



Federated Hermes SDG Engagement High Yield Credit

Annual Report 2025

April 2026

**Federated
Hermes** 
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SDG Engagement High Yield Credit

The year in numbers

In 2025 we had

379 engagements with
148 companies



We engaged

100% of the companies we continue to hold



We completed

28 objectives



We made progress on

98 objectives in 2025



We continue to pursue

341 objectives for change



Source: Federated Hermes as at 31 December 2025.

Our most important SDGs:

| | | | | | |
|--------------------------|--------------------------------------|--|--|--|--------------------------------|
| 13 CLIMATE ACTION | 7 AFFORDABLE AND CLEAN ENERGY | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES |
| 123 objectives | 103 objectives | 81 objectives | 64 objectives | 39 objectives | 24 objectives |

| | Metric ¹ | Portfolio as of Dec 2025 ² | Year-on-year change ³ |
|-------------------|--|---------------------------------------|----------------------------------|
| Energy transition | Total GHG emissions (tCO ₂ e ⁴ Scopes 1+2) | 539,391,380 | -8.2% ✓ |
| | CO ₂ e avoided (tCO ₂ e) | 140,685,457 | -9.9% ✗ |
| | % of energy or electricity consumed, renewable | 50.8% | 1.0%pt ✓ |
| Water | Total water withdrawn or consumed (m ³) | 1,354,854,516 | -2.8% ✓ |
| Waste | Operational waste recycled (%) | 58.1% | 0.1%pt ✓ |
| Decent work | Employee turnover | 16.4% | -1.1% ✓ |
| | Lost time injury frequency rate (LTIFR) | 2.17 | -6.30% ✓ |
| Hiring practices | % female directors | 35% | 0.1%pt ✓ |
| | % female executives | 26% | 0.2%pt ✓ |
| | % female managers | 30% | 1.2%pt ✓ |

¹ Source: Net Purpose, 31 December 2025.

² For the portfolio as of December 2025, based on data for the most recently available year, which in most cases is 2024.

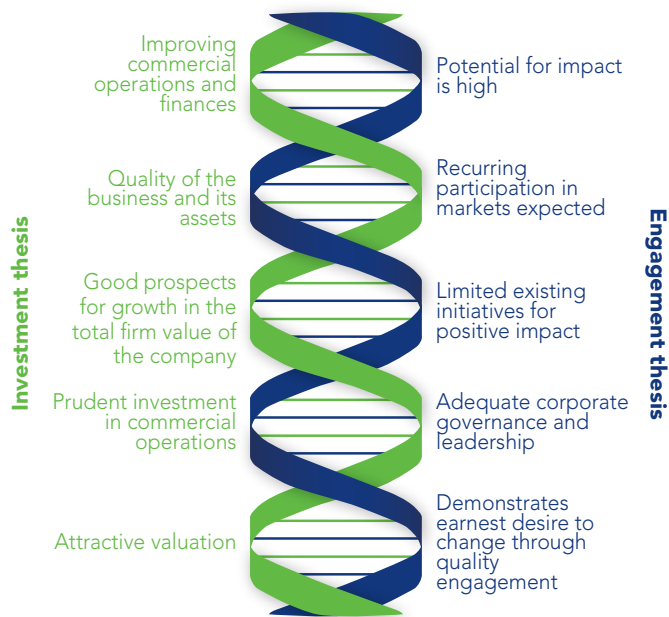
³ Compares the change in metric based on only companies held continuously from December 2023 to December 2024 (the most recent year for which we have sustainability data).

⁴ Tonnes of carbon dioxide equivalent.

The SDG Engagement High Yield Credit Strategy

The SDG Engagement High Yield Credit Strategy seeks to deliver on co-linear objectives: strong financial performance for investors, and active engagement that contribute to the United Nations’ Sustainable Development Goals (SDGs).⁵

Figure 1. Investing with co-linear objectives

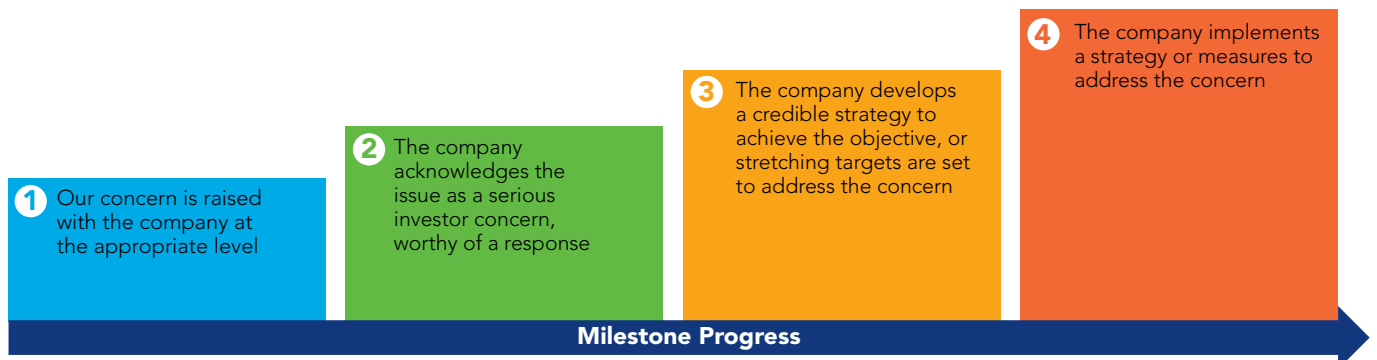


Source: Federated Hermes.

We believe an investor’s financial stake allows, if not obliges, them to engage in constructive dialogue with companies. Turning engagement into meaningful change takes time, so we require companies to be survivors through the market cycle. Within the global hard currency, high yield market, we favour companies with:

- A recurring presence in the capital markets.
- A stable investor base.
- An ethos of transparency in disclosures and reporting.
- The necessary credit strength to participate in long-term dialogue (as opposed to companies in financial stress that do not have the capacity to focus on sustainability.)

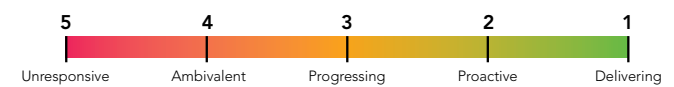
Figure 3. Engagement milestone system



Source: Federated Hermes.

Over the lifetime of the Strategy, we have built meaningful relationships with companies across a wide range of sectors and geographies that demonstrate a commitment to value creation and SDG impact. We use our proprietary framework (Figure 2) to capture the confluence of a company’s SDG impact potential and our engagement outlook. This score, ranging from one to five, helps guide the weight for each company in the portfolio. Companies scored SDG 5 are excluded from our portfolio.

Figure 2. SDG scoring scale



Source: Federated Hermes.

We start by assessing a company’s SDG impact potential, evaluating its performance against sector-specific themes and benchmarking it against peers. This helps us understand where the company stands on the ‘laggards to leaders’ spectrum.

Next, we assess the quality of our engagement relationship with the company. We use a four-stage milestone system (Figure 3) to track the progress of our engagement relative to the objectives set for each company.

Engagement often reveals SDG impact potential not visible in issuer disclosures. We may uncover significant, behind-the-scenes efforts to address material impacts, enhancing our view of a company’s future impact potential. Conversely, we might discover a superficial or apathetic approach to sustainability, which would lead us to downgrade our assessment. Based on this assessment, we class an engagement relationship as ‘failed/unresponsive’, ‘stalling’, ‘limited’, ‘constructive’, or ‘enhanced’ (Figure 4).

⁵ The SDGs are a set of 17 interconnected goals adopted by all United Nation (UN) member states in 2015. They are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere, by 2030.

Figure 4: Engagement assessments

| Engagement Assessment | Failed/Unresponsive | Stalling | Limited | Constructive | Enhanced |
|-----------------------|---|---|--|---|---|
| | <p>Company unwilling to engage</p> <p>OR</p> <p>Engagement has not yielded intended aims after allowing sufficient time; unlikely to change position in near-term</p> | <p>Slow progress on most objectives</p> <p>OR</p> <p>Difficult to contact company</p> | <p>Limited topics to engage on because:</p> <p>Business model is benign</p> <p>OR</p> <p>Company substantially achieving best-practice</p> | <p>Change is incremental</p> <p>Company receptive to engagement</p> <p>We expect progress on objectives over typical timeframe</p> | <p>Significant "laggard to leader" potential on at least one objective</p> <p>Engagement shows faster pace of change than indicated by disclosures</p> <p>Engagement can be beneficial to accelerate change</p> <p>Company may proactively seek our feedback</p> <p>Often have access to senior decision-makers</p> |
| Example | <p>US energy company sticking to a compliance-only approach to environmental management, with board entrenchment further hindering ESG progress</p> | <p>Dutch bank lagging on our objective to set science-based finance emissions targets</p> | <p>Spanish telco which leads peers on all aspects of sustainability - we regularly check in to understand its current priorities and communicate our evolving expectations for best practice</p> | <p>Brazilian pulp & paper company with recently-completed DEI objective, and two further objectives close to completion after 2-3 years of engagement</p> | <p>Mexican chemicals company having achieved multiple objectives and giving us regular access to the CEO for engagement - already delivering against convincing "laggard to leader" trajectory</p> |

Source: Federated Hermes.

The majority of our engagements fall under the 'constructive' category, following the timeline we would typically expect when engaging against specific objectives.

'Enhanced' engagements may involve companies regularly asking us for feedback or giving us access to senior decision makers. We aspire to see these companies make accelerated progress towards their sustainable objectives in the near term.

We do not want engagements that are 'stalling' or 'limited' to feature heavily in our portfolio. However, companies with limited engagement potential may still be delivering significant SDG-related impacts, or we may have some hope that a stalling company will reverse this trend.

Finally, failed engagements, or companies that are unresponsive to our requests to engage, have no place in our portfolio. We may revisit these names in the future if we think the situation has turned around, but if no near-term improvement is envisioned, we assign an SDG 5 score and exclude them from the portfolio.

The importance of governance

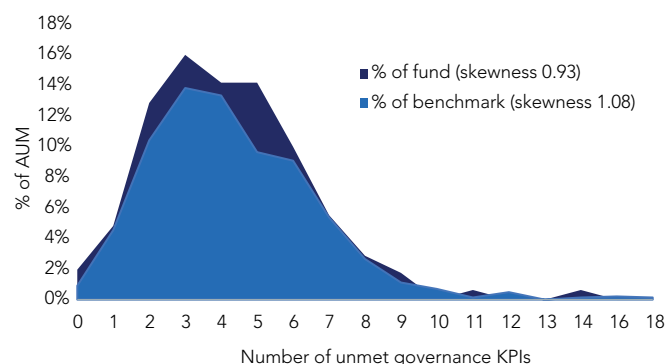
We have always maintained that sound corporate governance is a prerequisite for successful engagement. A company with underdeveloped governance structures is unlikely to have evolved to the point where it can start focusing on sustainability. Weak checks and balances can also lead to governance controversies that take priority over sustainability work.

One of the many ways we assess governance is through the use of a proprietary tool that measures companies according to 25 indicators. Figure 5 shows the number of unmet indicators for companies held in the Strategy and benchmark and highlights a clear skew towards better-governed companies for the Strategy.

Why proxy and voting-based engagement matters for fixed income investors

Throughout this report, readers will see references to equity-style engagement actions and activity, such as proxy voting. In sustainability, the interests of shareholders and creditors are aligned. As such, where relevant, we engage and act on the behalf of all financial stakeholders. We see this as a more effective path to creating positive change.

Figure 5. Number of governance KPIs not met



Source: Federated Hermes corporate governance portfolio dashboard as at 30 June 2025.

Investment review



Mitch Reznick, CFA®
Group Head of Fixed Income – London



Nachu Chockalingam, CFA®
Head of London Credit

Since inception the Strategy has returned 5.19% in US dollar terms, gross of fees, which was 0.41% ahead of its benchmark. During FY 2025, the Strategy returned 9.19% in US dollar terms, gross of fees, which was 0.73% ahead of its benchmark.⁶

Markets demonstrated remarkable resilience and strength in 2025, despite navigating several challenges. The year saw the fallout from the ‘Liberation Day’⁷ tariff rollout in April, as well as numerous geopolitical flare-ups; in addition to concerns about potential vulnerabilities in the private credit market (one leading US bank CEO likened the risks to “cockroaches”).

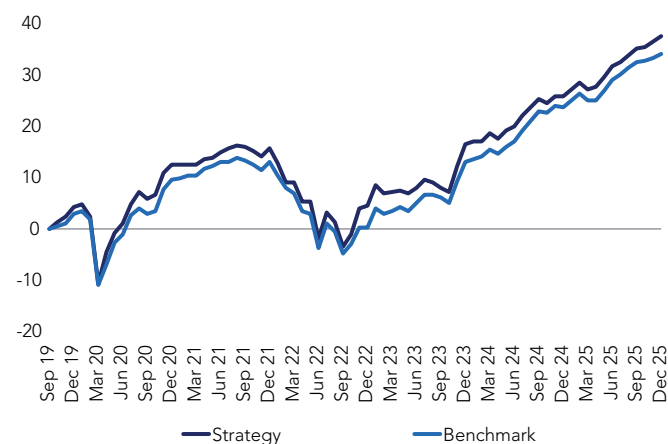
The robust performance across risk assets was fuelled by a number of factors, including accommodative financial conditions, sustained economic growth and significant tailwinds generated by advancements in artificial intelligence (AI).

Global fixed income markets are currently absorbed by the news flow related to the conflict in the Middle East. Within days, if not hours, from the start of the conflict, the perception of a stable, deflationary global economy evaporated and was replaced by concerns about the effects of an oil supply shock. Global rates rose with inflation expectations, which has put pressure on total returns in credit. Meanwhile, fixed income markets are now waiting to see if the global economy moves from deflation to stagflation. With each passing day that the war carries on, it becomes harder to argue that the disruption to shipping and energy infrastructure will only be ephemeral. The longer the oil spike persists, the greater the risk to global growth and, ultimately, corporate earnings and fundamentals. The good news is that this war-driven supply shock has arrived in the context of fairly robust economy in which corporate fundamentals are broadly constructive, and with much-reduced financial leverage in the system compared to the global financial crisis. Given that we enter this crisis at near-record tightness in credit spreads, it makes sense that risk premia have started to rise across all credit markets. However, regionally we have seen this in more energy-import-reliant regions such as Europe and emerging markets (EMs).

The technical picture in high yield remains sound and functional as the yield buyer continues to be attracted to the asset class, particularly given it has recently become more defensive from a credit-risk perspective and declining duration.

Both our credit and sustainability analysts had a fruitful year, with many engagement successes. As well as providing crucial portfolio positioning insight, the team supporting the Strategy drove 379 engagement actions in FY 2025.

Figure 6. The SDG Engagement High Yield Credit Strategy versus its benchmark since inception (%)



Rolling year performance (%)

| | 31/12/2024 to 31/12/2025 | 31/12/2023 to 31/12/2024 | 31/12/2022 to 31/12/2023 | 31/12/2021 to 31/12/2022 | 31/12/2020 to 31/12/2021 |
|----------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Strategy | 9.19 | 8.06 | 11.24 | 9.51 | 2.877 |

Source: Federated Hermes as at 31 December 2025. Performance shown is the Federated Hermes Ltd SDG Engagement High Yield Credit Hedged to US\$ strategy. In US\$, gross of fees. Inception date: 30 September 2019. Benchmark: ICE BofAML Global High Yield Constrained Index hedged to US\$. Data is supplemental to the GIPS® report that can be found in the appendix. **Past performance is not a reliable indicator of future returns.** Management fees are not included and will have the effect of reducing performance.

We strongly believe that a wide range of companies in our Strategy have the potential to benefit society and the natural environment. The key challenge they face is the progressive development of clean, future-resilient and more equitable next generation industries and value chains. In short, it is the job of many of these companies to provide the building blocks for economies and essentials for everyday life and employment. Their value chains must be transformed if we are to meet the aims of a cross-section of environmentally and socially focused SDGs.

We have had numerous engagement successes since inception, with many of the Strategy's holdings making meaningful operational and management changes to address key SDG issues such as climate change and social inclusion. However, this cannot always be guaranteed. In those instances where we failed to see the engagement progress we would have liked, we have downgraded their scores and either diluted our holdings or exited completely. In FY 2025, however, there were no downgrades that warranted such a move and so no holdings were sold because of regressing or failed engagements.

⁶ Past performance is not a reliable indicator of future returns. Management fees are not included and will have the effect of reducing performance.

⁷ US President Donald Trump announced a broad package of import duties on 2 April 2025 – a date he called ‘Liberation Day’.

Engagement review



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Brittany Bell
Sustainability Investment Analyst

2025 was a milestone year for the UN SDGs as it marked ten years since world leaders agreed the 2030 Agenda for Sustainable Development.¹⁰ For the many achievements outlined in the Sustainable Development Goals Report 2025, the message remained consistent with recent years – an urgent call for greater international cooperation and sustained investment to ensure the goals remain in reach.¹¹ Far from being a supportive environment for this call, 2025 proved to be a tumultuous year for responsible investment.

An unstable regulatory and geopolitical landscape emerged. Regulations pivoted as the EU scaled back sustainability reporting and due diligence requirements,¹² while the US Securities and Exchange Commission (SEC) introduced tighter rules on ownership disclosures¹³ and paused plans for mandatory greenhouse gas (GHG) emission reporting.¹⁴ Meanwhile, market participants grappled with scattergun global tariffs, as well as executive orders removing funding for climate technologies and diversity, equity and inclusion (DEI) programmes.

About 39% of the Strategy is invested in US companies (versus 60% for the benchmark as at 31 December 2025), so our engagement work must be cognisant of the new environment. In practice, the way we conducted engagement was always on the right side of where the new rules landed, and so, in most cases, this has only caused us to check our calibration. Our engagement has always been about fiduciary duty – we are active investors and active stewards of the capital entrusted to us. Having a proactive dialogue with the companies in which we choose to invest teaches us things that can't be understood by simply listening to earnings calls and reading annual reports. It also allows our voices to be heard by the management teams who are ultimately responsible for the actions that drive the success of the investment.

Our engagement has always been about fiduciary duty – we are active investors and active stewards of the capital entrusted to us.

The first half of the year also saw us change the name of the Fund to adapt to the European Securities and Markets Authority's (ESMA's) new naming rules.¹⁵ Keeping the SDG label would have required the portfolio to adopt additional exclusions, which we decided would have hampered our ability to engage in certain sectors. In particular, we have a handful of highly-selective engagements with companies producing or transporting gas that would have had to be sold if the Paris-Aligned benchmark exclusions were adopted. We are cautious about engaging here and have always been meaningfully underweight in the sector. However, even under the International Energy Association's (IEA's) net-zero scenario there is a small amount of gas remaining in 2050. Our approach is to select the producers that we believe will survive that transition.

The new Fund name reflects our primary focus – engagement. Despite the removal of 'SDG' from the name, we still see the SDGs as the best framework for articulating and framing the potential contribution of each company to solving the world's most pressing challenges. The World Benchmarking Alliance maintains a list of the most influential companies from around the world that hold the key to achieving the SDGs. The SDG2000 list comprises companies which collectively generate US\$36.5tn in revenue and employ 97 million people across 85 countries. Of the 136 issuers held in the Strategy, 65 are named in the SDG2000 list. On all six of the applicable benchmarks, the companies held in the Strategy score above average (Figure 7).

⁸ CFA UK Level 4 Certificate in Climate and Investing.

⁹ CFA UK Level 4 Certificate in ESG Investing.

¹⁰ [Transforming our world: the 2030 Agenda for Sustainable Development](#) | Department of Economic and Social Affairs.

¹¹ Source: Sustainable Development Goals Report 2025, United Nations.

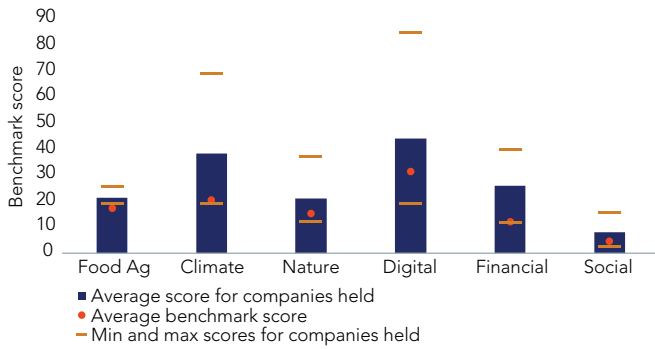
¹² Source: EU Parliament Approves Omnibus Agreement to Cut Sustainability Reporting and Due Diligence Requirements, ESG Today.

¹³ Source: Exchange Act Sections 13(d) and 13(g) and Regulation 13D-G Beneficial Ownership Reporting, U.S. Securities and Exchange Commission.

¹⁴ Source: SEC Votes to End Defense of Climate Disclosure Rules, U.S. Securities and Exchange Commission.

¹⁵ The SDG Engagement High Yield Credit Fund changed its name to the Global High Yield Credit Engagement Fund on 24 April 2025. Federated Hermes Global High Yield Credit Engagement forms part of the SDG Engagement High Yield Credit Strategy.

Figure 7: portfolio holdings named in the SDG2000 list



Source: Federated Hermes the World Benchmarking Alliance, as at 30 June 2025.

Converting potential to realised impacts

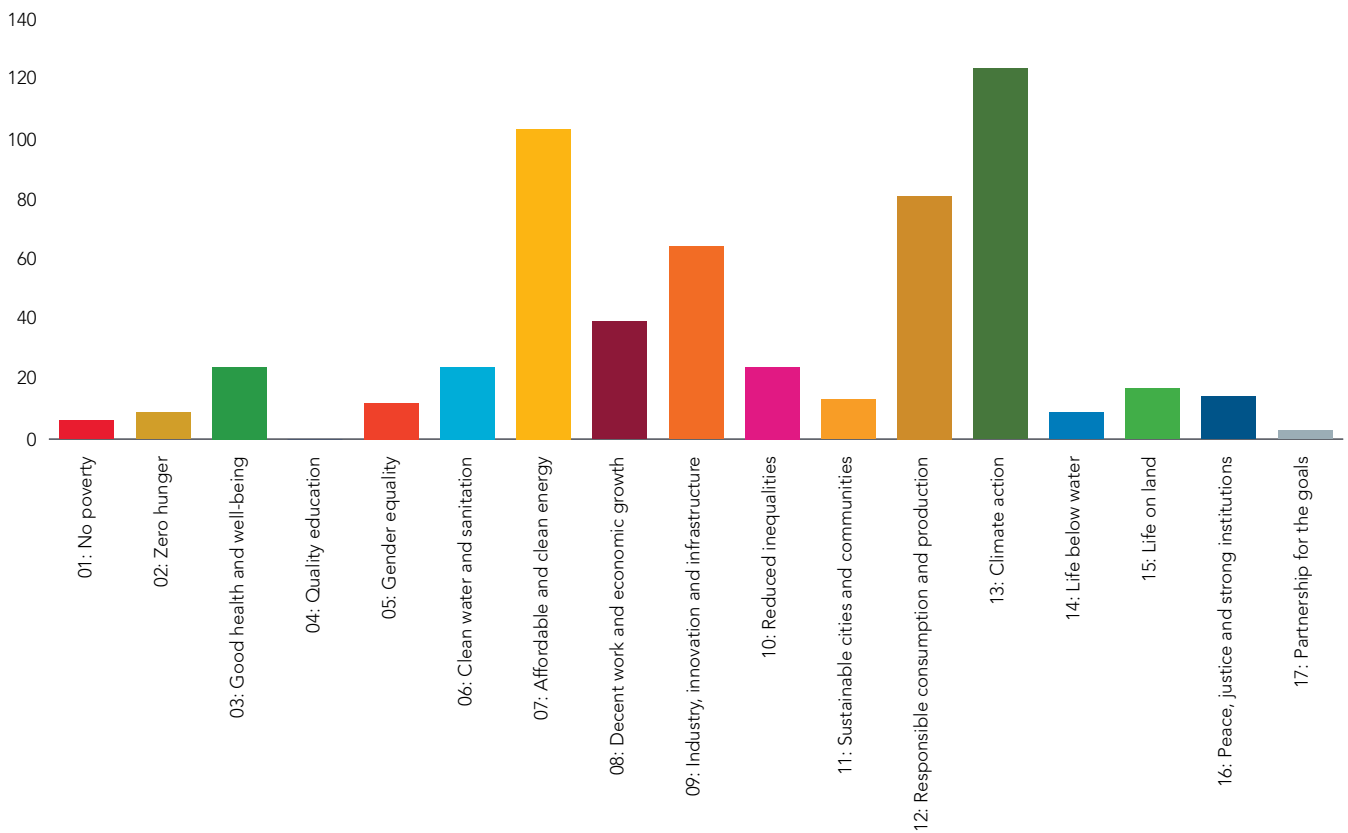
When assessing the potential of a company, we look at the impact that would be achieved through changing a particular aspect of its operations, i.e. the delta of change.

The change we seek becomes an 'objective', and any given company might have multiple engagement objectives running concurrently. Figure 8 shows a breakdown of all the objectives we have running across all companies held in the Strategy.

SDG 13, climate action, was the most prevalent area of engagement in 2025. This is because we consider the transition and physical risks stemming from climate change to be highly relevant for the majority of companies in our portfolio. Since SDG 13.2.2 specifically targets a reduction in GHG emissions, SDG 13 is the tag we add to an objective when we believe that initiatives addressing climate change would produce a meaningful impact on absolute emissions.¹⁶ SDGs 7 and 9 are also particularly relevant to climate-related objectives.

The distribution of SDGs has stayed relatively stable since the inception of the Strategy, with the exception of SDGs 9 and 6, both of which experienced an increase in live objectives in 2025. These increases reflect greater focus on strengthening infrastructure for the energy transition and risks stemming from the changing availability of water.

Figure 8: Number of live objectives per SDG



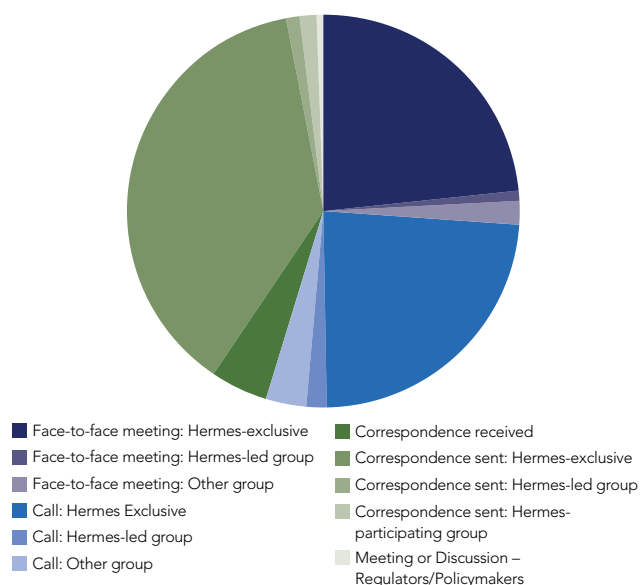
Source: Federated Hermes as of 31 December 2025.

¹⁶ Where the laws and regulations in the relevant jurisdiction permit us to do so.

Activity

One of the ways we measure engagement activity is the total number of interactions we have with companies. This is partly a result of the intensity required by our current objectives, partly how readily we can access a company, and partly how many companies are held. We use all methods of engagement available to us, including face-to-face meetings, writing letters to the board, video calls and working with other investors. Overall, there is a fairly balanced split between verbal and written engagement (Figure 9).

Figure 9: There is a 55:45 split between verbal and written engagement



Source: Federated Hermes as at 31 December 2025.

Measuring success

In the following sections, we report on the changes that have occurred across the portfolio according to the engagement objectives set for each company. To demonstrate our engagement progress in previous reports, we have relied on measures of activity (such as number of engagement meetings) and on measures of qualitative changes occurring at the company (engagement objectives). For the second year, we have included quantitative data on the real-world changes occurring at the companies in which we invest. This approach has its own difficulties. For example, a lack of data, and deciding how to fairly account for progress while separating out the noise from trading decisions and mergers and acquisitions (M&A). We have attempted to break out the changes attributable to companies entering and leaving the portfolio from the actual change in the sustainability performance of the company. All data is from data aggregation platform Net Purpose, using 2024 reporting, which is the most recent year available.

In this report, we reflect on the progress made against the Strategy's sustainability objective to deliver future, positive social and environmental impact that contributes to achieving the UN SDGs. We seek to do this by highlighting examples of progress made in our engagement with our investee companies over the past year, in addition to five-year performance trends across multiple sustainability metrics on a portfolio level.





SDG 7 – Clean energy



SDG 9 – Industry, innovation and infrastructure



SDG 13 – Climate action

120 live objectives

10 completed objectives

21 new objectives

82% objectives engaged

40% objectives with progress

The key goals within SDG 7, 9 and 13:

- 7.1: Ensure universal access to affordable, reliable and modern energy services.
- 7.2: Increase substantially the share of renewable energy in the global energy mix.
- 7.3: Double the global rate of improvement in energy efficiency.
- 7.b: Expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries.
- 9.4: Make industry and infrastructure more sustainable, measured by CO₂ emission per unit of value added.
- 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
- 13.2: Integrate climate change measures into national policies, strategies and planning. For companies, the key indicator is 13.2.2, total greenhouse gas emissions per year.

In line with previous years, the most common engagement objectives were related to SDGs focused on affordable and clean energy, climate change resilience, and indicators related to decarbonisation. Our focus on these topics reflects our view that climate change is increasingly shaping operating environments, regulatory expectations, and capital allocation decisions across the global economy. These shifts create risks and opportunities that are financially material. In our view, companies should respond by developing climate strategies that help protect investor value over the long term.

Real world context

2025 ranked among the three hottest years on record globally, despite the presence of La Niña conditions that would historically have moderated temperatures. This helped intensify severe storms, wildfires, and floods across regions. In the US alone, 23 significant disasters inflicted US\$115bn in damages,¹⁷ led by the record-breaking Los Angeles wildfires – the costliest wildfire event ever recorded at US\$65bn.¹⁸ These escalating losses underscore the mounting financial risks companies face from climate-driven disruptions.

In response, international efforts increasingly emphasised resilience. COP30¹⁹ established a new global framework to measure adaptation progress and tripled funding for adaptation, reflecting a shift toward practical support for vulnerable regions.

Our approach

In 2025, we acknowledged the world has entered a new phase in the climate transition by shifting focus from the setting of climate-related pledges to physical implementation, economic viability, and energy security. Our engagement with companies²⁰ on climate transition plans has involved encouraging greater transparency around capital expenditure to deliver on commitments.²¹ This, in turn, incentivises companies to calculate the green premium of climate-related investments, ensuring fiscal responsibility during the transition.

¹⁷ Source: 2025 in Review: U.S. Billion-Dollar Disasters, Climate Central.

¹⁸ Source: Q3 catastrophe losses hit nine-year low amid mild storm season – Gallagher Re, Insurance Business.

¹⁹ COP30 was the 30th session of the United Nations Climate Change Conference.

²⁰ In jurisdictions where such engagement is in line with local laws and regulations.

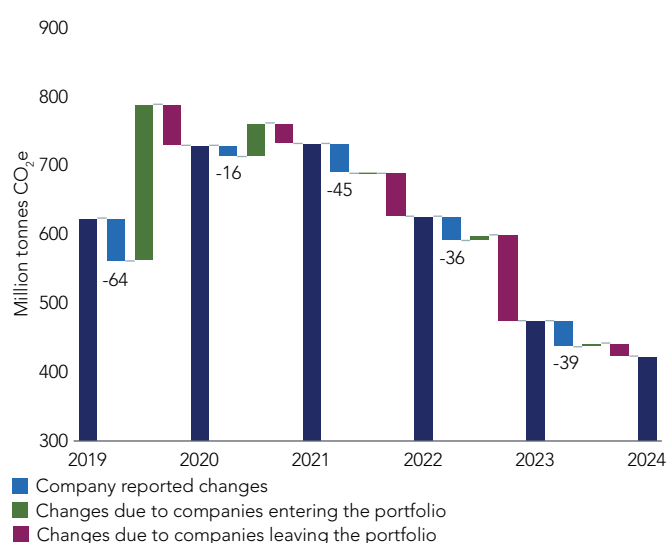
²¹ All engagement in relation to the topic of climate action is subject to careful consideration to ensure that it is aligned to the Strategy's objectives, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients. Engagement objectives are considered and tailored, as appropriate, to the circumstances of each individual company to ensure that they are aligned to each company's interests.

Progress

The like-for-like²² carbon emissions of the portfolio decreased for the fifth year in a row, with a reduction of 8.2% (39 million tCO₂e) between 2023 and 2024.

As expected, this decline was driven primarily by significant Scope 1 and 2²³ emission cuts among holdings in carbon intensive sectors. In the Utilities sector, companies such as AES and Enel continued to rotate their asset base, expanding renewable energy capacity while phasing out coal generation. At the same time, ArcelorMittal's²⁴ leadership in deploying electric arc furnace technology further reduced its operational emissions year-on-year.

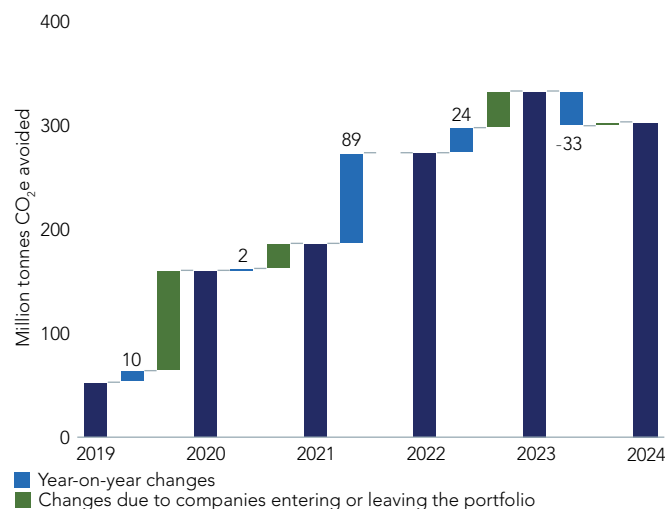
Figure 10: Total Scope 1 and 2 emissions in the portfolio fell by 39 million tonnes (8.2%) year-on-year



Source: Federated Hermes. Based on reported data from 137 companies.

The amount of CO₂e avoided by portfolio companies reduced for the first time in 2024. After reviewing companies held in both 2023 and 2024, we found that part of the decrease was due to some companies discontinuing their reporting of this measure. Spanish telecommunications company Telefónica, which accounted for 37% of the portfolio's avoided CO₂e in 2023, ceased publishing its Connect Living report (which included figures for CO₂e avoided). In addition, companies such as French global automotive supplier Valeo no longer report this metric, further contributing to the overall decline.

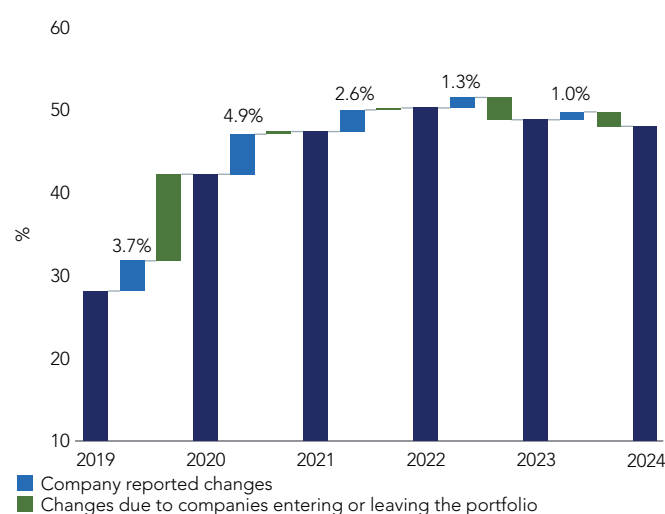
Figure 11: CO₂e avoided by portfolio companies fell by 33 million tonnes year-on-year. This metric is an estimated value of GHG emissions avoided by the company's products and services, measured in carbon dioxide equivalent units (CO₂e). It is calculated by Net Purpose using reported data, scientific evidence and/or a defined theory of change for specific products and services.



Source: Federated Hermes. Based on modelled and reported data for 60 companies.

The use of renewable energy across portfolio companies reflects a wider trend of clean energy adoption across all sectors. Sources such as distributed and grid solar photovoltaic (PV) have become cost-competitive. An example of this is packaging company Sealed Air which increased its percentage of renewable electricity to 74% in 2024 from 14% in 2023.²⁵ Limiting larger gains was the steep drop in UK grocery retailer Marks & Spencer's renewable electricity use to 11% from 94% in the same time period after having this metric assured for the first time.²⁶

Figure 12: The average percentage of renewable energy consumed increased 1 percentage point year-on-year.



Source: Federated Hermes. Based on reported data from 109 companies.

²² As opposed to changes driven by trading decisions.




²³ Scope emissions: Scope 1, Scope 2, and Scope 3 is a classification system for greenhouse gas (GHG) emissions a firm creates through its operations, energy usage, and the wider value chain. • Scope 1 emissions – all direct emissions from the activities of an organisation or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks. • Scope 2 emissions – indirect emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy and eventually used by the organisation. • Scope 3 emissions – all other indirect emissions from activities of the organisation, occurring from sources that they do not own or control. These are usually the greatest share of the carbon footprint, covering emissions associated with business travel, procurement, waste and water.

²⁴ ArcelorMittal is not a US entity.

²⁵ Source: 2024 Global Impact Report, Sealed Air.

²⁶ Source: ESG Report 2024, Marks and Spencer.

Engagement progress

| Company | Engagement objective | Progress update | Status |
|--|--|---|---|
| Alpha Bank  | TCFD-aligned reporting | <p>Alpha Bank's reporting on sustainability, and on climate specifically, has significantly developed over the last few years. When we began engaging the bank on the topic, we raised the prospect of best-practice Task Force on Climate related Financial Disclosures- (TCFD²⁷) aligned reporting and were told it was considering partial alignment in its 2022 report. We were pleased to see the bank eventually publish its first TCFD report that followed all recommended disclosure components. We have engaged with the bank on its reporting during several meetings since then, namely on its risk policies, its financed emissions, and client assessments and engagement. Its most recent TCFD- and Corporate Sustainability Reporting Directive- (CSRD²⁸) aligned report in March 2025 offers more transparency on the impacts, risks, and opportunities of climate change and other environmental topics, across different time horizons. Since the beginning of our engagement, the bank has also provided more information on how it assesses clients on environmental, social, and governance (ESG) within its loan origination process. We continue to encourage the bank to disclose examples of questions in client due diligence, and assessment outcomes broken down on a sector-level.</p> | Objective completed, Q1 2025  |
| Klabin  | Set Scope 3 science-based target | <p>Klabin, a pulp and paper company, procures wood fibres from third parties as well as its own forests. Conscious of the decarbonisation and sequestration opportunities in its value chain, we set an objective in 2021 for the company to develop a strategy to assess its value chain emissions and maximise high-potential carbon sequestering forest stocks, supported by a Scope 3 target validated by the SBTi.²⁹</p> <p>We discussed Klabin's climate strategy and transition plan across two detailed engagements, focusing on Scope 3 emissions transparency and the development of an engagement strategy with suppliers and customers to facilitate decarbonisation.</p> <p>In its 2023 transition plan, Klabin confirmed it had submitted new, 1.5°C-aligned targets to the SBTi in July 2023, including an absolute Scope 3 target for the first time. The report also expanded Scope 3 disclosures to include emissions from processing (category 10) and end-of-life treatment (category 12) of sold products.</p> <p>In Q1 2025, the company received SBTi validation for its new reduction targets, covering Scope 1, 2 and 3 emissions as well as a new net zero by 2050 target, completing our objective.</p> | Objective completed, Q1 2025  |
| Veolia  | Net zero strategy | <p>2023 marked the start of an intensive engagement between Veolia (a waste, energy and water utility) and members of the Net Zero Engagement Initiative (NZEI).³⁰ This culminated with the publication of a joint statement in June 2025 that recognised the mutually-beneficial engagement relationship.³¹</p> <p>As a member of NZEI, we sent a letter to Veolia in March 2023, seeking confirmation of the management of climate-related financial risks and transition planning and asked to discuss the company's alignment with the Paris Agreement. A highly active two-year engagement combining numerous closed group discussion with NZEI followed, with meetings at Veolia's headquarters and email exchanges. The company presented its draft strategy to the investor group so feedback could be incorporated prior to finalisation.</p> <p>In February 2024, Veolia published its net zero strategy. The final document is a comprehensive plan addressing major sources of emissions with key levers for reduction trajectories in addition to disclosures on coal exposure in central and eastern Europe and China. These additional elements helped the strategy meet all key asks of the investor group. Since publication, the targets have been validated by SBTi and the strategy has been assessed by ratings agency Moody's under its transition plan methodology.</p> | Objective completed, Q2 2025  |
| Nexans  | Climate-related investment and disclosures | <p>Nexans' significant carbon footprint exposes it to physical and transition risks related to climate change. To help mitigate these risks, we set an objective for the company to develop its strategy and disclosures to identify the key sources of GHG emissions, in order to address and disclose financial commitments underpinning its decarbonisation strategy.</p> <p>We have engaged with the company numerous times on its climate strategy. We outlined areas where Nexans can provide additional information in its annual report. This included improving transparency around its most material Scope 3 GHG emissions and its financial commitments to addressing such emissions. The company agreed to consider this feedback.</p> <p>We were pleased to find that the 2024 capital markets day report included a comprehensive slide deck that outlined capital allocation priorities for Nexans' '2028 Ambition' strategy, including capital expenditure figures dedicated to initiatives that would help reduce Scope 3 emissions. This was followed by the company's 2024 universal registration document, published in Q1 2025, which incorporated our feedback by explaining the significance of GHG emissions related to the Joule effect³² and key initiatives to help reduce these emissions. Initiatives such as investments in copper recycling infrastructure, connections with offshore wind power, and its research and development budget for low carbon projects were also supported by clear financial commitments.</p> <p>These additions indicate a more developed strategy to address major sources of GHG emissions, helping the company mitigate potential financial risks associated with climate change, which, in turn, should protect and improve long-term shareholder value.</p> | Objective completed, Q2 2025  |

²⁷ The Financial Stability Board (FSB) created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to improve and increase reporting of climate-related financial information.

²⁸ The Corporate Sustainability Reporting Directive (CSRD) requires companies to report on the impact of corporate activities on the environment and society and requires the audit of reported information.

²⁹ Established in 2015, the Science Based Targets initiative (SBTi) is designed to help companies to set greenhouse gas (GHG) emission reduction targets in line with climate science. The initiative defines and promotes best practices in emissions reductions and includes a team of experts to provide companies with independent assessment and validation of their targets.

³⁰ The Net Zero Engagement initiative (NZEI) is an investor-led initiative aimed at helping members align more of their individual investment portfolios with a net zero pathway using corporate engagement. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

³¹ Source: The Net Zero Engagement Initiative and Veolia, Veolia.

³² The Joule effect is the physical phenomenon where the flow of electric current through a conductor with resistance produces heat.



SDG 6 – Clean water and sanitation and SDG 12 – Responsible consumption and production

105 live objectives

7 completed objectives

28 new objectives

75% objectives engaged

49% objectives with progress

The key goals within SDG 6 and SDG 12:

- 6.3: Improve water quality by reducing pollution and minimising release of hazardous chemicals and materials.
- 6.4: By 2030, substantially increase water-use efficiency across all sectors.
- 12.2: Achieve the sustainable management and efficient use of natural resources.
- 12.4: Achieve the environmentally-sound management of chemicals and all wastes throughout their life cycle.
- 12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse.
- 12.6: Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.

Targets and indicators in SDG 12 are among the most material for our strategy – and for impact from companies. The building blocks of SDG 12 – such as efficient and sustainable use of resources, sustainable waste management and sound use of chemicals – are relevant to companies across industrial value chains exposed to primary materials. SDG 12.6 even targets corporate sustainability reporting, a driver of engagement efforts to ‘surface’ quantified sustainability information. This year, we include SDG 6 alongside SDG 12, after increasing our number of objectives addressing water-related risks.

Real world context

Supply chain imbalances can cause sharp shocks to companies, particularly those involved in manufacturing physical goods. In 2025, copper prices reached record highs as supply failed to keep up with demand from data centres

and energy infrastructure. The significant water footprint of data centres and drought conditions also contributed to the over-withdrawal of water from natural reservoirs leading UN scientists to identify “global water bankruptcy” in 2025.³³ The same report showed drought impacts alone cost an estimated US\$307bn annually.

Meanwhile, nature-related financial risk rose sharply on policy agendas. At the UN Biodiversity Conference (COP16), more than 140 countries reached a landmark agreement to mobilise US\$200bn annually by 2030 to halt and reverse biodiversity loss, representing a major step up in coordinated global action.³⁴

Our approach

Engagement related to SDG 6 expanded beyond an operational focus in 2025, with new objectives aimed at assessing water-related risks throughout value chains, particularly for activities related to water-intensive data centres. Our engagements in support of SDG 12 continue to cover the wide range of indicators within the goal; from addressing gaps in public disclosures to working with companies on developing responsible sourcing and biodiversity strategies. Our engagement on circularity-related topics also remains significant, working with sectors that show high potential for closed-loop strategies such as packaging and homebuilders.

Progress

Between 2023 and 2024, the portfolio’s reduction in water withdrawn or consumed was driven by the efficiency efforts of pulp and paper holdings. Sappi and Smurfit WestRock attributed improved performance to the implementation of efficiency projects across key production sites. Smurfit WestRock reported a 5.8% reduction in the average water intake of its paper and board mills versus 2023.³⁵ The large decrease between 2021 and 2022 was due to the Strategy exiting its position in Petrobras.

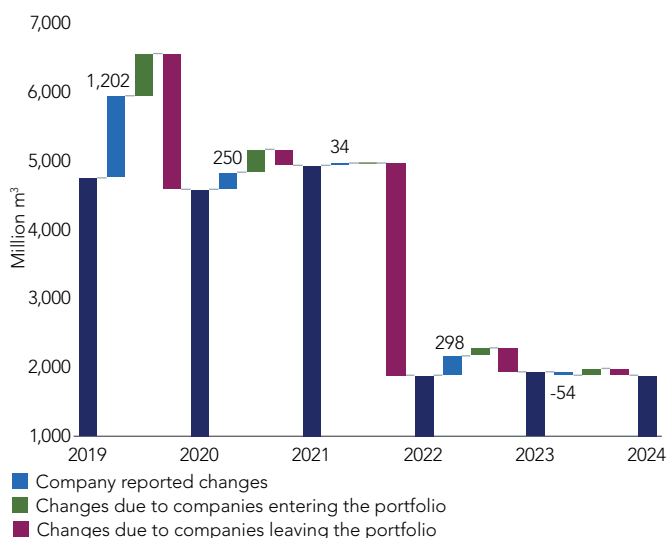
Recycling, reusing and repurposing waste remains a significant focus in our engagements, particularly with the packaging sector. We were pleased to see Ball Corporation increase the share of operational waste recycled or reused to 93% in 2024 from 58% in 2023. Other sectors are developing circularity solutions, with utilities like EDP SA partnering with SOLARCYCLE to recycle solar panels. This contributed to the company increasing its recycling rate by 36 percentage points between 2023 and 2024.

³³ Source: Global Water Bankruptcy report, United Nations University.

³⁴ Source: Global biodiversity agreement mobilises \$200 billion boost for nature, United Nations.

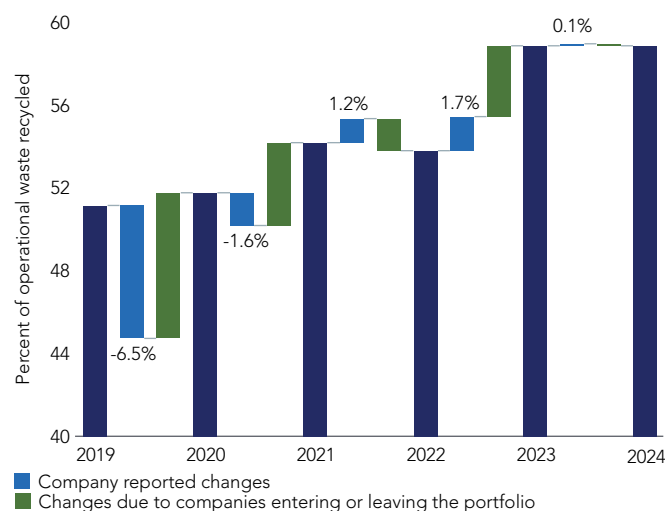
³⁵ Source: Sustainability Report 2024, Smurfit Westrock.

Figure 13: Total water withdrawn or consumed (million m³) decreased 54 million m³ (2.8%) year-on-year



Source: Federated Hermes. Based on reported data from 112 companies.

Figure 14: Operational waste recycling rate rose by 0.1%pt year-on-year



Source: Federated Hermes. Based on reported data from 78 companies.

Engagement progress

| Company | Engagement objective | Progress update | Status |
|--|---|---|--|
| Nemak 12 | Circularity strategy | <p>Greater adoption of recycled metals in production helps a company to reduce exposure to financially material risks upstream. These include human rights risks and carbon-related costs from the mining sector. It also brings savings, with recycled aluminium requiring 95.5% less energy to process.³⁶</p> <p>To capitalise on these benefits, we set an objective in Q3 2024 for Nemak, an automotive parts maker, to disclose regional and global recycling strategies supported by data and engagement with the recycling ecosystem.</p> <p>So far, we have had two engagements on the topic of circularity where we shared feedback highlighting the opportunity to measure and improve its use of recycled aluminium. The company acknowledged the benefits of increasing its percentage of scrap aluminium in production, confirming this was an area of focus.</p> <p>In Q2 2025, Nemak progressed to milestone 3 after publishing its 2024 annual report which introduced circularity targets and initiatives to increase its use of recycled aluminium. Data is also provided on the amounts of recycled aluminium used in production, clearly detailing the company's significant use of recycled materials.</p> <p>To complete the objective, we will work with the company on developing its engagement with public and private partners to increase the supply of scrap aluminium.</p> | Milestone 3 completed Q2 2025. Engagement ongoing |
| SIG Group 6 | Water management disclosure & targets | <p>As a global manufacturer of aseptic packaging, SIG depends on pulp and paper suppliers upstream and beverage producers downstream, making responsible water management an important aspect of its product lifecycle. We have engaged with SIG since 2020 on circular economy and resource-management issues, and after reviewing its disclosures, we identified an opportunity to strengthen water-related reporting.</p> <p>In a 2022 engagement, SIG confirmed it measures the water efficiency of its filling machines and monitors supplier water use. We encouraged the company to report this data and consider a water-related target, or alternatively explain why water risks were not material.</p> <p>SIG subsequently identified water as a material risk for the first time in its 2023 annual report and announced that a water key performance indicator (KPI) was in development. In its 2024 annual report (published in 2025), SIG introduced a target to reduce the water intensity of its filling machines by 25% by 2025 compared with the previous generation. It also disclosed that both operational and supplier water footprints are assessed using the WWF Water Risk Filter. Based on this analysis and its low water withdrawal and discharge volumes, SIG concluded that water risks are not material. We are satisfied with the improved transparency and will now shift engagement priorities to other topics.</p> | Objective completed, Q1 2025 |
| Marks & Spencer ³⁷ 12 15 | Zero deforestation, conversion and biodiversity loss commitments and strategy | <p>Marks & Spencer, a UK grocery retailer, has a target for zero deforestation, zero conversion and biodiversity loss. In response to this, we set an objective to ensure these commitments were underpinned by stronger supply chain traceability and procurement visibility. Engagement began in Q2 2023, focused on improving palm oil and soy sourcing practices and related disclosures.</p> <p>Since then, the company has made strong progress. In 2023/24, the company strengthened its animal feed policy, requiring suppliers to implement deforestation and conversion-free soy action plans by 2025. In 2024/25, it completed a full raw materials risk assessment to refine sourcing priorities.</p> <p>The year 2024/2025 also showed notable progress. Segregated Roundtable on Sustainable Palm Oil (RSPO) certified palm oil reached 99%, and soy from physically certified deforestation and conversion free supply chains rose to 83% from 39% two years prior. Across other value chains, recycled polyester increased to 91%; certified leather reached 96%; 99% of cocoa for own brand products came from sustainability schemes; and 100% of clothing cotton was organic or recycled.³⁸</p> <p>Given this momentum, we expect the company to meet its targets and continue advancing traceability beyond 2025, hence the completion of this objective.</p> | Objective completed, Q2 2025 |

³⁶ International Aluminium Institute.

³⁷ Marks & Spencer was sold and exited the portfolio during 2025.

³⁸ Source: Marks & Spencer Group.



SDG 5 – Gender Equality and SDG 10 – Reduced Inequality

36 live objectives
3 completed objectives
6 new objectives
53% objectives engaged
50% objectives with progress

Key goals within SDG 5 and 10:

- 5.1: End all forms of discrimination against all women and girls everywhere.
- 5.5: Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
- 10.1: Progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average.
- 10.2: Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

SDG 5 and SDG 10 indicators focus on eliminating discrimination, promoting equal participation, and empowering the inclusion of under-represented groups across economic and public life. Companies that actively prevent discrimination (SDG 5.1), ensure equal access to leadership opportunities for women (SDG 5.5), and support the economic advancement and inclusion of marginalised groups (SDG 10.1 and 10.2) benefit from broader talent pools, improved workforce morale, and reduce the risk of losing social licenses to operate where there is direct impact with local communities. We also recognise that diverse leadership teams are better equipped to drive innovation and enhance competitive positioning which, in turn, can lead to productivity gains, reduced turnover, lower reputational risks, and ultimately improved long-term financial performance.

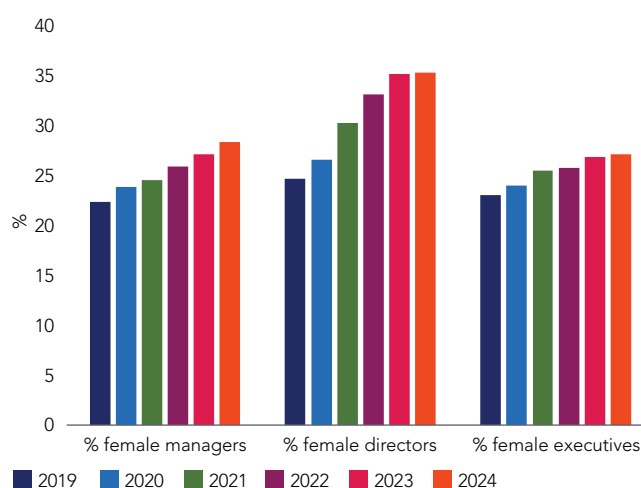
Real world context

Questions around hiring practices link directly to multiple SDGs. SDG 10 features direct targets and indicators on closing inequality gaps and ending discrimination. SDG 5 focuses specifically on gender equality. In our engagement, we focus on how companies can positively impact inequality gaps within workforces and management teams; how they influence this in supply chains; and how more cognitively-diverse boards can provide robust oversight with broader skillsets and points of view. Companies, through workforces comprising hundreds or thousands of employees, directly act on social inequalities in the way they recruit, manage, develop and retain human capital, even if barriers can often remain at the national level.

Our approach

Our conversations with companies on questions of social equality aim to ensure that they not only treat their employees fairly but also capitalise on the many opportunities associated with having a heterogenous workforce.³⁹ A recent study by consultancy McKinsey found that companies that are in the top quartile in the heterogeneity of their workforce were 39% more likely to achieve financial outperformance.⁴⁰

Figure 15: The average female representation at the senior levels of companies has increased each year since inception











Source: Federated Hermes.
 % female managers based on 101 companies.
 % female directors based on 143 companies.
 % female executives based on 144 companies.

³⁹ All engagement in relation to the topic of gender equality is subject to careful consideration to ensure that it is aligned to the Strategy’s objectives, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients. Engagement objectives are considered and tailored, as appropriate, to the circumstances of each individual company to ensure that they are aligned to each company’s interests.

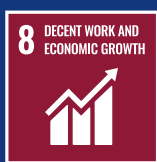
⁴⁰ ‘Why Diversity Matters Even More’, published by McKinsey in 2023.

Engagement progress

| Company | Engagement objective | Progress update | Status |
|---|------------------------------------|---|--|
| Forvia  | Executive team gender diversity | <p>When we set this objective in 2022 for automotive parts manufacturer Forvia, gender diversity at board level was 40%. However, at executive level it was only 8%, with one woman present. Our objective was for the company to increase gender diversity on the executive team to at least 20%. We first raised the issue in a meeting with the chair of the board who agreed with our concern. The company had a good programme for equalising its hiring practices, including an annual goal for the proportion of women in top 300 positions and another target for management and professional (M&P) staff. It was concerned with the pipeline of suitable candidates but had initiatives in place to help address this. Another woman joined the executive team in 2024 bringing the total to 18% which was slightly short of our expectations. Following the company's merger with Hella, there had been material changes in the executive team as part of the consolidation of staff and business units. As of Q2 2025, the company had reached 20%, with three women on its 15-person executive team, allowing us to complete this objective.</p> | Objective completed, Q2 2025  |
| Telefónica   | Board diversity | <p>Our dialogue on board gender diversity with Spanish telecommunications company, Telefónica, began back in 2017, when women accounted for just 18% of the company's board. An in-person meeting at the company's Madrid headquarters in 2018 allowed us to discuss the steps being taken to improve diversity both at board level and across the wider organisation. Progress remained limited, however. We asked the company to develop a credible plan to increase female representation on the supervisory board. Our objective for the company was to refresh the board and improve board diversity, particularly gender diversity. Over the following years, we met regularly with company representatives and subject matter experts to monitor progress. This sustained engagement saw meaningful improvements: female board representation rose to 29% in 2019, 33% in 2021, and reached 40% by December 2023. Despite board changes in 2025, including the appointment of a new lead independent director, the company has successfully maintained 40% female representation for two years, signalling a sustained commitment to board diversity. This has allowed us to complete this objective.</p> | Objective completed, Q4 2025  |
| Arcelor Mittal   | Human rights policy implementation | <p>SDG indicator 10.2 promotes the inclusion of all by ensuring non-discrimination, meaningful participation, and respect for the rights of marginalised groups. As a major steel and mining company with a global footprint, Arcelor Mittal has activities with direct impacts on local communities, and Indigenous Peoples, making human rights management a material financial, operational, and reputational risk.</p> <p>Since 2023, we have engaged the company on its approach to human rights by recommending the inclusion of FPIC⁴¹ and alignment with UNDRIP⁴² in its human rights policy. The company's new human rights policy, published in 2024, was an improvement.</p> <p>In a meeting in late 2024, the company acknowledged the need to improve external benchmark scores and showed progress through a newly launched grievance policy and training of 40 grievance officers. Throughout 2025, we continued encouraging evidence of implementation, asking the company to expand disclosures – such as KPIs on grievances and stakeholder engagement – and to strengthen its external engagement programme, which it would consider. As of Q3 2025, the company launched a new strategic stakeholder engagement procedure with further social related procedures planned for 2026, which we will continue to engage on.</p> | Milestone 3 completed Q3 2025. Engagement ongoing.  |

⁴¹ Free, Prior, and Informed Consent.

⁴² UN's Declaration on the Rights of Indigenous Peoples.



SDG 8 – Decent work

39 live objectives

1 completed objectives

11 new objectives

66% objectives engaged

49% objectives with progress

Key goals within SDG 8:

- 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small and medium-sized enterprises, including through access to financial services.
- 8.7: Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers
- 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.
- 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

The indicators of SDG 8 aim to deliver decent job creation and safe and fairly-compensated working conditions. We recognise human capital-related risks both in operations and upstream of companies as financially material. For example, companies that prioritise health and safety, pay equity and invest in their employees stand to benefit from employee retention, reduced recruitment costs, reduced litigation and reputational damage, and a more secure workforce.

Real world context

In May 2025, the UK Supreme Court ruled that claims against Dyson over alleged forced labour, human trafficking, and abusive working conditions at supplier factories in Malaysia could proceed in the UK.⁴³ This high profile decision brought international attention to the accountability of multinational companies for human rights abuses deep within their supply chains.

Additionally, 2025 brought more cases of companies who, when found to have safety oversight gaps following workplace accidents, faced prolonged litigation, brand damage and fines.⁴⁴ This underscores the potential human and financial costs of health and safety shortfalls.

Our approach

The majority of objectives introduced in 2025 aim to mitigate human rights risks in supply chains. We execute these objectives by working with companies to map supply chains to identify areas of high risk and introduce regular, independent auditing. To address concerns around health and safety, we set objectives for portfolio companies to develop strategies that encourage a culture of zero harm and introduce consistent safety standards across operations.

Progress

With health and safety prioritised as an engagement topic for heavy industries, we were pleased to see the reduction in the portfolio's lost time injury frequency rate (LTIFR)⁴⁵ by 0.15, with notable improvements from oil and gas producer EQT Corp and automotive parts manufacturer Schaeffler. EQT credited the automation of functions across its drilling and hydraulic fracturing operations with improving its safety,⁴⁶ while Schaeffler's integration of a health and safety target tied to executive compensation in 2018 incentivised a strong culture of safety.⁴⁷

A common theme between Graphic Packaging and Grifols, who led the portfolio in reducing employee turnover rate, was investment in creating inclusive work environments through employee engagement, training programmes and employee resource groups (ERGs).

⁴³ Source: Dyson Forced Labour Case Proceeds to Trial: Key Lessons on Compliance in Global Supply Chains, K&L Gates LLP.

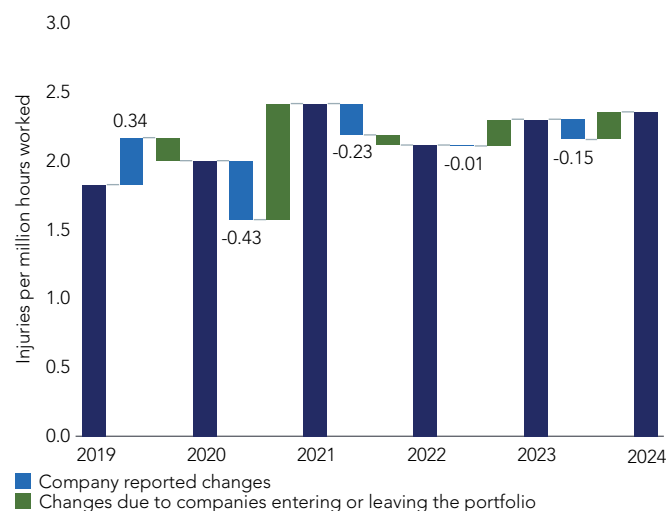
⁴⁴ The largest OSHA fine issued in 2025 was \$1.2m to Sound Construction Inc. for repeated hazards that were previously flagged, National Association of Safety Professionals.

⁴⁵ Lost Time Injury Frequency Rate.

⁴⁶ Source: 2024 ESG Report, EQT Corp.

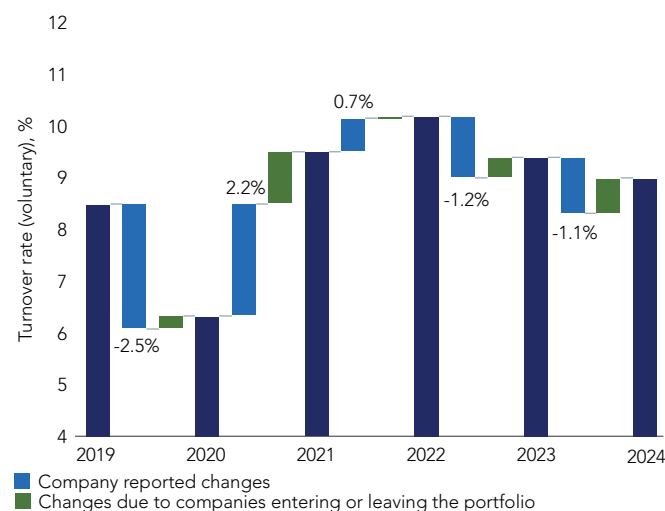
⁴⁷ Source: Annual Report 2024, Schaeffler.

Figure 16: Lost Time Injury Frequency Rate (LTIFR) fell 0.15 year-on-year



Source: Federated Hermes. Based on reported data from 81 companies.

Figure 17: Voluntary turnover decreased 1.1 percentage points year-on-year



Source: Federated Hermes. Based on reported data from 57 companies.

Engagement progress

| Company | Engagement objective | Progress update | Status |
|---|------------------------------------|---|---|
| Nokia 8 | Reduce the number of fatalities | <p>We initiated a new engagement objective with Nokia (telecommunications equipment producer) on safety in 2025. In 2014, it recorded eight subcontractor fatalities, which we view as a serious weakness in its supply chain oversight. Our objective is for the company to significantly improve its performance. A company's safety performance is a marker of operational excellence. If workers are being injured, this is often a sign of poor training, culture, a lack of oversight and inadequate investment in human capital. In addition, workers (including contractors and subcontractors) have the right to a safe working environment where all reasonable measures have been taken to mitigate dangers. We discussed this issue with the company three times in 2025. So far, it has provided a comprehensive overview of its safety programme. It is important to note its data includes all fatalities which occurred due to Nokia's activities, including subcontractors and members of the public. Very few companies provide this level of detail. We will continue to engage on this topic until the fatality rate has reduced.</p> | Milestone 2 completed Q2 2025. Engagement ongoing. |
| Fresenius Medical Care 1 8 10 | Living wages and decent employment | <p>In 2023, we observed a rise in voluntary employee turnover at Fresenius Medical Care (a provider of dialysis treatment). It is our view that introducing living wage accreditation and fair pay policies, particularly in the US where it receives 70% of its revenues, will contribute towards improved retention and reduce related costs.</p> <p>In late 2023, we set an objective for the company to adopt these policies and shared our concern, noting that guaranteeing a living wage could help position Fresenius Medical Care as an employer of choice. The company acknowledged this and said it would consider our feedback along with other initiatives already underway, including reducing reliance on temporary contracts and improving training.</p> <p>In 2025, the company published its 2024 sustainability statement and reported a second consecutive annual decline in voluntary turnover, supported by full transparency on the percentage of employees receiving a living wage. 99.96% of employees were paid a living wage based on benchmark data from the Wage-Indicator Foundation. The company also confirmed that living wages are considered when designing employee compensation packages. This additional transparency brought the company in line with our expectations, completing this objective.</p> | Objective completed, Q4 2025. |
| Netflix 5 8 | Pay gap reporting | <p>In our view, a well-structured and calibrated pay strategy may support talent attraction and retention, enabling conditions for innovation and converting talent stability into R&D productivity and IP creation.</p> <p>We raised the importance of robust pay gap analysis in a meeting with the company in March 2023, noting our preference for disclosure of both adjusted and unadjusted figures. The company acknowledged this and confirmed its intention to expand disclosure in the future. The company's sustainability report, published in 2024, included new data on global and local pay gap analysis for its workforce composition in line with all applicable laws and regulations. The data indicated strong pay parity across these demographics. However, we noted the company had only published adjusted data.</p> <p>In 2025, the company published its 2024 sustainability report, including both adjusted and unadjusted pay gap data for its global workforce in line with UK-style pay gap reporting and for its US workforce in line with applicable local laws and regulations, including California's Equal Pay Act.</p> | Objective completed, Q3 2025. |

⁴⁷ Netflix was sold and exited the portfolio during 2025, however, the engagement continued after this point.

Spotlight: An underappreciated SDG



3 GOOD HEALTH AND WELL-BEING



Our spotlight feature falls outside of our top SDGs in terms of engagement figures but is no less important:

SDG 3 Good Health and Well-Being. It is an SDG which drives much of our engagement with healthcare companies and one that is extremely topical for investors in the face of developments in 2025: rising healthcare costs, policy shifts, and growing health insurance premiums.

When engaging with healthcare companies on health and well-being, our focus has primarily been on access and affordability. But we also prioritise the well-being of their own workforce. The main indicators used are:

- **SDG 3.4:** By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being.
- **SDG 3.8:** Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

Case study: Fresenius Medical Care

Background

Fresenius Medical Care engages in the provision of products and services for patients with chronic kidney failure. This is achieved predominantly through its care delivery segment which provides dialysis services and accounted for 78% of revenues in 2024. It also develops and manufactures a variety of health care products, including dialysis-related and non-dialysis products.

Theory of change

We recognise that access and affordability of healthcare products and services is fundamental in many ways. First, it reduces operational risk for healthcare companies whose business performance greatly depends on patient access. It also alleviates the pressures of rising costs that causes patients to delay or forgo essential care. In turn, it can enable wider positive societal outcomes and reduce the risk of worsening long term system costs, highlighting the interlink between SDG 3 with other goals; namely SDG 1 on ending poverty and SDG 10 on reducing inequalities.

Dialysis treatment is a necessary but expensive solution to kidney disease. While people with adequate insurance coverage or protected by national healthcare schemes can manage the cost, financially vulnerable people can struggle to afford it. An issue the company – and wider healthcare system particularly in the US – can address, is the incentive for companies to charge patients not protected by national healthcare schemes excessive fees, untethered from the true cost of care.

Better mental health across the workforce can result in improved productivity, lower absenteeism and staff turnover, all of which are positive for revenue and costs.

At the same time, we recognise that employees in the healthcare industry face particularly stressful scenarios and are often required to work long hours. The UN has defined mental health as a priority for global development. It is therefore important for employers to look after the wellbeing of their employees with mental health initiatives that offer necessary support. Better mental health across the workforce can result in improved productivity, lower absenteeism and staff turnover, all of which are positive for revenue and costs. We have an objective for the company to develop and implement a mental health strategy, which contributes to SDG 3 but also SDG 8 on decent work and economic growth.


Engagement

In early 2025, we attended an investor roadshow meeting with the chief executive and head of investor relations and took the opportunity to ask the company about its policy advocacy efforts. We cited the headline risk for healthcare providers from insurers shifting the financial burden onto patients. The company agreed that it was a risk to consider and something that it is communicating to the US government through its associations such as the American Kidney Foundation. We highlighted the incentive for healthcare companies to charge patients without insurance coverage excessive amounts and asked how Fresenius Medical Care controls for this. The company is trying to shift the industry to more cost-effective treatments with a lower mortality rate through its recent introduction of Haemodialysis Filtration (HDF) devices to the US market, which is an ongoing conversation with the current administration.

We had a separate meeting with the company to further discuss the topic of access and affordability. We asked why the number of home-based dialysis treatments has remained steady despite the treatment costing less to perform given the lack of facility fee and staff required. The company shared a number of barriers to increasing this treatment: treatment at clinics is suitable for older, less-independent patients; additional training is required for its staff to deliver this type of care; and space is required for treatment at home which not all patients have. The company is looking at ways to address these barriers to achieve its 2027 goal of 25% of treatments being home dialysis.

We discussed cost controls with the company again, noting headline risk related to the excessive costs received by uninsured patients in the past, and asked if patients receive financial assistance to receive cost-effective solutions. We were pleased to learn the company has social workers at clinics for the financially vulnerable and pays a third party to educate patients about receiving coverage ahead of treatment.

The discussion ended on the topic of mental health. We highlighted that it did not feature in the company's annual sustainability report, and asked whether the company had any initiatives in place designed to support employees' mental health. The company acknowledged our concerns and said that mental health policies were in place at a local level and that it was planning to deliver on a centralised approach. We will continue to work with the company on the implementation of a global strategy, ensuring that a consistent standard of care is provided across the business.



The above does not represent all of the securities held in the portfolio and it should not be assumed that the above securities were or will be profitable. This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

Appendix: GIPs performance data

Schedule of Rates of Return and Statistics

Composite: **Federated Hermes SDG Engagement High Yield Credit Hedged to USD**

Index: **ICE BofA Global High Yield Constrained (USD Hdgd)**

Periods ending: **31 December 2025**

| | Returns (%) | | |
|--|------------------------|-----------|----------------------|
| | Composite Gross Return | Benchmark | Composite Net Return |
| Q4 25 | 1.71 | 1.27 | 1.56 |
| 1 Year | 9.19 | 8.45 | 8.52 |
| 3 Years (Annlzd) | 9.49 | 10.20 | 8.79 |
| 5 Years (Annlzd) | 4.08 | 4.09 | 3.42 |
| Oct-19 – Dec-25 (Annlzd) ^{^^} | 5.19 | 4.78 | 4.51 |

| Year | Annual Returns (%) | | | | | | | | | |
|------|------------------------|----------------------|------------------|------------------------|------------------------|------------------|--------------|----------------------------|-----------------------|--|
| | Composite Gross Return | Composite Net Return | Benchmark Return | *Composite 3-Yr St Dev | *Benchmark 3-Yr St Dev | No of Portfolios | **Dispersion | Composite Assets (Million) | Firm Assets (billion) | |
| 2019 | 4.04 | 3.87 | 2.90 | N/A | N/A | <5 | N/A | 276.3 | 40.2 | |
| 2020 | 7.94 | 7.23 | 6.48 | N/A | N/A | <5 | N/A | 680.6 | 585.7 | |
| 2021 | 2.87 | 2.20 | 3.04 | N/A | N/A | <5 | N/A | 1,855.3 | 634.2 | |
| 2022 | (9.51) | (10.10) | (11.38) | 12.00 | 11.19 | <5 | N/A | 918.0 | 627.4 | |
| 2023 | 11.24 | 10.52 | 12.97 | 8.63 | 7.81 | <5 | N/A | 1,369.8 | 720.0 | |
| 2024 | 8.06 | 7.35 | 9.24 | 8.73 | 7.91 | <5 | N/A | 1,246.5 | 792.2 | |
| 2025 | 9.19 | 8.52 | 8.45 | 4.53 | 4.17 | <5 | N/A | 1,167.10 | 860.5 | |

^{^^}Represents composite inception period. See below for additional notes to the schedule of rates of return and statistics.

*Represents the 3-year annualized standard deviation for both the gross composite and the index returns. Statistic is used to measure the volatility of composite returns.

**Standard deviation is calculated using gross returns. Standard deviation is not applicable (N/A) for any period if fewer than five accounts are in the composite for that period.

The composite includes all discretionary portfolios following the SDG Engagement Global High Yield Credit Hedged to USD strategy run by the Federated Hermes Global Credit team (London Office) and has an inception date of 1 October 2019. The objective of the strategy is to exceed the return of the benchmark over a rolling five-year period whilst delivering positive societal impact aligned to the United Nations Sustainable Development Goals ("UN SDGs"). The strategy may invest in a broad range of assets, either directly or through the use of derivatives, (including, but not limited to, equities, equity-related securities, Eligible CIS and/or financial indices, futures, options, swaps, debt, fx and money markets). The strategy through its investments in FDIs may be leveraged. The composite's benchmark is the ICE BofA Global High Yield Constrained Hedged to USD Index, which is designed to measure the debt market performance of global high yield debt. The benchmark contains primarily USD and EUR issues. The Index is rebalanced on the last calendar day of the month and the return is calculated on a total return basis. This composite was created in November 2019. Performance shown for 2019 is for a partial period starting 1 October 2019. 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 0.65% per annum. As of 1 March 2025, the management fee schedule for this strategy is 0.60% 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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