

# Federated Hermes Global Equity ESG

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**Annual Report 2025**

**Federated  
Hermes**   
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## SECTION ONE

## Investment review, 2025

Equity markets delivered robust returns in 2025, despite a complex macroeconomic and geopolitical landscape shaped by trade tensions, shifting interest rate expectations, and political upheaval – with Trump administration policies reshaping elements of the global order.

The Federated Hermes Global Equity ESG Strategy outperformed over the period, despite a challenging market backdrop which included ESG headwinds, volatility and the underperformance of 'quality' as a factor. Sector and style diversification and dynamic risk management helped to navigate the uncertainty.

A broadening of market leadership is an important theme for 2026, but volatility should be expected as valuations remain elevated. This reinforces the need for fundamental discipline, which should favour our diversified, risk-controlled and fundamentally driven approach.

## 2025 review

Investor optimism was high entering 2025, supported by expectations that US President Donald Trump's pro growth policies would boost US markets. However, US equities lagged early in the year amid uncertainty around tariffs, persistent inflation, and government layoffs. In contrast, Chinese equities rallied on the back of stimulus measures and enthusiasm surrounding the launch of China's DeepSeek artificial intelligence (AI) model. Europe also strengthened, helped by improving economic data and a pro-growth agenda from Germany's new chancellor.

Markets sold off sharply on 'Liberation Day' at the start of Q2, with volatility spiking to levels last seen during the Covid-19 pandemic. The turmoil prompted the US to pause reciprocal tariffs for non-retaliating countries, while a truce with China in May helped restore confidence. A robust earnings season – particularly among the 'Magnificent Seven' cohort of tech stocks – drove a US rebound and lifted global equities into the end of H1.

Optimism persisted in Q3 as easing trade tensions, AI enthusiasm, and anticipation of US rate cuts pushed markets higher. Emerging markets (EM) outperformed developed market (DM) peers, led by China, supported by an extended trade truce, policy backing for chipmakers, accelerated AI investment, and major tech product launches, while sentiment toward economic policy also improved.

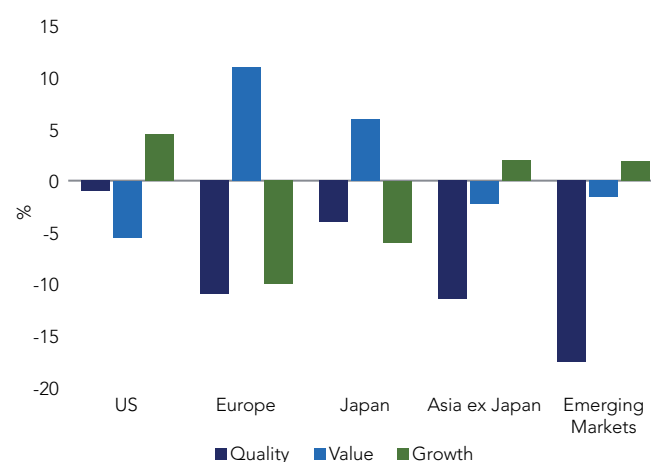
In the US, Q2 earnings suggested limited tariff impact, while US Federal Reserve's (the Fed) dovish messaging sustained momentum, despite downward revisions to economic data.

Europe lagged, with Germany underperforming as the boost from Q1 stimulus faded, although there were pockets of strength, especially in Italy and Spain.

Markets continued to advance at the start of Q4, led by Japan following the election of Prime Minister Sanae Takaichi – a protégé of former PM Shinzo Abe – whose pro-growth agenda was well received by investors. Positive developments in US-China trade talks further improved sentiment toward US markets, reinforced by another strong earnings season. However, optimism faded towards the end of the period as the US government shutdown delayed key data releases, clouding the outlook for the economy and monetary policy, while fears of an AI bubble saw related names underperform.

Across 2025, valuation and sentiment were the most favoured factors overall, while quality-type metrics and growth lagged. Regional patterns varied significantly, reflecting elevated market volatility.

Figure 1: Relative MSCI regional factor returns in 2025



Source: Bloomberg, as at 31 December 2025. The bars show the relative returns for each regional factor index compared to the performance of the respective regional market.

In Europe, 'sentiment' as a factor began the year as a detractor, but from Q2 onwards it became very effective, although there were some sharp drawdowns along the way. 'Valuation' as a factor was particularly strong for most of the year, while other factor categories added little value.

Japan saw a similar pattern, although surprisingly, 'profitability' as a factor – often overlooked in this market – also contributed positively. Japan is typically driven by 'value' as a factor and last year it was a combination of these factors that was predominant.

The North American market was much more volatile, with investor exuberance seeing strong rewards to short-term sentiment factors and to a narrow set of growth names, particular early in the year. Valuation factors staged a recovery in the second half as market breadth improved, but sentiment factors were the key to success in this market over the full period.

## Performance review<sup>1</sup>

### Past performance is not a reliable indicator of future returns.

Throughout this turbulent period, the underperformance of quality-type factors remained the only consistent trend across time and market. This, alongside some ESG headwinds – reflected in strong returns for defence and tobacco sectors – created a challenging backdrop for the Strategy. Despite this, the Strategy proved resilient and outperformed its benchmark, the MSCI All Country World Index (MSCI ACWI), in 2025.

The Strategy remained well diversified, with risks managed and controlled and exposures maintained across the style spectrum. A key part of our relative success was the use of our proprietary risk model, MultiFRAME, which improves resilience, through the dynamic assessment of the Strategy's sensitivity to a wide range of risks over multiple time horizons. One major area of focus was AI, particularly as bubble concerns intensified. MultiFRAME enabled effective risk control and diversification across the AI value chain – spanning chipmakers, power efficiency, data centres, and data storage.

Relative performance was driven primarily by stock selection, consistent with our diversified approach. Sector contributors included Financials, Information Technology, Consumer Discretionary, and Communication Services, offsetting weaker selection in Industrials and Consumer Staples. Regionally, Emerging Asia and Japan contributed most, while North America detracted.

#### Performance contributors

**UniCredit** The company delivered consistently strong results, driven by higher revenues and cost control which enabled increased capital distributions. Additional support came from approval to increase its stake in Commerzbank.

**Alphabet** Alphabet reported strong earnings, supported by Cloud revenue growth. It also announced a US\$10bn cloud infrastructure deal with Meta Platforms, and a favourable US antitrust ruling, allowed it to retain ownership of Google Chrome.

**Samsung Electronics** The company benefited from rising AI-related demand, with a tight memory supply raising expectations for high bandwidth memory chip demand and a favourable pricing outlook.

#### Performance detractors

**General Mills** The US multinational missed its earnings expectations and lowered its FY 2025 outlook amid slowing sales of snacks in the US and elevated inventories as consumers reduced discretionary spending.

**American Tower** The company's results were broadly in line, but sentiment weakened due to a slight decline in US operations and arbitration proceedings with AT&T Mexico over withheld lease payments.

**Zoetis** The US drug company was pressured by intensifying competition and declining veterinary visit numbers.

## Positioning and outlook

The Strategy is designed to remain broadly neutral from a sector and regional perspective, with top-down macro and style exposures actively managed. Within these parameters, the team seeks to identify a diverse range of companies that are attractive across multiple dimensions and exhibit no material weaknesses. This approach ensures the Strategy has exposure across the style spectrum, supporting balanced risk and return.

All holdings undergo systematic ESG assessment. The objective is to maintain a portfolio of companies with strong or improving ESG standards, while excluding those where poor practices present material investment risk. As a result, the portfolio demonstrates a higher ESG profile than the benchmark, a lower carbon footprint, and meaningful revenue exposure to social and environmental themes.

The Strategy remains well-diversified across sectors, with active positions generally within +/-3% of the benchmark. The largest overweight is in Financials, reflecting confidence in global economic resilience, but is tempered by caution given geopolitical uncertainty. Overweights in Information Technology and Communication Services are maintained, supported by continued enthusiasm for AI adoption, though exposures are actively managed and diversified. Energy and consumer sectors represent the largest underweights. Our underweight to energy reflects concerns over the sustainability of many business models in the sector. The consumer underweight stems from a mixed outlook, with consumer confidence constrained by inflation. While US consumer sentiment is expected to improve, we anticipate this will favour housing-related areas, supported by policy initiatives aimed at improving mortgage market conditions ahead of the US midterm elections in November 2026.

## Outlook

Any hopes that 2026 would bring a period of calm were quickly dispelled after the US effectively “took over” Venezuela in January and issued similar warnings to Cuba, Mexico, Colombia, and Greenland. Markets have been largely unruffled by the development: from a global gross domestic product (GDP) standpoint, Venezuela's near term significance is limited, which explains the muted market reaction. However, if additional countries are drawn into the situation, the market response could become far more pronounced. Greenland, in particular, would represent a major test of NATO and EU resolve.

Beyond the geopolitical uncertainty, we continue to see a valuation gap in high-quality businesses and expect a gradual normalisation toward fundamentals over the medium term. AI-related opportunities remain compelling, especially in areas such as energy-efficient data-centre infrastructure and established technology leaders with strong cash generation. That said, caution is required given growing concerns around a potential AI-driven bubble.

We continue to expect a broadening of market leadership beyond the AI cohort. However, with markets entering the fourth year of this bull phase, periods of volatility are to be expected. Elevated valuations present a challenge, but not an insurmountable one. Rather, they reinforce the importance of fundamentals in sustaining market performance. We anticipate that a return to rational pricing will favour investment approaches, such as ours, that are rooted in fundamental analysis, emphasise quality and offer diversified exposure across styles.

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<sup>1</sup> Management fees are not included and will have the effect of reducing performance.

SECTION TWO

# Engagement overview

Alongside our stewardship colleagues in EOS at Federated Hermes Limited (EOS), we seek to encourage positive change through board and executive-level interactions. Our engagements with portfolio companies take the form of face-to-face meetings with board members, chairs, lead independent directors and chairs of board committees. We also gather information relating to specific engagement objectives and issues through our interactions with divisional heads and investor relations teams. Our proprietary milestone system allows us to track our engagement progress through

four key stages from any initial raising of concerns through acknowledgement of the issue and commitment to change, to implementation.

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

Figure 2: Measuring progress – Milestones



Source: Federated Hermes Limited, as at 31 December 2025.

**Engagement progress, 2025**

Total number of engagement objectives: **120**

Number of companies engaged: **63**

### Voting, 2025

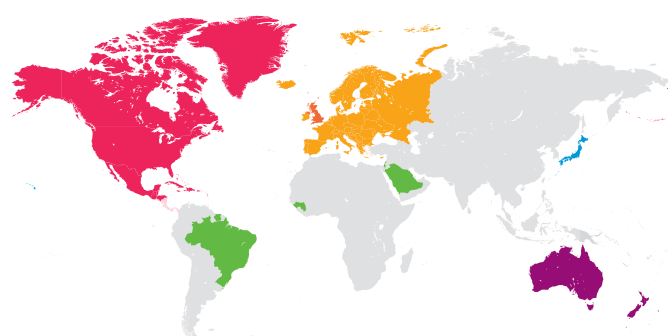
Voting is a key part of demonstrating active ownership and encourages companies to meet the needs of shareholders.

### Voting breakdown

Meetings voted in favour:	Meetings where we voted against, against and abstained, or with management by exception:
<b>38.5%</b>	<b>61.4%</b>

Source: Federated Hermes Limited, as at 31 December 2025.

### Objectives by region:



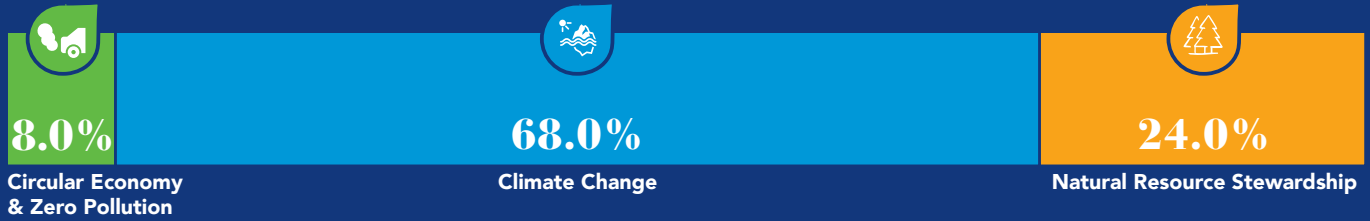
North America	<b>66</b>	United Kingdom	<b>11</b>
Emerging and developing markets	<b>3</b>	Developed Asia	<b>25</b>
Australia & New Zealand	<b>2</b>	Europe	<b>13</b>

### Engagement objectives by theme



Source: Federated Hermes, as at 31 December 2025.

### Environmental: objectives engaged



Source: Federated Hermes, as at 31 December 2025.

### Social and ethical: objectives engaged



Source: Federated Hermes, as at 31 December 2025.

### Governance: objectives engaged



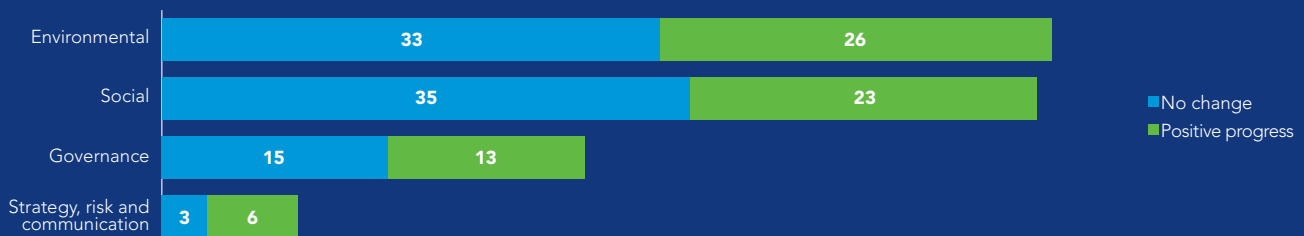
Source: Federated Hermes, as at 31 December 2025.

### Strategy, risk and communication: objectives engaged



Source: Federated Hermes, as at 31 December 2025.

### Milestone status of engagement



Source: Federated Hermes, as at 31 December 2025.

SECTION THREE

# ESG outcomes

We recognise that every company has both positive and negative impacts when it comes to its operations. Here we present a snapshot of the Strategy’s environmental metrics, which help us to identify our risk exposures and allow us to assess our climate and sustainability risks.



## Carbon footprint per US\$m invested

Portfolio	15.25
Benchmark	34.70
Lower than the benchmark	<b>56%</b>

Source: Federated Hermes Limited, as at 31 December 2025.

## Carbon intensity – tonnes per US\$m of sales (scope 1 and 2)

Portfolio	65.60
Benchmark	128.72
Lower than the benchmark	<b>49%</b>

Source: Federated Hermes Limited, as at 31 December 2025.

## Environmental opportunities exposure **45%**

## SDG exposure

Here we demonstrate our SDG exposure – that is, companies where there is revenue exposure to investable themes which are aligned to the UN Sustainable Development Goals (SDGs).



Source: Federated Hermes, as at 31 December 2025. Note that percentages shown add up to more than 100% as companies can be exposed to more than one SDG.

## Science-based targets

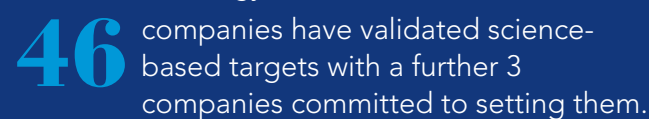
We continue to see increased momentum behind climate action and carbon risk management, in line with the rollout of the Task Force on Climate-related Financial Disclosures (TCFD) framework. The fact that more of our portfolio companies are committing to TCFD reporting – and to net zero or science-based targets – is evidence of this trend:

In summary



Source: <https://sciencebasedtargets.org/target-dashboard>

Within the Strategy



This represents



Source: Federated Hermes, as at 31 December 2025.

## SECTION FOUR: THEMATIC FOCUS

## Physical risk: Turning climate uncertainty into investment insight

As climate pressures reshape energy, food and water systems, physical risk is becoming more financially material, and integrating data, governance and adaptation into investment strategies is now essential. Here, the Global Equity team at Federated Hermes outline their approach to assessing physical risk – at both a company and portfolio level – and the related opportunities.

Physical risk, like artificial intelligence (AI), presents both an opportunity and a threat. Climate change is reshaping the systems that underpin energy, food and water, with growing financial consequences for businesses. Many companies continue to pursue year-on-year growth without sufficient planning, readiness or adaptation – leaving them increasingly exposed.

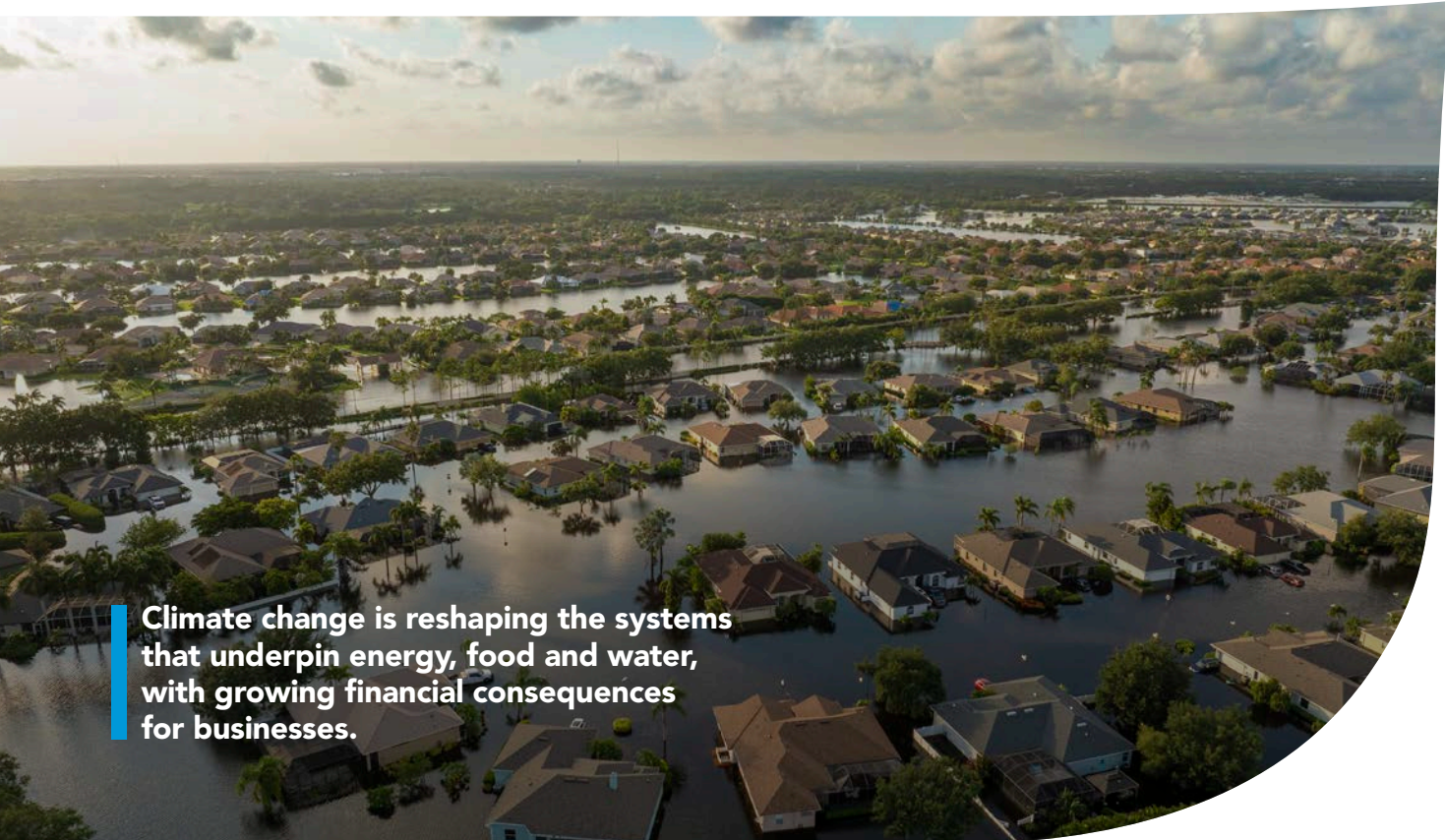
Practical investment opportunities in climate and nature-based solutions remain limited, but companies must factor environmental considerations when setting long-term strategies. Initially this begins with understanding the macroeconomic implications of rising climate uncertainty and identifying

vulnerabilities across operations and supply chains. For investors, increasingly granular data is enabling more informed investment decisions, including the ability to quantify potential disruptions to logistics and operations.

When assessing physical risk, three factors matter most: **exposure**, **resilience**, and **transition**. Climate resilience has become the dominant theme and is closely aligned with Sustainable Development Goal (SDG) 13 on Climate Action, while exposure and transition increasingly focus on adaptation.

Looking ahead to 2026 and beyond, broader systemic risks and the social dimensions of adaptation – often framed through the lens of a ‘just transition’ – are set to become higher priorities for investors and companies alike.

In practice, physical risks materialise within the market in three main areas: **operational** risk, **supply chain** disruption and wider market or **systemic** risk. Exposure can be evaluated by analysing country or regional footprints, including revenue sources, manufacturing locations and interactions with natural ecosystems. As biodiversity becomes more financially material, investors are gaining clearer insights into how nature-related impacts can affect a company’s long-term financial performance.



Climate change is reshaping the systems that underpin energy, food and water, with growing financial consequences for businesses.

## What are physical risks?

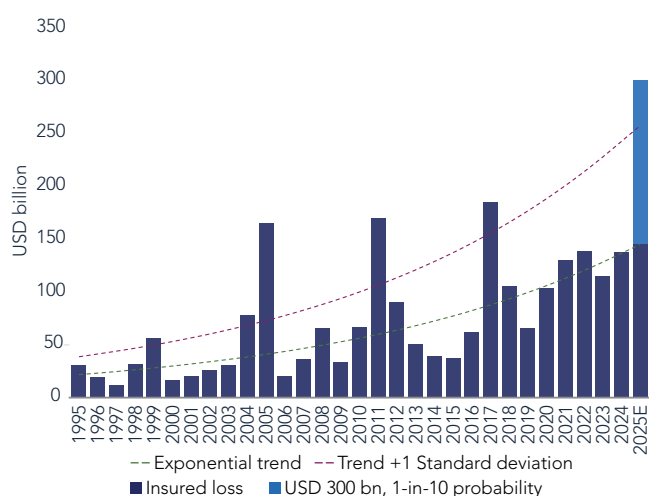
Physical risks can be broadly divided into **acute** and **chronic** hazards.

- **Acute hazards** are extreme, short-term events such as storms, hurricanes, cyclones, floods and wildfires.
- **Chronic hazards** develop over time and include rising temperatures, drought, desertification and long-term changes to precipitation patterns.

These hazards have wide-ranging economic impacts. They affect commodity availability, which includes seafood and agricultural products, contribute to inflationary pressures, and increase operational costs. For example, higher temperatures drive up energy costs for cooling buildings, while climate-related disruptions can reduce the availability of key agricultural inputs.

Capital-intensive sectors are particularly vulnerable to these risks, as their reliance on physical assets limits flexibility compared to more asset-light businesses. At the same time, the severity and frequency of catastrophic climate events continues to rise, as reflected in recent insurance claims and loss statistics (see **Figure 3**).

**Figure 3:** Global natural catastrophe insured losses\*



\*Trend, modelled on one to ten year (US\$bn, 2024 prices)

Source: sigma 1/2025: 'Natural catastrophes: insured losses on trend to USD 145 billion in 2025', as at April 2025.

One area where physical risks are materialising rapidly is within food systems. Shocks to agricultural inputs are increasingly disrupting the supply chains of consumer goods companies and food and beverage retailers. As a result, security of supply and supply chain resilience have become top board-level priorities. Despite some improvement to supply chain resilience following Covid-19 and subsequent trade disruptions, many companies still have significant scope to be more strategic – mitigating these imminent risks and therefore reducing the need for a purely reactive approach.



## How do we assess physical risk?

Our approach begins with monitoring company and portfolio-level exposure. We have developed proprietary tools – the **ESG Dashboard** and the **ESG Portfolio Monitor** – which enable detailed analysis of relevant ESG metrics across our holdings.

When assessing physical risk, we place strong emphasis on quantitative data to support qualitative analysis. Given the limited availability of detailed financial data on climate-related impacts, we use models to estimate exposures and apply scenario analysis to test resilience.

While the materiality of physical risks to individual company sites or products is often fairly static in the short term, the broader trend points towards increasing significance as climate uncertainty intensifies over the long term.

Our analysis incorporates our proprietary Quantitative Environmental (QE) Score within company valuations. This captures key indicators such as the quality and scope of Environmental Management Systems (EMS) reporting, Task Force on Climate-Related Financial disclosures (TCFD), and CDP (formerly the Carbon Disclosure Project) reporting, all of which address physical risks and the related opportunities.

**The QE Score quantifies the financial effects of sustainability risks and opportunities, embedding both risk mitigation and value creation opportunities into our scoring framework. Company-specific scores allows for integration into financial analysis and valuations. We believe that companies exceeding industry median levels of environmental risk integration – or demonstrating meaningful improvement – are well positioned to outperform over the long term.**

From a qualitative perspective, we also track how physical risks feature in engagement activities and conversations. Using our EOS at Federated Hermes Limited<sup>3</sup> large language model (LLM), we tag and analyse meeting notes to identify relevant discussions. In 2025, physical risk was raised in eight engagements with portfolio holdings, which helped to provide valuable insight. **You can read more about the proprietary EOS LLM [here](#).**

<sup>3</sup> **EOS at Federated Hermes Limited (EOS):** A pioneer of effective stewardship and provider. Founded in 2004 on a legacy dating back to 1983, EOS provides investors worldwide with the following services: engagement, voting, public policy advocacy, responsible-investment policy advice, and portfolio screening.

## Portfolio-level metrics

We use a range of portfolio-level metrics to assess physical risk exposure. These indicators show that the portfolio is underexposed to physical risk relative to the benchmark, reflecting our focus on solid, long-term fundamentals and companies with good and improving ESG practices.

The **Trucost environmental impact ratio** provides an estimate of a company's environmental footprint, by measuring its total natural capital impact per unit of economic value. It incorporates factors such as carbon emissions, water use, waste, pollution and natural resources depletion, and offers a single, normalised metric of environmental intensity per unit of revenue. On this basis, the portfolio's footprint represents just 1% of the MSCI ACWI benchmark footprint. For context, the MSCI World also has a lower environmental footprint than the ACWI benchmark at only 17%.

**Sustainalytics** assess physical climate risk management across a broad universe of companies. As at the end of December 2025, the portfolio scores 49 compared with a benchmark score of 46, on a scale where 100 represents universal adoption of strong physical risk management practices. High-scoring holdings include companies in sectors with high materiality such as utilities (including **National Grid** and **Iberdrola**) and semiconductor manufacturers (such as **ASML** and the **Taiwan Semiconductor Manufacturing Company - TSMC**).

Direct indicators, such as water stress exposure, also provide valuable insights and have good coverage across the portfolio. Using **MSCI data**, the portfolio has a weighted score of 3.28, compared with a benchmark score of 3.78, indicating lower exposure to water stress. This assessment reflects both geographic locations of operations and the product footprints of these companies.

Analysis of this data, alongside other indicators such as exposure to fragile ecosystems, shows that physical risk within the portfolio is concentrated within specific holdings. Approximately 22% of the portfolio derives more than 80% of its revenues from areas with high climate-related exposure. This includes large portfolio holdings such as **Alphabet** (see below) and **Apple**.

The portfolio maintains an exposure to emerging markets, although we remain marginally underweight relative to the MSCI ACWI benchmark. Emerging Asia, in particular, continues to face elevated physical climate risks. Our positioning in the region is typically capital light, although we gain some indirect exposure through financial institutions. Given this risk profile, we prioritise robust disclosure of strategy and governance over site-level breakdowns. Where material gaps are identified, we engage with companies to encourage enhanced reporting.

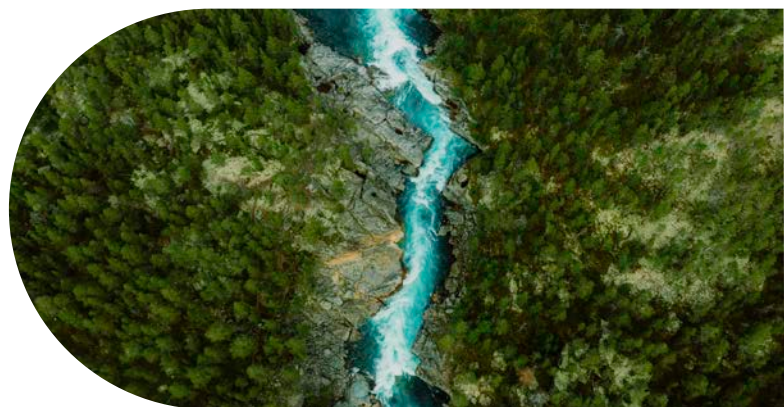
**Translating climate insights into financial action requires converting climate intelligence into practical investment decisions.**

Both qualitative assessments and quantitative data are essential to building a more comprehensive understanding of physical risk exposure.

From a top-down perspective, we also apply an **EOS climate framework** that categorises sector-level exposure to physical risk as high, medium or low. For example:

- **High:** Utilities
- **Medium:** Materials, Energy, Real Estate

We have an underweight position to the four sectors listed above in aggregate: -3.16, absolute 8.2% for the portfolio versus 11.35% for the benchmark, as at 31 December 2025.



## Focus on industry characteristics

Beyond direct exposure to physical risks, we assess **industry-level exposure** to climate and transition-related policies using the EOS climate framework. This analysis highlights sectors such as energy, utilities, industrials and financial services as having elevated exposure to climate and transition policy risks, with material implications for both direct and indirect investment exposure.

Translating climate insights into financial action requires converting climate intelligence into practical investment decisions. By combining climate analytics with market data, we can quantify exposures, price risk appropriately and integrate climate-adjusted metrics directly into portfolio strategy.

The **Taskforce on Nature-related Financial Disclosures (TNFD) reporting** provides a consistent framework for companies to report nature-related risks, mirroring the role played by TCFD in climate risk disclosure. As nature becomes increasingly central to value creation across supply chains, the materiality of these risks will continue to grow. However, relatively few companies currently provide detailed reporting on their direct and supply chain exposure to physical risks, which are often embedded in the value chain and therefore less visible. For investors, improved TNFD reporting enhances transparency around corporate actions and progress, providing an essential input for forward-looking analysis.

### Companies in the spotlight

Climate adaptation is emerging as a performance imperative. For example, **CRH**, a US-Irish infrastructure company, views resilience-enhancing infrastructure upgrades as a strategic opportunity. Through scenario planning, management gains clearer visibility on where upgrades are required. As physical climate impacts intensify, adaptation is becoming a defining factor in asset performance, long-term value creation, and climate resilience strategies for companies.

**Financial services companies** also play a crucial role in strengthening climate resilience. By supporting advanced risk analytics, developing innovative insurance solutions, and delivering location-specific vulnerability assessments, they help translate physical risk into practical action. Integrating adaptation considerations into capital planning, underwriting, and reinvestment decisions enables firms to preserve asset performance while unlocking opportunities in a complex and rapidly evolving risk environment.

We view one portfolio holding, global insurer **Chubb**, as a leader in this space. In its 2024 TCFD report, the company acknowledges broad exposure to macroeconomic and climate-related physical risks through its global underwriting portfolio and has therefore conducted detailed scenario analysis. Chubb has also recently significantly expanded its physical-risk analytics offerings, reflecting rising demand from clients seeking to understand climate-driven hazards. Its Resilience Services platform provides physical risk modelling and custom, location-specific resilience recommendations for acute hazards.

Multinational technology conglomerate **Alphabet** reports its data through the CDP climate change questionnaire. It highlighted chronic physical risk exposure via direct operations, pointing to rising sea levels and associated events like storm surges as responsible for increases in indirect operating costs.

This risk was deemed to have the highest potential impact on two offices vulnerable to climate and weather events, owing to location, with effects spanning multiple time horizons, and the potential to increase operating expenditures associated with property and equipment damage. These details were highlighted as part of a 2024 climate risk assessment.

**Arista Networks**, an American computer networking company, discloses its data through the CDP climate and water questionnaires, and has identified both acute and chronic physical risks, primarily within its upstream value chain. The company outlines multiple physical hazards across various locations, expected disruption to supply chains or production capacity, the likelihood and magnitude of impacts, and potential financial effects (see Figure 4). Specific highlighted impacts include grid disruptions, increased operating, commodity, and logistics costs, infrastructure damage, and reduced performance of data centre equipment.

**Figure 4:** Arista Networks – physical risks within the upstream value chain

	Financial effect	Time horizon	Likelihood	Magnitude
<b>Chronic:</b> Water stress	Increased production costs	Long term	Likely	Medium-low
<b>Chronic:</b> Increased severity of extreme weather events	Disruption in upstream value chain	Short term, medium term, long term	Likely	Medium-high
<b>Acute:</b> Flooding (coastal, fluvial, pluvial, groundwater)			Likely	
<b>Acute:</b> Cyclone, hurricane, typhoon			More likely than not	

### Conclusion

With the severity and volume of extreme climate-related events expected to rise in line with global temperatures over the next few decades, the need for companies to manage their exposure to physical risk has become vital.

Through a range of portfolio-level and company metrics and our focus on engagement – leveraging EOS at Federated Hermes, our dedicated stewardship arm – the Strategy has demonstrated lower exposure to physical risk versus the benchmark, reflecting our focus on solid, long-term fundamentals and companies with good and improving ESG practices. **Over the long term, we believe that companies exceeding industry median levels of environmental risk integration – or demonstrating meaningful improvement – are well positioned to outperform.**



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## SECTION 5



## CASE STUDY:

# Brambles

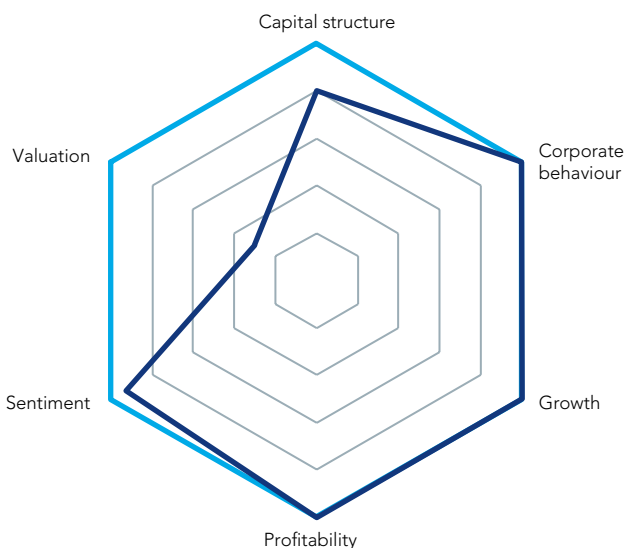
Brambles is a global logistics servicing company that specialises in the pooling of unit-load equipment, pallets, crates and containers.

It adopts a circular business model designed to positively impact both the planet and its customers. Its share-and-reuse network of connected pallets enables end-to-end supply chain visibility and optimisation, making pallet usage more efficient.

## Investment perspective

Despite a challenging consumer backdrop, Brambles' provision of essential supply chain infrastructure in fast-moving consumer goods (FMCG) and Consumer Staples provides resilience. At the same time, initiatives to enhance supply chain productivity, asset efficiency and cost management underpin the company's confidence in margin expansion over the coming years.

## Alpha Model assessment



Source: Federated Hermes Limited, as at 1 December 2025.

Brambles is highly rated by our Alpha Model, with standout scores in corporate behaviour, growth, profitability, sentiment and capital structure. Its long-term appeal is reinforced by its status as an ESG leader, consistently outperforming peers across environmental, social, and governance metrics.

For example, its Forest Positive initiative ensures the growth of two trees for every one tree used, and promises 100%

sustainable sourcing of timber. The company also has Science Based Targets initiatives (SBTi)-validated 2030 climate targets aligned with a 1.5°C pathway and maintains carbon neutrality across its operations using 100% renewable energy.

## Engagement

Our engagement with Brambles has focused primarily on nature-related issues, alongside governance considerations. Brambles maintains 100% sustainably sourced timber and has increased chain-of-custody certification by 5%. It is also advancing the circular economy, aiming to create a leading industry circularity index, underscoring its commitment to environmental impact.

We reiterated the need for more clarity on its forest-positive goal, particularly biodiversity metrics, which the company acknowledged by refining its measurement approaches. We welcomed Brambles' new 2030 sustainability vision, which enhances focus on regeneration and nature. Customer sentiment on sustainability remains strong, particularly in Europe, driven by efficiency gains.

We stressed the importance of linking sustainability goals to core business benefits such as efficiency, resilience, and cost. The company highlighted digitalisation as a key enabler: internal data analytics improve asset control and reduce capital expenditure (capex) on pallets, while customer-facing solutions, such as temperature and shock sensors, help to reduce food waste and extend shelf life. Regeneration is also

**Brambles' Forest Positive initiative ensures the growth of two trees for every one tree used, and promises 100% sustainable sourcing of timber.**

integrated into innovation and incentivisation, supported by a sustainability modifier in executive remuneration.

On nature-related risk management, we discussed the Taskforce on Nature-related Financial Disclosures (TNFD) LEAP assessment and its role in shaping strategic resilience. Brambles confirmed this will be an iterative process, evolving with new data and methodologies. It is expanding data collection on water, waste, and biodiversity, and is exploring natural capital accounting to integrate nature into decision-making and customer value propositions. The company also clarified its new net-positive product waste solutions metric, reinforcing its commitment to regenerative outcomes.

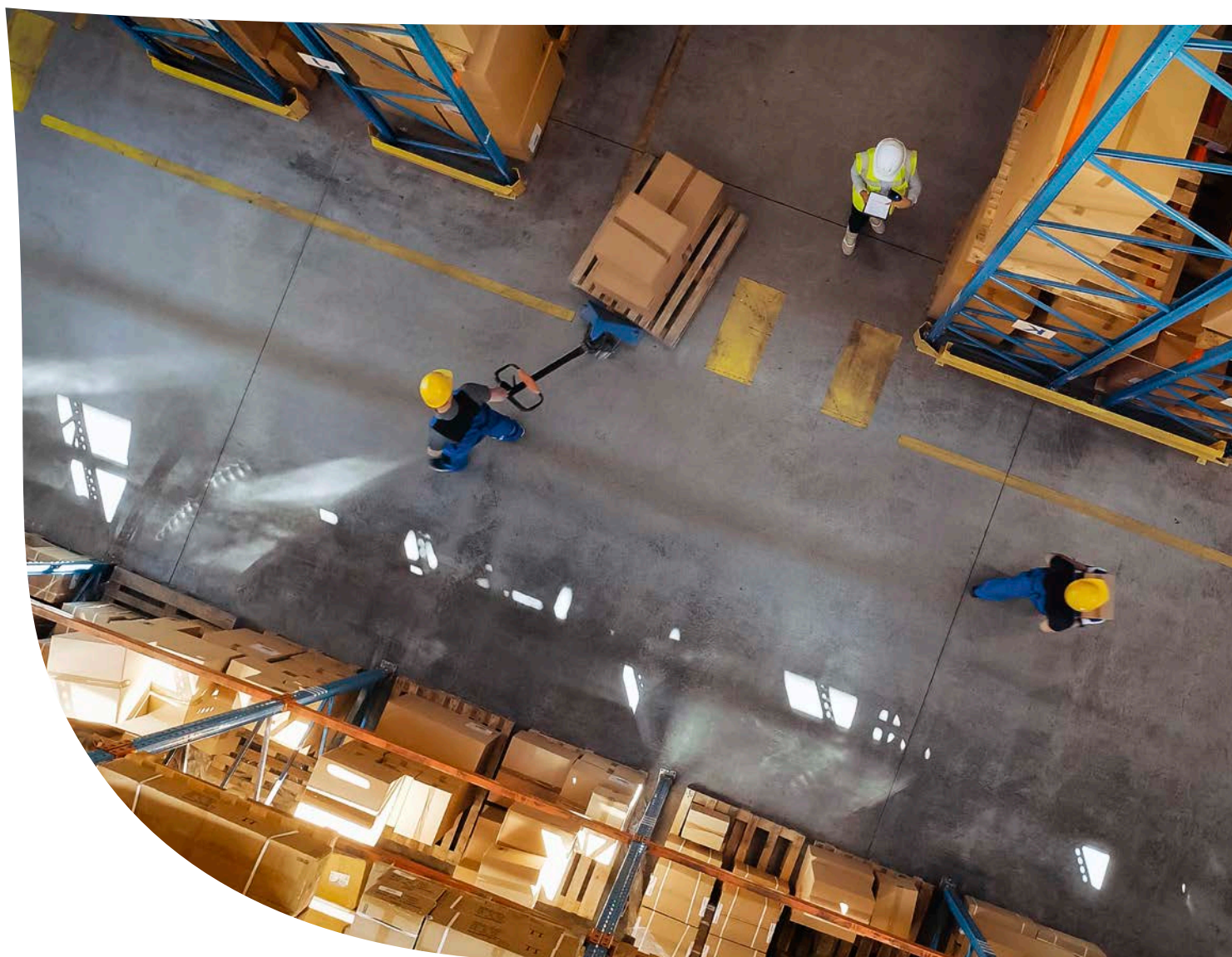
Governance developments include combining sustainability and product innovation leadership roles and aligning decarbonisation efforts under its chief operating officer (COO). Regarding board composition, Brambles explained the rationale for appointing its new Operating Partner, Maxine Brenner, after we raised concerns about whether she could dedicate sufficient time to the role, given Brenner holds four directorships at Australian Securities Exchange (ASX)-listed companies. The company said that the decision was

unanimous, following a stringent due diligence process, and cited her complementary skills and valuable experience, explaining she would be stepping down from one board, demonstrating her commitment to the company.

### Summary

Brambles represents a compelling investment case, combining defensive qualities with growth drivers rooted in digital transformation and sustainability leadership. Its strong ESG credentials, proactive engagement on nature and circularity, and commitment to operational efficiency position it well for margin expansion and long-term value creation. Despite macroeconomic challenges, Brambles' essential role in supply chains and strategic initiatives underscore its resilience and potential for sustainable growth.

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SECTION 6

 CASE STUDY:

# Netflix



Netflix is an American subscription video on-demand over-the-top streaming service, with 325 million paid memberships in more than 190 countries as of 2026.

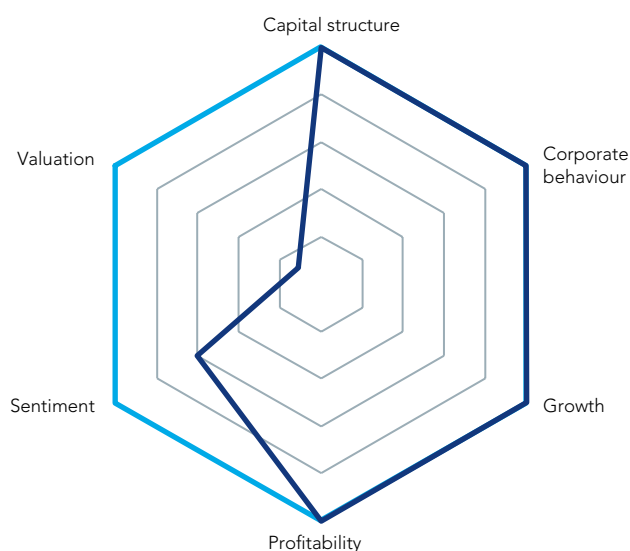
The global streaming leader continues to grow its subscriber base with paid sharing, advertising, live broadcasts, and gaming providing additional avenues for expansion.

The company believes it is well positioned to leverage generative AI across multiple aspects of its business, supported by its technological edge over competitors. It highlighted three key areas:

- Enhancing discovery and recommendation quality;
- Equipping creators with innovative tools; and
- Testing AI-driven advertising formats

**Netflix’s recent decision to walk away from the acquisition of Warner Bros. Discovery is a positive development, in our view. It demonstrates capital allocation discipline and allows management to remain fully focused on its core business rather than becoming distracted by the regulatory complexities that such a deal would have entailed.**

### Alpha Model assessment



Source: Federated Hermes Limited, as at 9 December 2025.



**Netflix’s recent decision to walk away from the acquisition of Warner Bros. Discovery is a positive development, in our view.**

From a fundamental perspective, Netflix scores strongly in our Alpha Model across capital structure, corporate behaviour, growth, and profitability, supporting its premium valuation. It also compares favourably to peers on ESG metrics. We have engaged with the company on a range of topics for several years and have observed meaningful progress on environmental, social, and governance objectives.

**From a fundamental perspective, Netflix scores strongly in our Alpha Model across capital structure, corporate behaviour, growth, and profitability, supporting its premium valuation.**

### Engagement

Following a withdrawn 2019 shareholder proposal for material ESG disclosure, we outlined expectations for Paris Agreement-aligned climate targets.<sup>4</sup> Netflix subsequently published its first Sustainability Report in 2020 – an important step towards better management of environmental and social risks.

We continued to urge the company to set a climate target and demonstrate an inclusive culture. In response, in 2021 Netflix announced a goal to achieve net-zero greenhouse gas (GHG) emissions by the end of 2022, initially covering Scope 1 and 2 emissions. Later that year, the target expanded to Scope 3 and was validated by the SBTi. In addition, in early 2021, Netflix started to disclose workforce composition metrics along with details on its company culture initiatives.

Governance improvements have also been notable. Since 2019, we have engaged on board composition and executive compensation alignment. While progress was made, such as establishing board committee terms of reference, we raised concerns in 2021 about the classified board and compensation structure. Netflix agreed to consider our suggestion for long-term incentives via restricted stock.

We also encouraged the board to address shareholder requests for declassification. In 2022, Netflix announced it would hold a vote on governance reforms, including board declassification, elimination of supermajority voting, adoption of simple majority voting, and granting shareholders the right to call special meetings.

Building on this, in March 2024 Netflix published its first corporate governance guidelines and executive stock ownership requirements. These guidelines define board responsibilities, limit external board service, and outline duties of the lead independent director when chair and CEO roles are combined – changes reflecting stakeholder feedback, including ours.

Netflix also excluded pledged shares from minimum ownership calculations, strengthening shareholding culture. Executives must now seek compliance approval before pledging shares, and reductions in pledged positions indicate progress in mitigating leadership diversification risk.

The company also introduced minimum shareholding requirements: co-CEOs must hold 6x base salary in common stock, while other executives must hold 3x. Compensation was overhauled to replace options with time-based and performance-based restricted stock units (RSUs), add shareholding requirements, and implement double-trigger severance arrangements.

In our view, declassifying the board and restricting share pledging should enhance director accountability and align decision-making with long-term shareholder interests. Looking ahead, we plan to engage on board effectiveness and refreshment, given three directors have served for over 20 years. We also aim to explore improvements in workforce pay practices and tax transparency.

### Summary

Netflix offers strong long-term potential, underpinned by strong fundamentals in growth, profitability, and corporate behaviour, and driven by subscriber growth, new revenue streams, and its AI advantage. Sustained ESG progress on climate, governance, and compensation reflects a positive engagement dialogue and better alignment with shareholder interests.

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<sup>4</sup> **Paris Agreement:** An international accord, agreed at COP 21 in Paris in 2015, that aims to limit the rise in global average temperatures to below 2°C compared to pre-industrial levels.

## Rolling year performance (%)

	31/12/24 to 31/12/25	31/12/23 to 31/12/24	31/12/22 to 31/12/23	31/12/21 to 31/12/22	31/12/20 to 31/12/21	31/12/19 to 31/12/20	31/12/18 to 31/12/19	31/12/17 to 31/12/18	31/12/16 to 31/12/17	31/12/15 to 31/12/16	31/12/14 to 31/12/15	31/12/13 to 31/12/14
Federated Hermes Global Equity ESG (%)	22.96	19.33	22.74	-22.38	20.51	19.82	28.02	-10.53	23.98	6.43	2.34	4.66

Source: Federated Hermes Global Equity ESG as at 31 December 2025. Composite inception date: 1 May 2013. Returns are in USD gross of fees. The information shown is supplemental to the GIPS® compliant composite report provided in the Appendix. **Management fees are not included and will have the effect of reducing performance. Past performance is not a reliable indicator of future returns.**



## Schedule of Rates of Return and Statistics

**Composite:** Federated Hermes Global Equity ESG  
**Index:** MSCI All Country World (net)  
**Periods ending:** 31-Dec-25

### Annualised Returns (%)

	Composite Gross Return	Index	Composite Net Return
Q4 25	4.73	3.29	4.58
1 Year	22.96	22.34	22.29
3 Years (Annld)	21.67	20.65	21.00
5 Years (Annld)	10.99	11.19	10.38
10 Years (Annld)	11.80	11.72	11.18
May-13 - Dec-25 (Annld) <sup>^^</sup>	11.40	10.28	10.77

<sup>^^</sup>Represents composite inception period. See below for additional notes to the schedule of rates of return and statistics.

The composite includes all discretionary portfolios following the Global Equity ESG Strategy run by the Federated Hermes Global Equities team (London Office) and has an inception date of 1 May 2013. The objective of the strategy is to achieve long-term capital appreciation. The strategy aims to take advantage of systematic behavioural biases of market participants while remaining cognizant of the risks associated with the modelling of such behaviour. The strategy will not explicitly exclude companies but will favour stocks that score highly in our ESG ratings. The benchmark is the MSCI AC World (net) Index, which is designed to measure the equity market performance of all countries and covers all large and mid-market capitalization securities. The benchmark is market-cap weighted and rebalanced on a quarterly basis. The return is calculated on a total return basis net of withholding tax. This composite was created in August 2013. Performance shown for 2013 is for a partial period starting 1 May 2013. Federated Hermes claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS® standards. Federated Hermes has been independently verified for the period of January 1, 1992, through September 30, 2025. The verification report is available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. Since inception the management fee schedule for this strategy was 0.60% per annum for the first GBP 60mIn, 0.55% per annum for the next GBP 90mIn and 0.50% per annum thereafter. As of 1 January 2014, the management fee schedule for this strategy is 0.55% per annum. Gross of fees returns have been calculated gross of management/custodial fees and net of reclaimable withholding taxes, but after all trading commissions.

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