our fiduciary. 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

Engagement and advocacy are key to managing material business risks and opportunities, including those which are sustainability related. 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 sustainability issues with company management directly. The Responsibility Office supports our investment teams and EOS to work closely together with a joined-up approach.

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 in-scope 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 and ESG teams 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 sustainability 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. Where relevant and appropriate, the direct lending team will seek to include requirements for ESG-related reporting for key sustainability data points for a borrower or sustainability -related undertakings to progress changes at the borrower in the loan documentation. Should a material 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 opportunities and engagement insights in investment decisions

We integrate material sustainability considerations and engagement insights into our investment processes in all products in scope of this policy, 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 quantitative and qualitative sustainability and engagement information using our in-house expertise and proprietary and third-party research and by undertaking their own fundamental 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 investors 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. 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 is 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 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 sustainability data, as well as insights on engagement carried out by EOS with investee companies and the broader investable universe. These sources are a valuable input 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 risks 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 and opportunities 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 sustainability risk for every investment opportunity, with the support of proprietary resources such as our ESG rating tool, our ESG question database and our carbon emissions estimation tool. 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) and opportunities 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 ESG and Responsibility 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 Design Innovation Standard (DIS) for all project types we have set minimum and ambitious requirements that assets must meet when undergoing refurbishment or new construction.
- **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 minority investor or 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 delivering above market returns for our investors.

Independent oversight

All our investment activity is supported by our Risk team and Responsibility Office, which operate and function independently from the investment teams, and with separate, independent reporting lines, and management information flow through the governance structure to the Governance Oversight Committee ("GOC") and, ultimately, the boards of our regulated investment managers.

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.

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. 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 integrated within the existing risk management framework to enable the business to identify and manage material sustainability 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, including engagement insights where applicable, 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. The Responsibility Office 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 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.

Approach to controversial activities

Purpose

The approach of Federated Hermes to controversial activities ("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 sustainable wealth creation.

Approach

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 generally avoid investments in companies 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.

(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.

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 in our active fundamental and private markets strategies 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 of enduring wealth creation 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 will articulate how the company will be mitigating any risks the involvement in the controversial activity may present.

The Approach will be governed by the Federated Hermes Sustainability, Regulation and Stewardship Oversight Committee.[1]

Approach to identifying controversial activities by asset class

For public equity and credit, companies involved in controversial activities will be identified through a third-party data provider or, where data is not available, through due diligence undertaken by the investment team on a best-efforts basis.

[1] **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 below outlines some of the nuances that are required to be applied to our private market strategies due to differences in types of assets, level of control and access to information.

UN Global Compact violations, which are classed as a highly controversial activity, are currently not monitored for private market strategies due to lack of data and framework for these asset classes.

- **Private equity:** companies involved in controversial activities will be identified through due diligence. Investment in funds of funds are not in scope of this approach due to commitments being made into a blind pool.
- **Infrastructure:** assets involved in controversial activities will be identified through due diligence undertaken by the investment team.
- **Direct lending:** companies involved in controversial activities will be identified through due diligence undertaken by the investment team.
- **Real estate and real estate debt:** the approach will apply to both the business activity of the building (being the 'investment') and the tenant's business activity. Where an investment is either linked to or involved in controversial activities, this will be identified through due diligence. The nature of the relationship with tenants will differ per investment, for some investments Federated Hermes will have no control over tenant selection and where this is the case Federated Hermes will not be able to conduct due diligence. For those assets where Federated Hermes is in control of tenant selection, Federated Hermes will identify if a tenant is involved in controversial activity through due diligence.

Appendix: List of Controversial Activities

Mandatory Excluded Activities (manufacture or providing either an essential and/or tailor-made product or service to the manufacturers, at any revenue threshold)[2]

- Anti-personnel devices
- Cluster munitions
- Chemical and biological weapons
- Depleted uranium weapons
- Nuclear weapons
- White phosphorous-based munitions
- Companies that own more than 25% of a company captured under the above description.

Highly controversial activities (subject to the Transparency & Accountability Framework at ≥5% of revenues)

- Adult entertainment – production and distribution
- Automatic guns and handgun manufacture for distribution to retail customers
- Gambling – operations and specialized equipment
- Palm oil - cultivation and production of palm oil that is not certified as sustainable
- Thermal coal – extraction and power generation
- Tar sands – extraction
- Shale energy – extraction
- Tobacco production
- UN Global Compact violations

Other Controversial Activities

- Aircraft engines and airlines - manufacture of fossil fuel-powered aircraft engines or operation of aircraft
- Alcohol production and retail
- Animal testing – directly testing or providing testing services
- Any other armaments, weapons and military contracting activity
- Other Fossil Fuels: exploration, production, refining, transportation, storage and generation
- Fur and specialty leather – production and retail
- GMO food cultivation and production
- Internal combustion engines – manufacture or use of fossil fuel-powered internal combustion engines for auto production
- Mining – extraction of natural resources including uranium, gems and precious metals
- Nuclear power production
- Prisons – provision of privately-owned correctional facilities
- Rearing of meat (processors and manufacturers of meat products)
- Sustainable Palm Oil cultivation and production
- Tobacco retail sales
- Companies that provide supporting products and/or services to companies that are involved in highly controversial activities.

[2] The mandatory excluded activities are either prohibited by international law (cluster munitions) or conventions (remainder). For the latter, these exclusions are documented in Federated Hermes' advisory companies fund prospectuses and in segregated account agreements (from 2022 onwards). Investment in cluster munition companies is banned in a number of countries. Belgium criminalises all forms of financial support, including credit and bank guarantees and the purchase of financial instruments. Ireland, Liechtenstein, Italy, Switzerland, and Spain prohibit forms of both direct and indirect investment. The Netherlands prohibits investment in companies that produce, sell, or distribute "essential parts" of cluster munitions or have subsidiaries that do so. The Convention on Certain Conventional Weapons covers: anti-personnel devices (Protocol II), white phosphorous-based munitions (Protocol III), military purpose flamethrowers (Protocol III), laser-blinding weapons (Protocol IV), cluster munitions (Protocol V) and weapons with non-detectable fragments (Protocol I). The Chemical Weapons Convention covers chemical weapons and the Biological Weapons Convention covers biological weapons. UNTC (see also The Treaty) covers nuclear weapons. Uranium-tipped weapons are banned by Belgium for Belgium investors. See BankTrack for more information.

Climate change policy statement

Definitions

Climate change: 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]

Just transition: Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, ensuring availability of affordable energy and food, creating decent work opportunities and leaving no one behind. Maximising the social and economic opportunities of climate action, while minimising and carefully managing any challenges – including through effective social dialogue among all groups impacted, and respect for fundamental labour principles and rights.[5]

Task Force on Climate-Related Financial Disclosures ("TCFD"): Refers to the framework for companies and financial institutions to use for climate-related disclosures 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.[6]

The Paris Agreement: Refers to 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".[7]

Our commitment

As a business we understand that, if left unchecked, climate change represents a systemic risk to financial markets, the global economy, and our ability to create enduring wealth for our clients and their investors responsibly.[8] The transition itself also poses risks if not managed in an orderly fashion, for example through the creation of stranded assets and job losses. More information on the risks and opportunities we have identified in relation to climate change is available in our Climate- and Nature-related Financial Disclosures Report on our website.

Our investment teams consider all material investment factors, including risks and opportunities from climate change. The teams analyse the potential impacts on investments in the short, medium, and long term to identify material risks and opportunities. 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.

In light of the systemic risk posed by climate change, we believe that it is part of our fiduciary duty to contribute to the conditions in which global efforts to limit warming to as close as possible to 1.5°C are successful and in which public and private investment to create resilient infrastructure and societies is delivered.

Our goal is to drive 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. As a long-term investor with a mission to deliver enduring, responsible wealth creation for our clients and their beneficiaries, we believe actively and effectively addressing climate change and nature loss is the most optimal option to ensure investee companies can survive and indeed thrive, through ensuring their resilience and delivering long-term value for their stakeholders including, ultimately, our clients and their investors.

To play our part, we use the levers available to us – advocacy for system change, engagement with assets whose activities may expose them to physical or transition risks due to misalignment with the goals of the Paris Agreement[9] and integrating climate-related information into our investment decisions. We also seek to continuously reduce the environmental impacts of our own operations.

In 2021, we joined the Net Zero Asset Managers ("NZAM") initiative and set out our ambition, consistent with our fiduciary duty to our clients and beneficiaries, to reach net zero emissions by 2050 or sooner across our investments. Our approach to achieving our commitment is focused on ensuring that achievement of this goal reflects change in the real economy; is in parallel to actions taken by governments, financial institutions and companies alike; and optimises investment returns for our clients and their investors. We have therefore set interim portfolio-coverage targets that will drive engagement with portfolio companies, in line with local law and regulation in the relevant jurisdiction, to achieve greenhouse gas emission reductions at the company level and not just the portfolio-level, as an inseparable part of our fiduciary responsibility to our clients. Our focus is on engagement, not exclusion. This is in line with our theory of change, as we seek real economy outcomes. Our targets are set out in our Climate Action Plan. 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.

[3] World Bank Group, "What is Climate Change?" (2024)
[4] GHG Protocol, "The Global GHG Accounting & Reporting Standard for the Financial Industry" (November 2020)
[5] Climate change and financing a just transition | International Labour Organization (ilo.org)
[6] IBM, "What Is the Task Force on Climate-related Financial Disclosures (TFCD)?"
[7] UNFCC, "The Paris Agreement"
[8] See, for example, IPCC_AR6_SYR_SPM.pdf; Summary for Policymakers — Global Warming of 1.5 °C (ipcc.ch); Warmest January on record, 12-month average over 1.5°C above preindustrial | Copernicus
[9] In line with local law and regulation in the relevant jurisdiction.

Our commitment to action is based on the expectation that governments and policy makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations. The approach will evolve in the context of future technological, market, regulatory and political change.

Our operations

We ensure the implementation of our internal environmental policy within our office considers the impact our decisions have on society, the environment and the wider world. More information is available in our Operational Environmental Policy Statement, available on our website.

Our Climate Change 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. The Senior Management Team and relevant Federated Hermes subsidiary boards receive an annual update on the implementation of our climate approach and progress against relevant targets. More detail is available in our annual Climate and Nature-related Financial Disclosures Report.

Transparency and Disclosure

We report annually on the implementation of this policy and progress against our climate targets in our Climate- and Nature-related Financial Disclosures Report, which is available on our website. We also publish case studies throughout the year.

Advocacy

We recognise that as investment managers we have an opportunity and a responsibility to help address market-wide and systemic risks in the long-term financial interests of the investors we serve. We believe that policymakers have a key role to play in determining the investment risks and opportunities relating to climate change. We engage constructively with regulators and policymakers globally – both individually and through collaborative initiatives – on climate change. We work with investors and other stakeholders to call on governments to adopt and enforce policies that support climate change mitigation and adaptation, whilst ensuring a just transition.

Public markets – integration and engagement

All of our public markets' strategies integrate climate considerations and, for active fundamental strategies, 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.

The active fundamental investment teams have access to proprietary and third-party tools and datasets that support them to integrate climate risk management into their investment process. Engagement activities and voting information can be used by our teams to provide a forward-looking view of a company's performance on climate-related risks and opportunities. The information we gather through stewardship enables us to develop a more comprehensive view of both the climate-related risks and opportunities a company is exposed to and to factor this into valuations and investment decisions.

Engagement is a crucial element of our approach to managing climate-related risks and opportunities in public markets. EOS' engagement plan identifies the key themes and related sub-themes for engagement focus. The plan includes climate change action as a priority theme. We may modify or tailor our approach to engagement with companies on climate-related topics in line with local law and regulation in the relevant jurisdiction.

Our engagement is focused on companies having strategy and greenhouse gas emissions reduction targets aligned to the Paris Agreement, to reduce their exposure to transition risks, together with aligned financial accounts and political lobbying. We ask companies to publish climate transition plans aligned with 1.5°C, where local law and regulation allow. EOS have developed internal capabilities for the assessment of transition plans.

In seeking Paris-aligned transition plans, where local law and regulation allow, we evaluate the credibility of company transition plans including their reliance on technologies and seek to ensure that the governance oversight of investments adequately tests risks, dependencies, and technological and economic feasibility of these new technologies.

We also engage on physical climate risks, asking companies to assess their exposure and vulnerability to the physical risks of climate change throughout their operations and along their supply chains, and develop adaptation and resilience plans in response.

We also engage for companies to ensure that direct and indirect climate-related policy engagement is consistent with climate ambitions and the 1.5°C goal.

We are highly aware of the need for a just transition. 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 influence stakeholders. Companies should seek to mitigate the social impacts of transition plans to streamline their delivery and contribute to a just transition.

For companies where climate change is a relevant and material business opportunity and/or risk, we may hold relevant directors accountable if there are indicators of insufficient management of these opportunities or risks. This will be appraised through consideration of a range of relevant factors.[10] We have developed an in-house Paris Alignment

[10] In line with local law and regulation in the relevant jurisdiction.

methodology to assess the extent to which a company's climate change ambitions are aligned to the 1.5°C goal of the Paris Agreement. This methodology is used to assess Federated Hermes public markets investments. The methodology assesses alignment of a company's greenhouse gas targets and associated emissions trajectory to a 1.5°C-aligned transition pathway, applicable to the relevant sector and geography where possible. Companies are placed into different categories of alignment: Not aligned; Committed to net zero; Aligning to 1.5°C; Aligned; and Unscored. In general, EOS target 2-3 years for companies to move from one level to the next level, depending on specific regional or sectoral challenges. If the pace of change is slower than expected, in line with local laws, we will consider using a range of escalation options, such as voting against responsible directors.

As we set out in our Climate Action Plan, engagement to support our net zero interim targets is focused on companies that are not categorised as 'Aligned', with engagement targets prioritised based on the materiality of financed emissions, the size of the investment and the degree of misalignment to the goals of the Paris Agreement.

Private markets – integration and engagement

Real estate

Our real estate business embeds climate risk management throughout their asset management and investment processes. For potential new assets, this includes an initial screening, where the team assesses the risks and opportunities for value-add from sustainability characteristics. This is then followed by sustainability due diligence for any new acquisitions, where surveyors and environmental consultants collect relevant data on the buildings to identify risks and opportunities and assess the level of community and occupier engagement in the assets being considered. The findings of this due diligence inform the asset-management plans and processes post-completion.

The team has developed internal tools and standards, including the Responsible Property Management Standard and the Design Innovation Standard which sets out a series of sustainable guidelines and principles for our project and development managers to follow. This ensures a consistent, start-to-finish approach to sustainable refurbishment and development, making use of key RIBA Stages.[11] The approach also follows BREEAM principles,[12] which adopt sustainable methods of construction to deliver an operationally efficient and sustainable building or refurbishment.

For our existing assets, we seek to identify efficiencies to reduce carbon emissions. We also examine climate-related transition and physical risks at an asset level. The physical risks taken into account include fluvial, coastal flooding, extreme temperatures, tropical storms and wildfires. For transition risks, they examine the carbon intensity, and the reduction required under different scenarios covering current national climate pledges, 1.5°C alignment and 2°C alignment.

Infrastructure

The infrastructure team recognise the importance of their role in the transition to a lower carbon economy and considers climate risk in their investment process.

The team has a framework in place to identify key risks and opportunities, introduce mitigations, and implement monitoring programmes over the investment lifecycle. Climate considerations are integrated into each of the four stages of the infrastructure investment process: initial review; due diligence; investment approvals; and the 100-day plan.

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

The infrastructure team engages with our portfolio companies to ensure their long-term business plan factors in climate risks. Based on the EOS stewardship model and using the results of scenario analysis, the team sets priority focus areas and objectives for engagement with the portfolio companies. These are reviewed at least annually as risks evolve throughout holding periods. In some cases, we directly input into and oversee areas of our portfolio companies' mitigation and adaptation strategies.

Private equity

The private equity team integrate climate risk analysis into the investment process. New direct co-investments in sectors identified in the TCFD guidance as being at high risk of being impacted by climate change or which may significantly contribute to climate change risk are subject to enhanced due diligence. The team conduct due diligence to assess whether companies in such sectors have exposure to significant transition or physical risks, and if so whether these risks are being appropriately managed. This analysis informs the environmental score assigned to the company.

[11] 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.
[12] 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.

This environmental score impacts investment decision making, and in some cases may preclude investment.

Direct lending

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

Real estate debt

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.

Deforestation policy statement

Definitions

We use the definitions set out in the Accountability Framework initiative ("AFi"):[13]

Conversion: Loss of a natural ecosystem as a result of its replacement with agriculture or another land use, or due to a profound and sustained change in a natural ecosystem's species composition, structure, or function.[14]

Deforestation: Loss of natural forest as a result of:[15]

- conversion to agriculture or other non-forest land use;
- conversion to a tree plantation;[16] or
- severe and sustained degradation.

Human rights abuse associated with commodity-driven deforestation and conversion. These rights include:

- The right to Free, Prior, and Informed Consent ("FPIC") of Indigenous peoples and local communities.[17]
- The customary rights of Indigenous peoples and local communities to land, resources, and territory.[18]
- Zero tolerance for threats and attacks against environmental and human rights defenders – the labour rights of workers (including contractors, smallholders, and temporary staff) at the points of production, including from the point of forest clearance to active production, for the highest forest-risk commodities.

Our commitment

Given links to both climate change and biodiversity loss, deforestation presents a systemic risk for financial markets and may limit our ability to create enduring, responsible wealth for our clients and their beneficiaries. Deforestation and associated human rights violations linked to agricultural production may also present financially material risks to financing and investment activities through operational, supply chain, regulatory, litigation and market risks. These risks could arise, for example, through reputational harm or changing consumer preferences that impact the company or financial institution associated with deforestation, conversion or human rights abuse. It could also come through the imposition of higher costs or fines by governments and regulators.

We recognise the urgency of addressing deforestation exposure in our portfolios and believe such risks should be addressed as part of our fiduciary duty to maximise long-term financial returns on investment on behalf of our clients. Our goal is to drive change in the real economy. For the avoidance of doubt, portfolio managers are expected to make portfolio and investment decisions in line with fiduciary duty and their specific investment mandate.

As the agricultural production of beef and leather, palm oil, pulp and paper, soy and timber are a major driver of deforestation, we assess our potential exposure to deforestation risk across our equity, credit and infrastructure portfolios, with ongoing due diligence in our real estate, private equity and direct lending portfolios. Our real estate debt team seek to incorporate relevant expectations into loan agreements. Informed by this analysis, we identified public policy advocacy and engagement with our assets as key levers to drive real-world impact on levels of deforestation. We aim to mitigate deforestation 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.

[13] Accountability Framework, 'Terms and Definitions' (February 2024)
[14] Accountability Framework, 'Terms and Definitions' (February 2024)
[15] Natural forest refers to a forest that is a natural ecosystem, including primary forests, regenerated (second growth) forests, managed natural forests and forests that have been partially degraded. For full definition see Accountability Framework, 'Terms and Definitions' (February 2024).
[16] A tree planation is a forest predominantly composed of trees established through planting and/or deliberate seeding that lacks key elements of a natural forest native to the area, such as species composition and structural diversity. For full definition see Accountability Framework, Accountability Framework, 'Terms and Definitions' (February 2024).
[17] FPIC is a collective human right of indigenous peoples and local communities to give and withhold their consent prior to the commencement of any activity that may affect their rights, land, resources, territories, livelihoods, and food security. It is a right exercised through representatives of their own choosing and in a manner consistent with their own customs, values and norms.
[18] We note that different jurisdictions employ different legal systems.

We report annually on our assessment of commodity-driven deforestation risk and mitigation activities across our portfolios.

We detail in our Forests Under Fire whitepaper why the issue of deforestation is important to us as an investor.

Advocacy

We recognise that as investment managers we have an opportunity and a responsibility to help address market-wide and systemic risks in the long-term financial interests of the investors we serve. We engage constructively with regulators and policymakers globally – both individually and through collaborative initiatives – to address environmental, social and other market failures that may prevent the financial system from operating in the best interests of its ultimate asset owners. We recognise the need for systemic change to address deforestation globally. We work with investors and other stakeholders to call on governments to adopt and enforce policies to provide an enabling environment to prevent and halt illegal deforestation and, where necessary, curb legal deforestation.

Public markets – integration and engagement

In addition to our sustainability integration processes described earlier in this policy, we use a range of data sources to assess which of our investee companies[19] are exposed to forest-risk commodities and whether they are managing the associated risks and impacts appropriately. This exposure analysis is completed annually and shared with the investment teams. The outcomes of this analysis are taken into account in our engagement prioritisation.

EOS' engagement plan identifies the key themes and related sub-themes for engagement focus. The plan includes climate change action as a priority theme and biodiversity and water as an expanding, fast-growing theme for engagement. Land use change is one of the key drivers of biodiversity loss, as well as contributing to climate change, and is therefore a highly relevant topic of engagement. Water and land use changes are inextricably linked.

EOS expects companies that source palm oil, soy, beef, leather, timber, pulp and paper, among other relevant commodities, to urgently commit to clear timelines for eliminating deforestation from their supply chains by 2025. The commitment should cover all commodities, regions and suppliers, including indirect suppliers.[20] We expect companies to communicate a clear strategy for how a deforestation-free supply chain will be achieved through implementation measures, monitoring, independent verification, and collaboration. Companies that can achieve traceability of commodities back to source will be best placed to achieve a deforestation-free supply chain.

For companies where climate change is a relevant and material business opportunity and/or risk, we may hold relevant directors accountable if there are indicators of insufficient management of these opportunities or risks. This will be appraised through consideration of a range of relevant factors.[21]

Private markets – integration and engagement

Real estate

The real estate and construction sector has an impact on deforestation due to its dependence on timber as a raw material. Therefore, for our real estate business, it is one of our priorities to assess our exposure to deforestation risk and potential impacts on deforestation, and to take steps to reduce this.

We have assessed our real estate fund and asset management activities for exposure to deforestation risk. In terms of forest-risk commodities, we have potential exposure to pulp, paper and timber. The latter is material for our business as it is widely used in construction and fixtures/fittings. In terms of our activities, our developments and major refurbishment projects are at highest risk of exposure to deforestation due to the amount of timber sourced. This assessment has informed our deforestation policy for real estate. As timber is the most material 'forest-risk' agricultural commodity for our Real Estate portfolio, we mandate that all timber and wood products used for structural work and fittings in our new developments and major refurbishments must only come from legal and sustainable sources, which must be verified by certification. Whilst exposure to pulp and paper is not material, we expect property managers to procure relevant products from legal and sustainable sources, verified by certification. This expectation is set out in our Property Management Agreements.

Infrastructure

The infrastructure team's sustainability investment and engagement approach include clear expectations and best practice information related to deforestation. The team is committed to deepening its due diligence and engagement where potential deforestation risk exists, which is more likely to be in supply chains (particularly in the transport sector such as freight services for timber or passenger transport services with food retail) than in direct operations of portfolio companies.

The infrastructure team undertakes an annual assessment of potential deforestation exposure in its current portfolio to highlight potential areas for further investigation, engagement and improvement. This is included in annual reporting to investors.

Private equity

The private equity team integrate deforestation risk analysis into the investment process. New direct co-investments in sectors identified as high risk by Global Canopy[22] are subject

[19] This excludes certain securities which we will not apply ESG data to: cash, FX, CDS that is short on the underlying, index or pooled product, sovereign, and ABS, CLOs and CDOs issued by companies.
[20] Ceres, 'The Investor Guide to Deforestation and Climate Change' (2020)
[21] In line with local law and regulation in the relevant jurisdiction.
[22] Global Canopy, 'Eliminating Commodity-Driven Deforestation: Finance Sector Roadmap' (2022)

to enhanced due diligence. The team assess whether companies in such sectors have exposure to the following high-risk forest commodities: cattle, beef and leather; palm oil; timber, pulp and paper; and soy. If the company has exposure to one or more of these commodities, more detailed due diligence and risk analysis is conducted to inform the environmental score assigned to the company. This environmental score impacts investment decision making, and in some cases may preclude investment.

Direct lending

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

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

For those potential investments not impacted by the list of exclusions, analysis of potential investments is undertaken to form a comprehensive view of existing and potential sustainability risks. The team has developed a framework of sustainability-related questions which provides baseline guidance and ensures a consistent best practice approach to sustainability components. This incorporates deforestation risks and exposure through consideration of whether the company is exposed to deforestation in its operations, supply chain or financing and, if so, whether it has a commitment or policy in place to reduce or remove its contribution to deforestation. The analysis and risk assessment of sustainability components are included in a dedicated section in each investment proposal presented to the Private Debt Investment Committee and reviewed at each annual portfolio review. They also inform the sustainability rating assigned by the team to each potential investment which is tabled to the Committee as part of the credit research of the potential investment.

Real estate debt

Our real estate debt team seek to include (subject to negotiations) an expectation in loan agreements that all timber and wood products used for structural work, fittings and major refurbishments should come from legal and sustainable sources, which should be verified by certification. Due to lack of reporting, we are not currently able to monitor borrowers' alignment with this expectation.

Human & labour rights policy statement

Definitions

Human rights: 'Rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination.'[23]

Universal Declaration of Human Rights: Adopted by the UN General Assembly in 1948, the Universal Declaration of Human Rights ("UDHR") was the first international agreement on the fundamental human rights which must be universally protected. Nearly every state in the world has accepted the declaration. It has inspired international conventions and treaties, as well as numerous regional conventions and domestic laws. By signing the declaration, countries pledge to make sure their domestic laws and policies comply with the declaration.[24]

International Bill of Human Rights: 'The UDHR, together with the International Covenant on Civil and Political Rights and its two Optional Protocols (on the complaints procedure and on the death penalty) and the International Covenant on Economic, Social and Cultural Rights and its Optional Protocol, form the so-called International Bill of Human Rights.'[25]

International Labor Organization ("ILO") Declaration on Fundamental Principles and Rights at Work: 'The ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998 and amended in 2022, is an expression of commitment by governments, employers' and workers' organizations to uphold basic human values - values that are vital to our social and economic lives. It affirms the obligations and commitments that are inherent in membership of the ILO, namely:

1. freedom of association and the effective recognition of the right to collective bargaining;
2. the elimination of all forms of forced or compulsory labour;
3. the effective abolition of child labour;
4. the elimination of discrimination in respect of employment and occupation; and
5. a safe and healthy working environment.'[26]

Labour rights can be understood as those expressed in the ILO Declaration.

UN Guiding Principles on Business and Human Rights ("UNGPs"): The UNGPs 'are a set of guidelines for States and companies to prevent, address and remedy human rights

[23] Human Rights | United Nations
[24] What is the Universal Declaration of Human Rights? | EHRC (equalityhumanrights.com)
[25] Human Rights | United Nations
[26] ILO Declaration on Fundamental Principles and Rights at Work | International Labour Organization

abuses committed in business operations. The UNGPs rest on three pillars:

i) Protect: State duty to protect human rights.

ii) Respect: The corporate responsibility to respect human rights:

iii) Remedy: Access to remedy for victims of business-related abuses.'[27]

In this context, human rights are understood to include, at a minimum, the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

The UNGPs set out the responsibilities of businesses - regardless of size, sector or location – to respect human and labour rights. These responsibilities exist independently of the state's responsibilities on human and labour rights, including where a state has not been able or willing to fulfil its own responsibilities. Businesses are expected to put in place a policy commitment to respect human rights, to undertake ongoing human rights due diligence to identify, prevent and mitigate the negative human rights impacts caused or contributed to by the business, and to enable access to remedy for those adversely impacted.[28]

The extent to which businesses are legally required to adhere to the UNGPs varies by jurisdiction. Most states are legally required to protect human rights against business-related abuse due to their ratification of legally binding international human rights treaties. In many states, the responsibility for businesses to respect human rights is reflected either fully or partly in domestic law or regulations.[29]

Our commitment

Federated Hermes is committed to respecting human rights in accordance with the following frameworks:

- The United Nations ("UN") Universal Declaration of Human Rights ("UDHR")
- The International Labor Organization's ("ILO") Declaration on Fundamental Principles and Rights at Work
- The UN Global Compact
- The UN Guiding Principles on Business and Human Rights ("UNGPs")

This statement sets out our position and approach on human rights relating to our operations and our investments. For our investments, we consider the human rights impacts that the companies or entities in which we invest may cause, contribute to, or be directly linked to, through their own operations or business relationships.

We recognise that different sectors, companies, asset classes and geographies can have different human rights impacts, and scales of impacts. We also recognise that our ability to influence is dependent on the specific company or issuer, on our place in the entity's capital and governance structures, and on the objectives and mandates of our funds. We adapt our approach depending on the scale or potential scale of the impacts, and our ability to exert influence. In the following sections, we describe our approach in relation to the major asset classes in which we invest.

Violations of the UN Global Compact principles are considered a highly controversial activity and would be managed as per our Approach to Controversial Activities. While we generally prefer engagement over divestment or exclusion, we have a formal commitment to exclude investment in companies which derive revenue from the manufacture of controversial weapons prohibited by International Law or Conventions.

Our operations

We always endeavour to meet our legal and regulatory responsibilities, conducting our business with the highest standards of integrity and honesty, and we expect all employees and suppliers to maintain the same standards. We consider any failure to achieve these standards as a serious matter.

Our Code of Business Conduct and Ethics sets forth certain minimum expectations that Federated Hermes has for all employees. Employees are expected to conduct the firm's business in full compliance with both the letter and the spirit of the law and any other policies and procedures that may be applicable to them.

Our Modern Slavery Statement sets out the steps we take in our operations to protect our employees and run our business responsibility. Our objective is to ensure that there is no modern slavery or human trafficking in any of our business dealings.

Our Human Rights Governance

The Senior Management Team are responsible for the oversight of our approach to human rights, with implementation led by the relevant business areas.

Grievance Mechanisms

Our processes allow our employees and clients to report concerns of suspected unethical or illegal behaviour, including any human rights issues or violations related to our operations or investments. Federated Hermes has a Complaints Policy for the benefit of their clients. We also have a Whistleblowing policy in accordance with the Public Interest Disclosure Act 1998 ("PIDA") – also referred to as 'The Whistleblowers' Act' in the UK and the Whistleblower program in the US – which stipulates that employees are legally protected from dismissal or unfavourable treatment by their employers as a result of raising concerns.

Training and Knowledge-sharing

As a financial services firm, we provide anti-money laundering, terrorist financing and anti-bribery training to all new employees and then regularly across the firm.

[27] UN Guiding Principles - Business & Human Rights Resource Centre (business-humanrights.org)
[28] guidingprinciplesbusinesshr_en.pdf (ohchr.org)
[29] FAQ_PrinciplesBussinessHR.pdf (ohchr.org)

We also consider appropriate internal education for our investment teams to help them identify red flags when assessing investment opportunities. We run regular sectoral knowledge sharing sessions between our engagement team and the investment teams, so that the investment teams get a better understanding of the sectors in which human rights practices constitute a material sustainability issue.

Transparency and Disclosure

We publish this statement and related documents (including our Modern Slavery Statement and Stewardship Report) on our website. Our annual Stewardship Report describes the priority issues we have focused on with examples of the actions we have taken and case studies of our engagement, including our work on human rights issues where applicable.

Advocacy

We recognise that some human and labour rights issues cannot be addressed through investor-company dialogue alone. We therefore engage with governments and regulators, particularly in our key markets, to call for and support policy action to tackle these challenges, such as through mandatory disclosure and mandatory human rights due diligence. Where we can, we also use our influence and networks to improve the industry's understanding of, and impact on, human and labour rights.

Public markets – integration and engagement

Our public markets active fundamental investment teams incorporate human and labour rights considerations into their investment process through primary research and by using a range of in-house and team- specific proprietary stewardship and sustainability tools. These shed additional light on an investee company's or asset's sustainability performance, 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.

EOS also screens clients' aggregate holdings for sustainability characteristics. EOS' Controversial Companies Report highlights to subscribing clients those companies which are considered to be in violation of internationally recognised guidelines and provides insight into the nature of those guideline violations and a view on engagement with the company on the issues. The list identifies companies that are either in breach of or likely to breach the UN Global Compact (UNGC) Principles, which includes principles relating to human rights and labour. These Reports are available to our investment teams, and the Responsibility Office will flag investments with reported breaches of the UNGC Principles to the relevant investment teams.

We engage with companies on human and labour rights. In our engagements, we encourage companies to acknowledge the likelihood that human rights impacts are present within some operations and supply chains and to demonstrate appropriate board- and executive-level governance in order to minimise operational disruption, potential legal disputes and maintain their brand value and social licence to operate. Areas of focus include protecting indigenous and community rights and human rights in high-risk regions, such as disputed territories or areas of conflict, and supply chain rights with an elevated risk of forced labour, unsafe working conditions, and other adverse human rights impacts. We also engage on the protection of digital rights in the virtual world, such as challenges to the rights to data privacy and the right to freedom of expression and protection from unfair biases, which the use of AI may amplify.

In our dialogue with companies and other entities, we include human rights issues in our evaluation of their management of their employees, supply chains, customers, broader community impacts and reputational risk. We focus our engagement on companies that are in high-risk sectors, companies that have significant exposures to high-risk countries, and companies where there have been allegations of serious human rights violations. We pay specific attention to high-risk sectors, such as real estate, infrastructure, tech, mining, apparel, renewable energy technologies, utilities, telecoms, materials and manufacturing.

We use frameworks such as the UNGC Principles and the UNGPs to guide our assessments. We use a variety of data sources to inform our assessments including, as relevant and as available, data from our ESG research providers, data and information provided by third parties (e.g. non-governmental organisations, the media, trade unions, benchmarks such as the Corporate Human Rights Benchmark), and company dialogue and engagement to help us identify companies or sectors where human rights are of particular concern and to track progress over time.

Voting is one of the key rights granted to us as an investor, and we see the judicious use of voting rights as an integral part of our toolkit for influencing companies. Our Human Rights Voting Policy focuses on companies in clear breach of regulatory responsibilities or those that have caused or contributed to egregious, adverse human rights impacts or controversies, without providing appropriate remedy.

Private markets – integration and engagement

Real estate

In managing real estate assets, we believe that good human capital management, including the provision of fair living wages, robust health and safety practices and investment in training and development programmes, is the foundation of a stable and productive workforce and the maintenance of businesses' social licences to operate.

Due to the potential materiality of modern slavery risks for the real estate sector, this is a particular focus area for our real estate team.

We therefore include specific references to the Modern Slavery Act in all our property management agreements, which cover the whole of our managed portfolio, and in our Asset and Development Management Agreements. In all new lease agreements, we endeavour to include a requirement to comply with the Modern Slavery Act.

Across our construction and appointment documents with professional consultants in the portfolio we also endeavour to make specific reference to the Modern Slavery Act, requiring compliance with all relevant legislation. Where this has not already been done, we are working on adding these clauses.

Infrastructure

Our engagement with infrastructure portfolio companies includes assessment of social issues, including human and labour rights considered material to the portfolio as a whole; these issues include modern slavery, workforce health, safety and wellbeing, diversity, equity and inclusion, fair working conditions and community engagement. We are particularly focused on businesses with significant numbers of employees and/or contractors, as well as businesses with supply chains where human rights may be considered a more material risk.

Our engagement focuses on the application of human rights principles in policies, controls and processes across companies' workforces and supply chains. In our capacity as an investor in large operational businesses with their own executive management teams, we engage with boards, management, operational teams and contractors to raise awareness, challenge processes and interrogate controls.

As an investor in smaller assets with fully (or largely) contracted workforces, we work with our contractors to ensure sufficient awareness, to enshrine commitments to not rely on forced or compulsory labour and ensure adequate labour standards and working conditions in corporate policies dealing with health and safety, inclusion and diversity and supply chain management and to undertake supplementary due diligence on suppliers where necessary.

Private equity

Our Private Equity team invests through both co-investments and fund-of-funds strategies, each requiring a tailored approach to assessing human and labour rights risks.

- **Co-Investments (Direct Exposure):** For co-investments, our investment team conducts ESG assessments as part of the standard investment due diligence process. Where human and labour rights risks are deemed material, they are explicitly reviewed and considered in the investment decision-making process.
- **Fund investments (Indirect Exposure):** For Fund investments, our focus is on evaluating the General Partner (GP). We assess whether the GP has robust processes in place to identify and manage material ESG risks—including those related to human and labour rights—across their portfolio. This GP assessment is part of our broader, multidimensional due diligence framework used to select and monitor fund managers.

This differentiated approach ensures that human and labour rights considerations are integrated appropriately across our private equity exposures, aligned with the level of control and visibility we have in each investment structure.

Direct lending

As part of the due diligence assessment of a potential investment, the direct lending team considers a borrowers' approach to human and labour rights. The assessment is undertaken through the evaluation of available information obtained through, for example, due diligence packs, management discussions and the policies of the borrower. The locations of all entities of the borrower are explored, with higher risk geographies noted, as well as details on a borrowers' approach to workers' rights, child labour and minimum wages assessed in the investment thesis which is discussed at investment committee.

Real estate debt

The real estate debt team undertake a due diligence process before agreeing new loans. Any risk of human and labour rights issues, in particular modern slavery, within the building occupiers' operations is taken into consideration.

APPENDIX A

FHIF funds managed by HIML or FIC:

HIML managed funds (HFMIL is the management company):[30]

Federated Hermes Asia ex-Japan Equity Fund

Federated Hermes China Equity Fund

Federated Hermes Climate Change High Yield Credit 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 Engagement Fund

Federated Hermes Global High Yield Fund

Federated Hermes Global Small Cap Equity Fund

Federated Hermes Global SMID Equity Engagement Fund

Federated Hermes Sustainable Global Equity Fund

Federated Hermes Sustainable Global Investment Grade Credit Fund

Federated Hermes Unconstrained Credit Fund

Federated Hermes US SMID Equity Fund

FIC managed Funds (HFMIL is the management company)

Federated Hermes Emerging Markets Debt Fund

[30] All segregated mandates in respect of which HIML is the investment manager (including where HFMIL is the appointed manager and has delegated investment management to HIML)

Federated Hermes Global Short Duration Bond Fund

Federated Hermes US High Yield Credit Fund

HAIML managed Funds:

Federated Hermes Emerging Asia Equity Fund (Cayman) S.P.

Private markets funds where HFMIL is the AIFM:

Federated Hermes Direct Lending Master Fund SCS, SICAV-SIF

Federated Hermes Diversified Infrastructure Fund LP[31]

Federated Hermes European Direct Lending Master Fund SCS, SICAV-SIV

Federated Hermes European Direct Lending Fund II Master, SCA SICAV-SI

Federated Hermes European Direct Lending Fund III Master SCA, SICAV-RAIF

Federated Hermes European Real Estate Debt Fund

Federated Hermes Global Private Equity Co-Investment Fund V Europe SCSp (Lux)

Federated Hermes Global Private Equity Co-Investment Fund VI SCSp

Federated Hermes Innovation Fund II (Direct)

Federated Hermes Innovation Fund II (Funds)

Hermes GPE Horizon Series

Hermes GPE Innovation Fund Series

Hermes GPE PEC Series (PEC III onwards)

Hermes Infrastructure Fund I LP[32]

Hermes Infrastructure Fund II LP[33]

[31] Segregated mandates managed by the team are also captured by this policy.
[32] Ibid.
[33] Ibid.

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

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

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

Our investment and stewardship capabilities:

- **Active equities:** global and regional
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