

# Activities & Outcomes Report 2025

April 2026

**Federated  
Hermes**   
Limited

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For professional investors only

## Introduction

**“Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries.”**  
**– UK Stewardship Code 2026, Financial Reporting Council**

Federated Hermes Limited (“FHL”) is an active asset manager and UK-based investment management business within Federated Hermes. We manage assets across a range of strategies and integrate stewardship and responsible investment into our approach, consistent with client objectives and applicable requirements. As at 31 December 2025, our specialist, high-conviction investment teams manage £38.7bn / €44.3bn / \$52.1bn of assets across equities, fixed income, private debt, real estate, infrastructure and private equity.

Through EOS at Federated Hermes Limited (“EOS”), our in-house stewardship service provider, we engage companies on strategic and material sustainability concerns to promote investors’ long-term performance and fiduciary interests. EOS engages on behalf of both FHL and third-party clients. As at 31 December 2025, EOS works on behalf of long-term global investors who entrust us with the stewardship of approximately £1.8tn / €2.0tn / \$2.3tn.

See Section A in our Policy & Context Disclosure for further information on our business, clients and assets under management.

This document forms the Policy and Context Disclosure of Federated Hermes Limited<sup>1</sup> as required by the UK Stewardship Code 2026. This Disclosure provides essential background to our annual Activities and Outcomes Report, which describes our stewardship activities undertaken during the year and their outcomes.

This report also fulfils the entity-level reporting requirements for Federated Hermes Limited – which includes its subsidiaries Hermes Investment Management Limited, Hermes GPE LLP, Hermes Fund Managers Ireland Limited and Hermes Alternative Investment Management Limited (together “FHL Entities” and each an “FHL Entity”) – under Annex C of the EU Shareholder Rights Directive and as required by the FCA Conduct of Business Sourcebook 2.2B.

Those investment portfolios managed by Hermes Fund Managers Ireland Limited (other than those of Federated Hermes Investment Funds plc) where discretionary investment management has been delegated to Federated Investment Counseling and/or Federated Global Investment Management Corp. are not in scope of this report.

For those investment portfolios managed by HFML where discretionary investment management has been delegated to Federated MDTA LLC, engagement insights are not incorporated into the investment process, given their fully quantitative investment approach.

EOS at Federated Hermes Limited will report separately under the Stewardship Code as a service provider.

This Policy and Context Disclosure (and the accompanying annual Activities and Outcomes Report) has been reviewed and approved by the Board of Federated Hermes Limited and is signed on behalf of the Board by Saker Nusseibeh, CBE on 4 April 2026.

<sup>1</sup> For purposes of this document, references to “Federated Hermes Limited”, “FHL”, “our”, “we”, “our firm” and, unless the context indicates otherwise, “firm” include Federated Hermes Limited and its consolidated subsidiaries, other than Hermes Equity Ownership Services Limited. Federated Hermes (UK) LLP is out of scope of this report. Hermes Equity Ownership Services Limited (“EOS at Federated Hermes Limited” or “EOS”) reports separately. The statements, references to officers, practices and policies, and discussions in this report pertain to Federated Hermes Limited, and not to other business engaged in by Federated Hermes, Inc. and its other consolidated subsidiaries. Certain statements in this report constitute forward-looking statements, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results, activities or levels of activity, performance or achievements of FHL to be materially different from any forecast results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

## Contents

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Principle 1	
Stewardship, investment and ESG integration	<b>4</b>
<hr/>	
Principle 2	
Promoting well-functioning markets	<b>19</b>
<hr/>	
Principle 3	
Engagement	<b>38</b>
<hr/>	
Principle 4	
Exercising rights and responsibilities	<b>58</b>
<hr/>	
Principle 6	
Monitoring stewardship service providers	<b>64</b>
<hr/>	
Appendix	<b>65</b>



# Principle 1

Signatories integrate stewardship and investment to deliver long-term sustainable value for their clients and beneficiaries.

## Key themes or issues that are important for our stewardship activities and how we have prioritised them

At FHL, we believe responsible investment requires integration of material E, S and G factors in the investment process alongside material traditional performance factors and active ownership of assets through stewardship. Holding this focus across all of our strategies, while also behaving responsibly as a firm, is integral to delivering enduring, wealth creation, responsibly.

We believe there are four mutually reinforcing strands of being a responsible investment manager: ESG-integrated investments; active ownership and management; advocating in beneficiaries’ interest; and behaving as a responsible business. Together, these aim to generate enduring wealth creation, responsible for the end beneficiary investors, encompassing investment returns and their social and environmental impact.

Figure 1. Creating wealth for investors



Source: FHL, as at 31 December 2025.

Figure 2. Our strategy



Source: FHL, as at 31 December 2025.

Key themes/priorities for engagement (e.g., EOS priority themes) and how we prioritise engagement topics are set out under Principle 3 (and for market-wide/systemic risks under Principle 2).

### Prioritising issues for assessment of investments

Taking an active approach is a central part of our investment proposition. As a result, our portfolio managers are able to take a selective approach by only investing in companies with the necessary characteristics, in the team's opinion, to be successful over the long term. We consider all material investment factors, including those relating to material ESG issues and insights from engagement.

While the most pressing material risks are those that will crystallise in the short term, we are long-term investors that strive to deliver enduring wealth, responsibly for our end investors. This means that our definition of materiality is necessarily wider and takes into account risks that may become material over a longer timeframe. We believe we need to engage proactively to mitigate them.

The key medium- to long-term risks – many of which may also present threats over shorter timescales – that we factor into our investment analysis and engagements include climate change, natural resource scarcity, pollution, human rights, human capital and labour rights, conduct, culture and ethics, corporate governance and strategy, risk and communications. More detail about how we engage on these issues and the outcomes we seek is available under Principle 3.<sup>2</sup>

An E, S or G issue will rarely be the sole or standalone driver behind any investment decision. Instead, material E, S and G factors are integrated into fundamental analysis and inform the teams' investment decision making. The impact on the investment decision will vary depending on the mandate of the fund. For a fund that integrates ESG considerations but is not a thematic fund, the presence of E, S or G risk does not necessarily preclude investment, but rather helps investment teams reach a more holistic view of the risk profile of a company, and the actions needed post-investment to mitigate risk.

Investment teams may also identify opportunities in companies that are improving their sustainability practices, particularly given our strong engagement capabilities. For our funds with a thematic focus and/or our impact funds, the existence of sustainability risks and opportunities and the prospect of creating or increasing positive outcomes will be significant where it is one of the main drivers of investment decisions.

Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, material risks (including E, S and G factors), and the interplay between these elements. Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress – is also a key input into this process and investment decisions at a portfolio and individual asset level.<sup>3</sup> Such engagement is carried out in a co-ordinated manner both by our investment teams and by EOS to maximise the impact of our engagement. These factors influence decisions to invest and are also actively monitored

<sup>2</sup> All engagement is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients.

<sup>3</sup> For those investment portfolios managed by HFML where discretionary investment management has been delegated to Federated MDTA LLC, engagement insights are not incorporated into the investment process, given their fully quantitative investment approach.

after investment, with the potential to influence decisions to sell an asset or increase the size of our investment. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and, where effective, reduce the investment risk and enhance the opportunity from the investment.

The ESG Integration team within the Responsibility Office also works very closely with the investment teams to help identify material E, S and G issues that are specific to the investment manager’s strategy. The ESG Integration team organises sector-level knowledge-share sessions between EOS and the investment teams and also works with the investment teams to develop frameworks which assess the materiality of sustainability risks at the company level. Finally, the ESG Integration team obtains data from third-party providers, which is overlaid in our proprietary tools by insights gleaned from our engagement with companies and is also used by analysts and engagers in their company research and portfolio analysis.<sup>4</sup>

We encourage our fund managers to use their own expert judgement when considering sustainability issues, just as they would with other fundamental investment factors – for example, the strength of a company’s structural competitive position or the quality and depth of management.

In 2025, biodiversity remained a key priority. We continued to assess our exposure to deforestation risk across a range of asset classes in line with our commitments. We also onboarded a new data provider, enhancing our ability to evaluate the nature related impacts and dependencies across our portfolios.

Looking ahead, a major focus for 2026 will be completing the second phase of our Paris alignment methodology. More detailed information on our work related to climate change risks and opportunities, biodiversity, and social issues can be found under Principle 2.

In 2025, EOS identified artificial intelligence (AI) and risk management, in addition to nature and biodiversity, as two rapidly evolving areas to intensify engagement and this will continue into 2026. For more information on their engagement approach, please see Principle 2.

Within our investment teams, we have also prioritised certain topics in certain regions. For instance, the SMID team have been focusing on human capital management, particularly around the mental health of employees in their engagement, and our Global Emerging Markets team has continued their focus on climate and nature.

### How we integrate stewardship and ESG across our products

**A tailored approach with centralised support:** All our investment activity is supported by our Risk team and Responsibility Office, both of which operate and function independently from the investment teams. Regular meetings are held with the investment teams to ensure proper coordination and integration of material E, S and G factors and engagement insights. However, it is the responsibility of our investment teams to effectively integrate material sustainability and engagement information into their investment processes and ultimately our fund managers have discretion on investment decisions. This ensures that material E, S and G factors and engagement insights are fully integrated into investment analysis and decision making.<sup>5</sup>

Figure 3. ESG and engagement integration: leveraging market leading engagement capability to enhance investment performance



Source: FHL, as at 31 December 2025.

<sup>4</sup> Ibid.

<sup>5</sup> For those investment portfolios managed by HFML where discretionary investment management has been delegated to Federated MDTA LLC, engagement insights are not incorporated into the investment process, given their fully quantitative investment approach.

**Developing a holistic view:** Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, risk and material sustainability factors (including from a range of proprietary ESG and engagement tools), and the overlaps between these elements. Insights from engagement with company management, boards, subject specialists and other shareholders and stakeholders – including the extent of engagement progress – is a key input into this process and investment strategy. Such engagement is carried out both by our investment teams and by EOS on their behalf. These factors influence decisions to invest and are also actively monitored after investment, with the potential to influence decisions to increase/decrease our exposure to the asset as well as sell an asset. Where concerns arise in relation to one of our existing investments, engagement is often a means to both raise concerns with the company and seek to reduce the risk.

**Stewardship integration:** Our experience suggests that a systematic engagement approach, combined with tried and tested methods of escalation such as collaboration or shareholder meeting interventions, is needed to accelerate change at companies, such as those failing to prepare for the low-carbon transition.<sup>6</sup> Driving change through engagement is one side of the coin – effective integration of stewardship insights is the other.

The principal objective of stewardship is to maintain or enhance the value of an asset. The beneficial outcomes sought through engagement include those of a governance, strategic, environmental or social nature.

In addition, we believe that investors that integrate sustainability factors should not rely on data alone, as it is often backward looking and updated infrequently. As such, active ownership is an important pillar of our investment approach. Engagements can deliver useful investment insights (although engagers and analysts must always seek to avoid acquiring any inside information). The voting and engagement activities of our stewardship team can promote positive change within companies, unlocking hidden value and also providing a forward-looking view and broader performance that can lead to opportunities.

The investment teams assess and continue to monitor strategy, financials, risk, capital structure and material ESG factors and the overlaps between these elements throughout the life of the holding. This is done through carrying out analysis of company reports, attending analyst meetings and investor presentations, using media sources and third-party research and attending engagement meetings. Each investment team is responsible for looking at the financial performance, risk and capital structure of investee companies. All teams also have access to ESG data and proprietary tools, including engagement information. When a concern is identified, this will inform engagement and investment decisions.



The information we gather through stewardship enables us to develop a more comprehensive view of both the risk and opportunities a company is exposed to and to factor this into valuations and investment decisions. Such assessments are not a one-off but rather form an ongoing feedback loop. Monitoring this information informs our engagements, while engagement insights inform our investment decisions.<sup>7</sup> Our fundamental research benefits from our ongoing dialogue with investees, as well as that between our public markets' investment teams and stewardship team.

We invest time and resources to encourage companies to strengthen their governance, give our views on strategy and encourage companies to take a long-term view, particularly on sustainability issues. The insights we glean from these interactions help us to better understand a company's complex strategic challenges – something that ultimately helps us serve our clients. Research from 2020 confirmed the importance of environmental metrics as a performance indicator, as poorly ranked companies tend to significantly underperform over the long term.<sup>8</sup> This reinforces our aim to generate enduring wealth creation, responsibly for the end beneficiary investor, encompassing both investment returns and their social and environmental impact.

We also consider the environment that an asset is operating in when assessing risks, including sustainability risks. For example, we often find disclosures to be lacking in certain regions or small- and mid-cap companies. These companies are often ranked as poor performing companies from a sustainability perspective however, we recognise not all firms may have the resources to have detailed disclosures but are doing well in managing their sustainability risks and/or investing in the transition. Hence, our approach has always been to overlay any quantitative or third-party research with our own qualitative analysis to take into account what the companies are doing in

<sup>6</sup> Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert, and all of these actions are understood to deliver enduring, responsible value for our clients. Furthermore, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration. In addition, all engagement on the low-carbon transition is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients.

<sup>7</sup> For those investment portfolios managed by HF MIL where discretionary investment management has been delegated to Federated MDTA LLC, engagement insights are not incorporated into the investment process, given their fully quantitative investment approach.

<sup>8</sup> FHL, 'Despite headwinds, ESG continues to perform' (July 2022); Hoepner, A.G.F., Oikonomou, I., Sautner, Z., Starks, L.T., and X.Y. Zhou. (2020). ESG Shareholder Engagement and Downside Risk. ECGI Finance Working Paper 671/2020.

practice. Similarly - the opposite may also hold true. We increasingly find companies setting climate targets however, not enough providing investment or developing technological advancements to meet those targets.

Given the integrated approach of all of our investment teams, information gathered through stewardship directly informs our investment decisions (alongside other factors such as more traditional financial analysis).

### How this differs across investment styles, asset classes or geographies.

The nature of engagement, as described here and in Principle 3, varies between asset classes. Engagement is also influenced by sector and geography, and each investment team tailors its own engagement and ESG integration approach to suit their investment philosophy (see our Introductory Section for a breakdown of our asset classes). E, S and G factors and engagement insights can be a component of a screen, a source of ideas, an input into fundamental analysis or an adjustment to valuation drivers and/or a portfolio construction factor. But common across all of our funds is a set of shared investment beliefs, as set out in Section A of our Policy & Context Disclosure, which influences every aspect of the investment process. Sustainability factors and engagement insights are integrated into investment decision making, whether it is deciding to avoid, buy, hold or exit a position.<sup>9</sup>

The Responsibility Office oversees and supports all of the below stewardship and ESG integration activities. This is achieved through a number of different activities, such as coordinating knowledge-share sessions between teams (including EOS), working with the investment teams to develop frameworks to assess different sustainability risks and coordinating conversations with EOS to ensure there is good engagement across the strategies. The investment teams also meet formally with the Responsibility Office at least every quarter to discuss their engagement and ESG integration activities.

### A holistic ESG data architecture underpinning our proprietary tools

Our approach to ESG integration is grounded in a holistic view of sustainability risks and opportunities across environmental, social and governance factors, recognising the interdependencies between climate change, nature and biodiversity, human capital, human rights and corporate governance. To support this, we draw on a broad ecosystem of ESG data spanning company reported information, third-party datasets, forward-looking analytics and insights derived from stewardship and engagement.

Rather than relying on any single dataset or score, we combine climate, nature, social and governance data to build a more complete and decision-useful picture of risk, resilience

and transition readiness at both company and portfolio level. This includes assessing current performance, forward-looking exposure to physical and transition risks, and the credibility of management responses over time.

These datasets are integrated and contextualised through our investment processes and overlaid with qualitative judgement and engagement insights. On this foundation, we have developed a suite of proprietary analytical tools that translate ESG data into actionable insights for our investment teams. We continue to enhance this toolkit, including expanding our coverage of nature-related risks and strengthening the integration of forward-looking data and engagement outcomes.

### Public markets

For public markets, our firm's proprietary tools are of particular note<sup>10</sup>:

- Our **Carbon Tool** enables fund managers and engagers to identify carbon risks in portfolios and companies that currently exist or may develop in the future. Importantly, the tool incorporates our stewardship activity and intelligence and is able to identify companies that are priorities for engagement and their progress against environmental objectives.
- Our **Environmental Tool** assesses both portfolios and companies on their carbon, water and waste performance. It also looks to quantify the environmental cost of the impact via the following six lenses; carbon, water, waste, air pollutants, land/water pollutants and natural resource use. In addition, we assess our portfolios and companies alongside exposures to carbon intensive sectors, namely: fossil fuels, mining and thermal coal. This tool also incorporates our stewardship activities with a focus on environmental engagement at both portfolio level and company level.
- Our **Corporate Governance Tool** provides a breakdown of corporate governance characteristics, such as information on board independence, diversity and audit tenure. This tool compares the governance of companies to the expectations we have set and flags any companies that do not meet the expected standard.
- Our **ESG Dashboard** includes our proprietary Quantitative ESG (QESG) Score and identifies stocks with positive E, S and G characteristics and/or stocks demonstrating positive ESG change. The QESG score captures how a company manages its sustainability risks. The dashboard includes a snapshot of what themes that company has been engaged on along with progress made.
- The **Portfolio Snapshot** allows us to examine E, S and G ratings and controversies and identifies contingent risks. Our portfolio managers use this tool to evaluate a strategy's sustainability performance over time. It also provides insights into engagement and the progress made, and our voting choices relative to the benchmark.

<sup>9</sup> For those investment portfolios managed by HFMI where discretionary investment management has been delegated to Federated MDTA LLC, engagement insights are not incorporated into the investment process, given their fully quantitative investment approach.

<sup>10</sup> All stewardship work (including engagement) is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients.

Figure 4. Carbon Footprint – Portfolio Dashboard

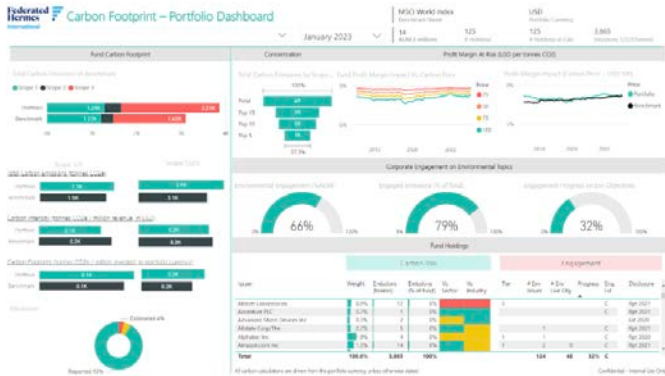


Figure 5. Environmental Tool – Portfolio Dashboards



Source: FHL, as at 31 December 2025. For illustrative purposes only.

Through these tools, along with additional EOS engagement information, the public equities and fixed income teams have access to third-party sustainability data, as well as insights on engagement carried out by EOS with investee companies and the broader investable universe. These sources are a valuable input to the investment process, as well as to the ongoing monitoring of and engagement with companies, and complement other fundamental investment analysis carried out by the teams.

We believe that ESG-aware investors should not rely on E, S and G data alone. The information provided by companies may not be comparable with peers. In addition, it is often backward looking, updated infrequently and with a time lag. As such, engagement activities and voting information can be used by our teams to provide a forward-looking view of both sustainability characteristics and the broader

Figure 6. Corporate Governance – Company Dashboard



Figure 7. ESG Dashboard

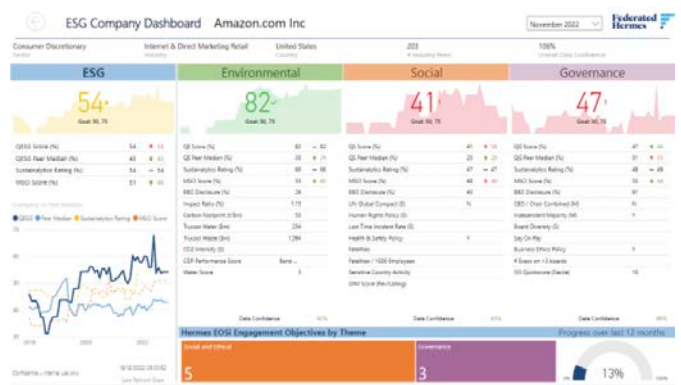
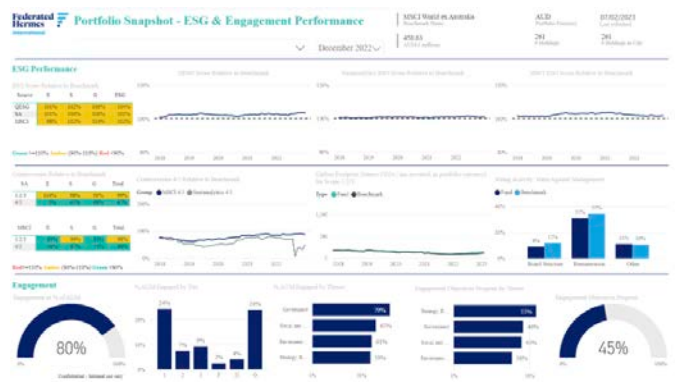


Figure 8. Portfolio Snapshot – ESG and Engagement Performance



performance of a company. As well as accessing EOS' engagement portal – which includes the engagement history and progress against live objectives – portfolio managers can, and are encouraged to, attend engagement meetings with the engagers. The benefit of these joint meetings is substantial and results in more robust engagement that focuses on the relevant and material ESG risks and opportunities. Our investment teams also regularly discuss salient performance issues (including ESG-related issues) with company management directly.

Our investment teams regularly interact with the relevant sector or regional lead within EOS to better understand the sustainability issues within their investment universe, and also discuss specific companies with the relevant engager. Such interactions can help the portfolio manager discern whether a particular issue is material or not, something which cannot

always be gleaned from raw research data. Therefore, we believe that to implement a credible and successful ESG integration approach it is of utmost importance that engagement information is part of the sustainability information universe.

Because our EOS engagement team engages globally in respect of both our internal holdings<sup>11</sup> and the holdings of EOS’ third-party clients, its coverage extends beyond our own holdings. This coverage allows our analysts to benefit from these engagement insights when looking at prospects, as well as in relation to ex-post monitoring.

While there are principles that govern our investment and stewardship integration across our investment teams, we believe in developing processes that are relevant to the investment strategy. Therefore, the method of this integration can vary by investment team. Below is an outline of our public credit team’s approach.

### Public Credit

The public credit team believes there is a direct link between ESG risk and credit risk and sees no separation between ESG-integrated investing and more traditional investing based purely on financial metrics. Their approach not only relies on inputs from various external data providers, but also builds on the extensive experience of our EOS engagement platform and the bottom-up work of individual analysts. The methodology

aims to capture the forward-looking change in a company’s sustainability characteristics and not rest on static, annual data inputs. The insight gained from engaging with companies is an important ongoing additional input into the fund managers’ investment considerations and a strong focus is placed on driving positive change within investee companies. The team believes that there is an opportunity to add alpha by investing in companies that may score poorly in E, S and G characteristics as measured by the traditional data providers but show an earnest desire to improve those sustainability behaviours.

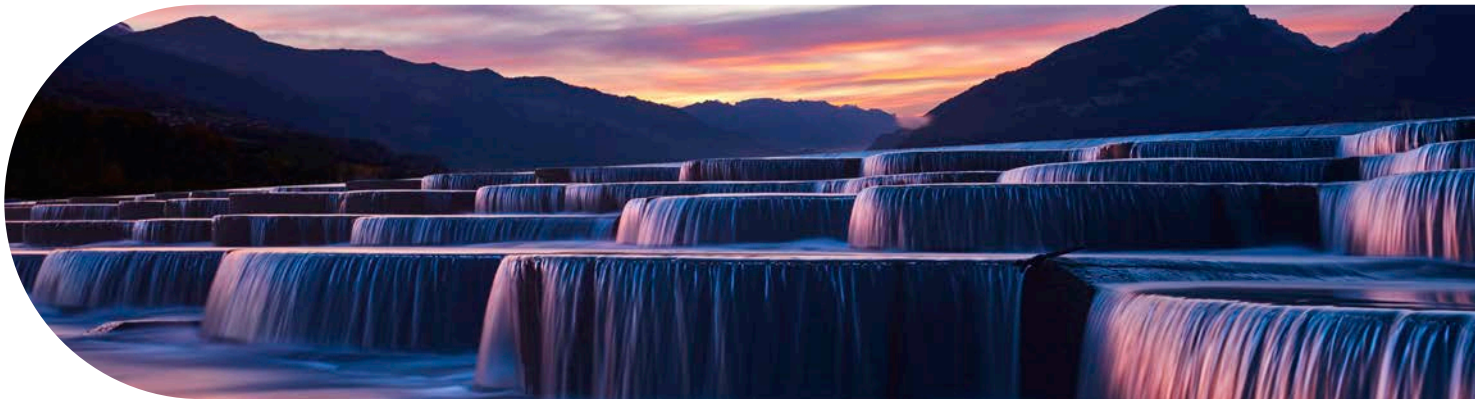
The team’s holistic approach to ESG integration considers sustainability factors within all stages of the investment process, from initial universe screening through to stewardship and advocacy. The process begins when screening global credit markets to create the core investible universe (the universe from which portfolio managers can select securities). They are able to ‘screen in’ securities on which we have high conviction from a sustainability perspective (as indicated by their proprietary sustainability scores) but which are not already captured by other criteria. This means they are able to include securities that would not necessarily screen highly if considered from the purely financial angle of the investment process. In addition to this, the team in line with its client mandate operates a minimum sustainability threshold for investment. Using the proprietary and forward-looking ESG scoring system (detailed below), the lowest-scoring issuers from a sustainability perspective are excluded from portfolios.

Figure 9. The team’s suite of proprietary ESG and sustainability scores



Source: FHL, as at 31 December 2025.

<sup>11</sup> Throughout this report, references to FHL holdings relate to the holdings that we manage on behalf of clients.



For investment solutions governed by a sustainable investment objective alongside a financial investment objective, the sustainability analysts take the lead in the development and maintenance of sustainable investment processes and proprietary sustainability scores. For the purposes of these solutions, the sustainability scores allow us to screen the investible universe to ensure the portfolio is constructed in a way that delivers into the sustainable objective of the strategy.

- **ESG score** (from one to five) – assesses the potential forward-looking impact of non-fundamental factors on a company's enterprise value. The scores are assigned by credit analysts as part of their bottom-up assessment of each issuer, alongside more traditional financial scores of credit and value. Within their assessment, the analysts will consider insights from engagers.
- **Sustainable Investment (SI) Score** (from one to five) – determines the overall sustainability credentials of a company, considering its ambition and performance across its most material sustainability themes and SDGs. Performance is assessed relative to peers and considers the company's demonstration of clear targets, roadmaps denoting concrete actions to achieve targets, transparent disclosure of progress against targets, and evidence of progress towards sustainable outcomes to date.
- **Sustainable Development Goals (SDG) Score** (from one to five) – utilises insights gained from engagement with a company to build on the team's assessment of its sustainability credentials (as denoted by the SI score). It determines the ex-ante potential for a company to effect positive change on society and the environment, articulated within the framework of the 17 UN SDGs.
- **Climate Change Impact (CCI) Score** (from one to five) – assesses the climate change credentials of a company along two dimensions<sup>12</sup>:
  1. how credible is the company's process and progress in decarbonisation compared to its own goals — if any — and compared to its sector peers (i.e. scope and ambition of decarbonisation plans; near-term and mid-term goals innovation; capital expenditure; reporting); and
  2. the impact of decarbonisation on the company and on the wider economy (i.e. materiality; time frame; avoided emissions; value change contribution).

- **Sustainable Leaders (SL) Scores** (from one to five) – a sector-weighted, ordinal assessment of the sustainability leadership of companies, derived from the sector-weighted average combination of our proprietary scores overlaid by views from credit analysts and engagers.

The credit research analysts and engagers discuss the ESG and sustainability scores in detail at the credit committee when evaluating credit selection. Engagers work closely with the credit research analysts throughout the process and take ownership of evaluating each issuer for the sustainability scores.

If a company advances through the initial screening, then it is included in the investment universe. These scores are reviewed on a regular basis to ensure any updates are taken into consideration.

Once in the universe, the credit research analysts will assess various factors to understand how much the company's behaviours jeopardise or enhance its enterprise value. The criteria do not differ across jurisdictions or sectors; however, the team recognises that certain sectors are more vulnerable to sustainability behaviours which can lead to sudden degradation in firm value. To that end – while the team looks at the relative standing of a company within its sector for each of the three components of ESG – for each sector they might emphasise one ESG factor more than others. The main criterion for the governance category is the earnestness with which a company seeks to improve all of its behaviours and their responsiveness to the team's engagement. The analyst assesses management's desire and ability to build a sustainable business that will support and perpetuate firm value.

**Once issuers have gone through our screening and bottom-up research process, they are available for selection by portfolio managers across our range of credit funds. Our suite of ESG and sustainability scores have a direct effect on the sizing and selection of securities, depending on the fund's objective.**

<sup>12</sup> The assessment carried out using the CCI Score is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients.



## GLOBAL HIGH YIELD CREDIT ENGAGEMENT STRATEGY<sup>13</sup> CASE STUDY<sup>14</sup>

**The company is a large Italian banking group, with €933bn of total assets as of FY24.**

### Theory of change

The company has an impressive suite of sustainable investing strategies focused on environmental and social issues, including ambitious initiatives focused on SMEs and green mortgages. We think the company can establish greater leadership in sustainable finance by articulating its programmes relative to total lending, to show how its financing approach is shifting over time.

The company announced financed emissions targets for four priority sectors as part of its 2022-2025 plan. However, the targets still covered a relatively immaterial portion of its total loan book, and the bank needed to define its approach to an NZBA-aligned, full-portfolio emissions reduction pathway. This includes improving its policies on fossil fuels and high-environmental risk activity financing.

The company has a workforce of around 90,000 employees. We believe that this company, focused on financing the Italian 'real economy,' should reflect the society it is lending to. As such, it should develop inclusive hiring practices and human capital policies and targets that are logical for an Italy-centric workforce.



### Our engagement

We have conducted 12 engagements since Q1 2020, including in-person meetings at the company's headquarters.

Our engagement has focused on how the company can develop its operational and portfolio climate ambitions, strengthen its lending policies, and promote an inclusive workforce, to join other large European peers as leaders on sustainability. We are also working with the bank on how to best report on its progress as not to disservice itself.

### Progress to date

The company completed setting portfolio emissions targets for all NZBA priority sectors in 2024, increasing the loan book coverage slightly. These targets received SBTi validation in early 2025. Since starting our engagement, the bank has also published updated policies for its coal and oil & gas clients.

Disclosure against the company's sustainable finance framework has improved, including quantifying the proportion of lending considered 'green' or 'social' and relative to total lending.

The company has set new targets to boost female representation in senior management and its policy related to human capital includes an aim to close the gender pay gap. Its Employee Resource Groups and trainings ensure representation and inclusivity across the workforce.

### The team's approach to stewardship

The fixed income team's stewardship work is supported by a team of dedicated sustainability professionals. Its approach to engagement is based on the intellectual capital, systems and quality control developed by EOS. It identifies engagement opportunities with investee companies through the assessment of their sustainability practices. This tends towards companies with weak sustainability practices but which present room for improvement and demonstrate a willingness to engage. In addition to its own engagement work, the team also rely on EOS to engage with a broader pool of companies. Regardless of who is leading the engagement, EOS or the fixed income team, there is only one assigned engager within the business. This is so the company being engaged hears a single message coming from FHL.

Wherever possible, the relevant credit analyst will attend joint engagement meetings. If this is not possible then credit analysts will sit with the engagement lead before or after

meetings to share knowledge, perspectives and ideas. Likewise, engagement analysts are invited to present on engagement progress at credit committees.

Further examples of how some of our investment teams integrate ESG and stewardship in their investment decision-making processes are below:

### Global Emerging Markets

The investment team analyses E, S and G risk and opportunity as part of its fundamental research of companies. To understand a company's sustainability trajectory, the team believes both quantitative and qualitative analysis is critical, particularly in emerging markets where accurate sustainability data is less available. It is only through a detailed understanding of the social and environmental challenges facing a company – in the context of its actual business and the beliefs of its board and management – that one can truly invest responsibly.

<sup>13</sup> Formerly SDG Engagement High Yield Credit Strategy.

<sup>14</sup> Source: FHL. This security is currently held within existing credit portfolios. For illustrative purposes only. The above information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments. The value of investments and income from them may go down as well as up, and you may not get back the original amount invested.

Figure 10. Global Emerging Markets Equity climate risk framework

Key steps	Transition risk	Physical risk
<b>1. Vulnerability assessment</b>	Assessing exposure based on the nature of the business, location of its operations and how and where its revenue is generated.  Focus on emissions intensity and carbon regulation risk.	Assessing geographic exposure and resilience to acute and chronic <sup>16</sup> physical climate risks. <sup>17</sup>
<b>2. Contextual adjustment</b>	Adjusting for likelihood, severity and timing of transition impacts, considering mitigating factors.	Understanding the likely operational and supply chain impacts, including impacts on people (eg. safety, physical and online connectivity); productivity and business continuity; impacts to local infrastructure; and climate-related opportunities.
<b>3. Modelling financial impact or risk premium</b>	Key financial impacts to consider may include: inflationary costs, regulatory costs, capital expenditure (CapEx) requirements, revenue loss, stranded assets.	

Source: FHL, H2 2023 GEMS Materiality Report

The team maintains a low carbon footprint against the benchmark and prioritises engagement with high emitting companies and those that are identified as exposed to higher physical and transition risks.<sup>15</sup> To future proof the portfolio, it has developed a climate risk framework involving three key steps as laid out by the figure below. More information on the climate framework can be found in the [Global Emerging Markets ESG Materiality H2 2023 report](#). The team has also developed a biodiversity framework to evaluate exposure to biodiversity impacts and dependencies as outlined in [Global Emerging Markets ESG Materiality H1 2025 Report](#).

Engagement is also a key feature of the investment strategy and, in the team’s experience, is powerful way to foster change in emerging markets, often more impactful than exclusion. The team, in tandem with EOS, engages with companies on material E, S and G topics, including climate, nature, biodiversity and human rights, alongside broader corporate governance issues. These engagements – which are outcome-based and subject to regular progress reviews – seek positive impact across companies’ value chains.

The team draws on a wide range of ESG data including FHL’s own proprietary ESG tools and EOS, combined with its own qualitative assessment, to generate an overall ESG rating for the company (i.e. below, average, above, leader). This takes into account whether the company is demonstrating positive momentum and a commitment to addressing sustainability challenges and opportunities.

The team prefers to invest in stocks that perform well on sustainability but may invest in ‘below average’ companies where they show commitment to improve and are

engage-able. The team also continues to calculate an engage-ability score, launched in 2023, to evaluate whether companies would be receptive to engagement and whether they have the capacity to engage. The score reflects a company’s willingness and capacity to engage on material sustainability issues with scores ranging from 1A at the top end to 4D at the bottom.

### Engagement Strategies

While all of our strategies integrate engagement into their investment processes, we have a selection of strategies with a specific focus on selecting companies with engagement potential. Our Global SMID Equity Engagement<sup>18</sup> strategy and Global High Yield Credit Engagement<sup>19</sup> Credit strategy seeks to achieve a meaningful social and/or environmental impact as well as a compelling return through investing in and engaging with companies to drive positive change in line with relevant SDGs. The SDGs provide an ideal framework to identify ex-ante potential for creating positive societal and environmental change through engagement to create more impactful and sustainably profitable companies.

Given the added focus on engagement for these strategies, we have dedicated engagers based in the relevant investment teams who focus solely on these strategies and work closely with EOS to ensure a consistent approach (see Credit section above for additional detail). All investments are formally reviewed by the lead manager and lead engager, while the relevant analysts and team members also provide input every six months. These meetings investigate whether the original engagement thesis is still valid and also measure progress towards any specific objectives.

<sup>15</sup> All engagement on this topic is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients.

<sup>16</sup> Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.

<sup>17</sup> This draws on the Notre Dame Global Adaptation Index’s climate scores which consider each country’s vulnerability and readiness. Country Index; Notre Dame Global Adaptation Initiative; University of Notre Dame.

<sup>18</sup> Formerly SDG Engagement Equity.

<sup>19</sup> Formerly Global High Yield Credit Engagement.

GLOBAL SMID EQUITY ENGAGEMENT STRATEGY<sup>20</sup> CASE STUDYCredicorp (summarised from [full case study](#))

**Credicorp is Peru's leading financial group, operating across Latin America and the US. The group's subsidiaries include Banco de Crédito del Perú (BCP), the largest bank in Peru, and Mibanco, the largest microfinance institution in Latin America, as well as a leading insurance business (Pacífico), a pension business (Prima) and an asset management business (Credicorp Capital) – which allow it to serve all segments of the population.**

Credicorp has positioned digitalisation and sustainability as key levers of profit growth. The group's 'value creation strategy' is focused on the rapid process of digital uptake across the region and it has embedded sustainability across its business lines.

We have had more than 40 ESG-led interactions with Credicorp since beginning of 2018, including meetings (both virtual and in-person) with senior management and board members.

We have consistently found the company to be open, receptive and responsive to engagement on a range of issues, including governance reforms as well as developing and expanding its sustainability strategy. We have provided constructive input at various stages and been pleased to see how much of our input has been taken on board.

### Yape – the super-app

The development of the Yape super-app has been central to Credicorp's efforts to promote financial inclusion in Peru. This app has evolved into a comprehensive digital ecosystem offering services like credit, bill payments and e-commerce. Its user-friendly interface is designed to simplify the process of accessing financial services, enabling secure transactions without requiring a traditional bank account – helping Peru's unbanked population to bridge the gap.

Since 2022, the app has enabled Credicorp to financially include more than six million Peruvians and provide loans to one million people who have never previously been lent to by the formal banking system.<sup>21</sup>

The Yape app was recognised as the 'most valued brand in Peru' in 2025.<sup>22</sup>

### Mibanco – microfinance

Mibanco, the company's microfinance business, has focused resources on developing products to support female entrepreneurs and its Crédito Mujer programme seeks to address specific financial access barriers faced by female micro-entrepreneurs.

The programme includes a simplified credit assessment, flexible documentation conditions, and progressive loan structures (start small and increase available credit on demonstration of consistent repayment behaviour), as well as a gender-aware distribution model.

The aim is to encourage financial independence and autonomy among Peru's female population.

### Finance emissions

We have also seen progress on climate risk management at Credicorp. The company measures and monitors its portfolio emissions and benchmarks its results against other financial institutions. For BCP's wholesale banking loan portfolio, for example, the company discloses results for companies and sectors that publish greenhouse gas (GHG) inventories, typically those in the most emission-intensive industries.

### Impact outcomes

- Six million people financially included<sup>23</sup>
- Three million people protected through inclusive insurance<sup>24</sup>
- 200,000 women obtained a Crédito Mujer loan<sup>25</sup>, of which more than 20% accessed a financial product for the first time
- 300,000 people reached annually through Mibanco's digital financial education platform<sup>26</sup>

We have ongoing engagement with Credicorp on a number of issues including: customer protection in microfinance and digital inclusion equity; financed emissions; and gender-disaggregated impact reporting. For more information, please see the [full case study](#).

### Conclusion

Credicorp has progressed from a traditional bank into a digitally enabled financial inclusion platform, allowing it to achieve measurable impact. Credicorp's digital ecosystem (led by Yape), gender-aware microfinance model and fast-growing sustainable finance portfolio provide the group with a scalable pathway where inclusion drives expansion.

(Published December 2025.)

<sup>20</sup> Formerly SDG Engagement Equity Strategy.

<sup>21</sup> Study conducted by Ipsos for Pacífico Salud, October 2024.

<sup>22</sup> Impronta Research & BBK Group, Trome.

<sup>23</sup> Company reports.

<sup>24</sup> Company reports.

<sup>25</sup> RPP, "Mibanco plans to strengthen its offer with housing improvements and inclusive loans: What is it about?" (November 2025).

<sup>26</sup> Company reports.

## Private markets

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

## Private debt

The private debt teams consider sustainability behaviours when carrying out credit analysis for each potential investment. Sustainability considerations are a fundamental part of the research presented, and discussed, for all new transactions tabled at the Investment Committee. Material E, S and G issues will often form part of engagement with the company prior to investment and once invested.

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

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

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

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

## CASE STUDY

### Direct Lending



#### Our direct lending team reviewed the opportunity to lend to the largest European provider and distributor of home care and mobility aids.

The company's product portfolio ultimately enables increased home care for patients, alleviating pressures on professional care & the cost of healthcare. In terms of ESG, this borrower is considered the market leader, owing to its focus on electrifying its vehicle fleet, maintaining a high rate of recycling aids & equipment, engaging with suppliers on innovation, for example using fewer parts and using more environmentally friendly batteries in scooters etc, and seeking to improve sustainability across the supply chain.

From a Social standpoint, while the borrower's products assist customers with their independence, the borrower's distribution network and the usage of batteries has the potential to be somewhat "environmentally heavy". As such, to ensure the borrower remained focussed on improving its sustainability practices, an 'ESG margin' ratchet was included in the loan documentation which, depending on the meeting of certain ESG-related criteria, impacts the quantum of interest paid by the borrower on the loan. These criteria include the reduction of Scope 1, 2 and 3 GHG emissions, the increased use of refurbished lead-acid batteries and improving the number of suppliers certified by the PSO, which focuses on inclusive employment.



### Real estate

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

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

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

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

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

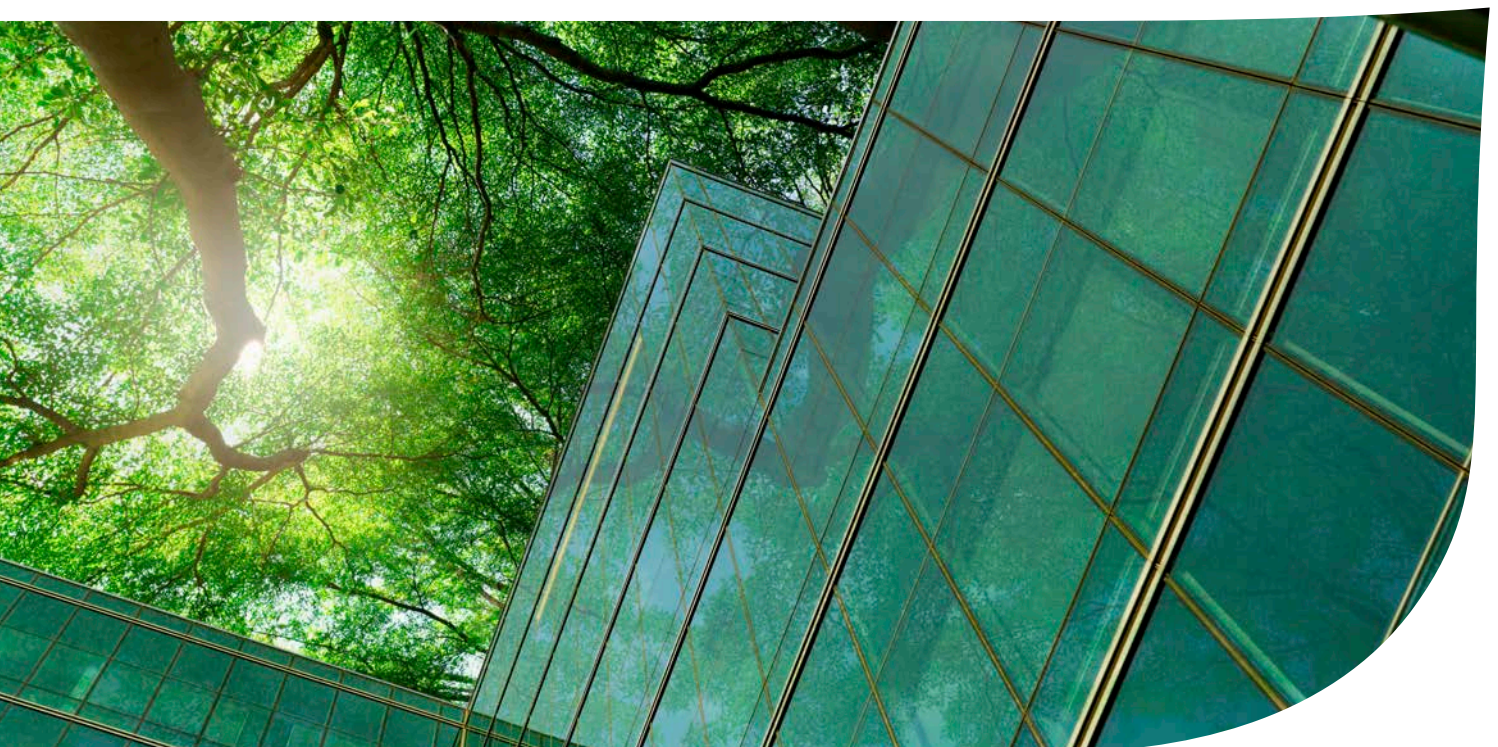
For our real estate team’s indirect and international investments, we carry out active engagement on governance matters and on sustainability policies and strategies with property developers, property management teams, tenants, lawyers and agents. We include commitments to develop a joint sustainability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

### Infrastructure

Our thesis states that above a minimum level of performance, sustainability factors impact value creation and preservation in highly company-specific ways.

Therefore, sustainability analysis and integration should start from the fundamental drivers of business performance and work from these to identify those that positively or negatively interact with sustainability factors, either now or may do so in the future.

We implement this approach by maintaining a set of baseline sustainability expectations used to assess new investments and monitor existing investments. This ensures portfolio companies meet, or have steps in place to meet, our





minimum standard of performance across the breadth of sustainability themes to manage most material risks in a resource-efficient way.

This minimum standard aligns with our conviction in the value of responsible investment and therefore is a higher bar than industry or peer minimum standards.

This approach allows the majority of our resources to be allocated to identifying and responding to the most material risks and opportunities associated with the sustainability factors unique to each business. These are identified by analysing the two potential channels for impact. Firstly, where sustainability factors interact with key value drivers for the business, such as by presenting an opportunity for additional revenue streams or a risk that may significantly increase costs. And, secondly, where a sustainability-related shock or trend may disrupt a core foundation for the business such as its physical assets, people, supply chain or social license to operate.

**The baseline sustainability expectations we set for portfolio companies and our approach to the investment-specific analysis are deeply informed by the Stewardship Model developed by EOS.**

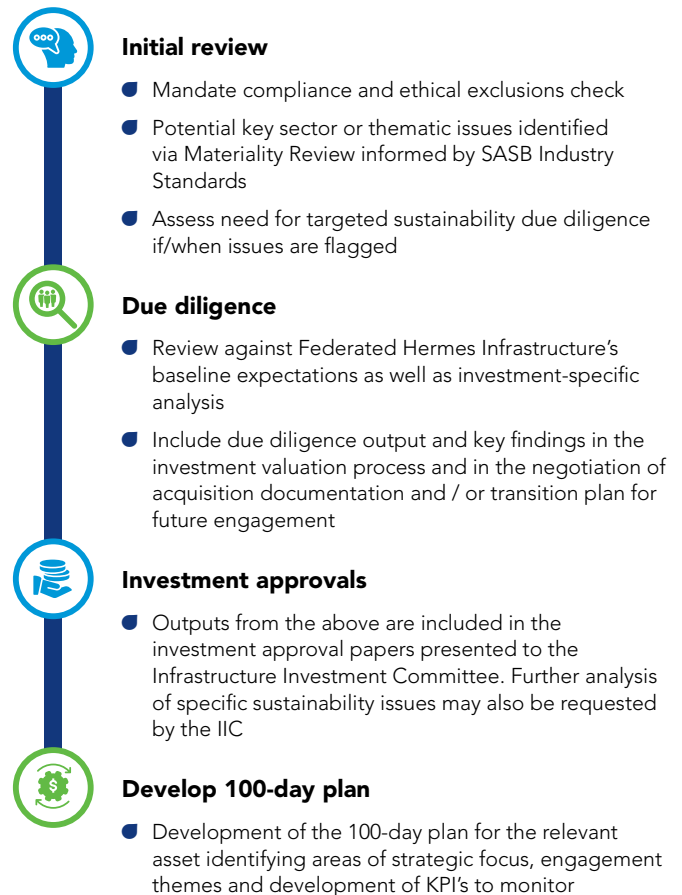
Having identified the sustainability factors with real potential to impact financial performance through this approach, our team is then equipped to engage with the depth of understanding required to exert influence. Fully integrated into our asset management approach, every investment has at least one sustainability-related engagement objective that we monitor performance against quarterly using a tailored milestone system based on that used by EOS.

Integration of ESG in our investment process can be seen in Figure 11.

At the initial screening phase, we conduct a high-level SASB-based materiality review. When investments progress to due diligence, the process described above is executed to reach a comprehensive view of ESG risks and opportunities. Where appropriate, we will utilise external expert advisors on specific

themes. We will decline investments which are unlikely to achieve stable, sustainable returns over our long-term investment horizon (e.g. which bear stranded asset risk) and where an opportunity lacks the governance or alignment with co-shareholders to enable us to influence material sustainability decisions over time.

Figure 11. ESG Integration in investment process



Source: FHL, as at 31 December 2025.

Where we invest, sustainability risks or opportunities identified during due diligence are shared with the asset management team for active engagement and the development of a 100-day transition plan for the investment. Given the long-term nature of our investment, engagement is the primary means to tackle sustainability risks post-completion.

### Private equity

Our private equity team invests both directly in a selection of companies through co-investments alongside other General Partners (GPs) and indirectly through fund investments.

Typically, we are a minority investor for direct co-investments. Our private equity team have identified four key megatrends that they believe will reshape global economic activity over the next 10-20 years and drive the growth of certain companies in niche sectors regardless of economic cycles. It is these fast growing, noncyclical businesses in the EMEA, North America and APAC, which are our investment targets. Within the megatrends we look for investable growth themes, and then drill down to the sectors most likely to benefit in order to find companies capable of generating sustainable long-term alpha. All investment opportunities are subjected to our rigorous, systematic investment process which we have developed over many years. As well as driving our co-investments, our fund selection also closely follows the key themes we have identified. When investing in funds, we form close relationships with the GPs we back, often initially via a co-investment relationship. This gives us valuable insight into the experience of the team and how value is created.

The team firmly believe that acting responsibly does not impede results. Creating a positive effect on society and the environment – sustainable investing – is closely aligned to our objective of delivering above market returns for our investors.

The team considers both sustainability risks and opportunities ahead of each investment. Due the nature of the asset class and our position as a co-investor, our private equity team aim to identify sustainability risks at the point of investment. The team assess all investments using a proprietary responsible

investment framework to guide decisions. The team has one framework for funds and one for direct co-investment. The aim is to protect investors from the impact of 'bad' investment decisions, avoiding businesses that are later penalised for failing to meet legal, regulatory or public standards of conduct.

The private equity team considers the sustainability practices of managers ahead of making fund investments. The team assesses managers capabilities across 5 key areas: (i) policies and commitments to standards, (ii) governance and mindset, (iii) investment process, (iv) climate risk and (v) communication and reporting. Each manager is scored on each dimension using a standardised and proprietary matrix that leverages Institutional Limited Partner Association and UN PRI recommendations. The assessment of managers capabilities is included in the Investment Committee papers and contributes to the investment decision.

For direct co-investments, material sustainability risks and opportunities are presented (at a minimum) in the Investment Recommendation Paper (IRP), (for example, practices, company culture and board composition). E, S and G considerations are tabled across the investment process in local team discussions and formally considered and discussed at the Investment Committee where each investment is scored on a proprietary sustainability framework. Based on a risk-based approach, only investments which have risks within tolerable limits are progressed to investment. For these investments, material sustainability issues and KPIs are identified to be monitored post-investment. Deals are routinely rejected when they do not clear the sustainability risk threshold and good sustainability practices are considered positively into the investment thesis.

Our private equity team collaborate with various industry initiatives and subscribed to the ESG Data Convergence Initiative in 2021. The initiative aims to improve disclosures of sustainability KPIs in private equity by selecting a limited series of KPIs that subscribers of the initiative shall aim to collect and share with their own investors. As part of this initiative, we now engage with each new company or lead investor as part of the investment process to receive the KPIs from the ESG Data Convergence Initiative on an annual basis.

We seek to improve and protect the financial value of investments through assessing, monitoring, and seeking improvements to material risk areas. Our private equity team takes a risk-based approach to effectively identify, monitor, and manage sustainability risks, opportunities and impacts identified across its portfolio. For direct co-investments, we receive quarterly reports from the GP that include both financial information and qualitative data. These reports often contain E, S and G information. In addition to this, we often have a quarterly call with the GP where we discuss the reports and any other topics we wish to raise. For fund investments we also receive quarterly reports and are invited to participate in AGMs. In a minority of cases, we are part of the limited partner advisory committee (LPAC) and hence part of the fund's governance structure. We can raise issues with managers in those forums or bilaterally.



## Principle 2

Signatories identify and respond to market-wide and systemic risks to promote well-functioning financial markets.

### How key market-wide and systemic risks and opportunities are identified and how they relate to our investments

We believe identifying and responding to market-wide and systemic risks will ultimately improve outcomes for clients and beneficiaries, including by delivering benefits for the economy, environment and society. As the world becomes more globalised and interconnected, the ability to transmit risks across geographies can cause further global crises to materialise. To truly address systemic risk, multilateral action will be required to provide solutions. Asset managers, alongside other stakeholders, must play a role in mitigating these systemic risks to ensure a well-functioning financial system, which is key to our being able to generate enduring, responsible wealth for our clients.

#### Global Risks Framework

The key systemic risks we take into consideration across our investment risk, engagement and advocacy work are informed by the latest research from the World Economic Forum Global Risks Report and academic research.<sup>27</sup>

We seek to take an integrated systems-based approach and prioritise and respond to the risks that are most likely, impactful and interconnected in nature. We examine the interlinkages between risks, for example, how climate change can drive biodiversity loss, with the potential to impact global food chains, health and wellbeing, social inclusion/unrest and thereby generate financial and economic crises.

In 2025, our Responsibility Office conducted a review to ensure that our public policy and market best practice engagement activities continue to focus on the risks and opportunities which are a) the most material for our investments or our clients b) possible to address through changes to public policy or developments in market best practice and c) feasible to change. This review included inputs from EOS engagers and investment teams (public and private markets), reviewing client feedback, assessing material issues for the sectors to which our clients have the highest exposure and assessing key systemic risks, informed by the work of the World Economic Forum’s Global Risks Report. The results of the review were largely in line with our existing priorities, with climate change and natural resource stewardship emerging as high priorities for public policy engagement given the systemic nature of these risks and the scale of potential impacts on investment. The information in this section explains further how these risks relate to our investments and our approach to risk management (with more general information on our risk management approach for our investments under Principle 1). Sustainable finance regulation and corporate reporting are also priority areas to ensure that our investment and engagement teams have the necessary reliable data to inform their decision making. We have also identified that public policy has struggled to keep pace with rapid innovation and the adoption of new technologies in areas such as AI and the energy transition. As such, our 2026-28 Engagement Plan (more information on the Engagement Plan can be found under Principle 3), we will increase our efforts to coordinate our company engagement work with our complementary and supportive public policy and market best practice activities.

Figure 12. Global risks framework

Category	Risks
<b>Economic</b>	Risks associated with the ability of macroeconomic policy to prevent a global financial crisis, potential economic downturns, chronic inflation, illegal economic activity, supply chain disruption, labour shortages, stability risks and related dislocations
<b>Environmental</b>	Risks associated with the ability of governments and businesses to address climate change (including extreme weather events), biodiversity loss, pollution, natural resource shortages and natural disasters
<b>Societal</b>	Risks associated with infectious diseases, inequality and cost of living crises, large scale involuntary migration, failure to respect human rights (including digital rights), antimicrobial resistance, chronic health conditions, mental health deterioration, unemployment or lack of economic opportunities
<b>Geopolitical</b>	Implications of interstate conflict, geoeconomic tensions (such as the use of tariffs) including increased protectionism, rising populism, societal and/or political polarisation, evolution in the concentration and sources of geopolitical power
<b>Technological</b>	Risks associated with technological advances, artificial intelligence, misinformation, inadequate infrastructure and networks, cyber security and other frontier technologies
<b>Governance</b>	Risks associated with unethical business practices, bribery and corruption

Source: FHL, as at 31 December 2025.

<sup>27</sup> World Economic Forum, 'Global Risks Report 2026' (January 2026).

## How we contribute to relevant market-wide policy or standard setting initiatives and engage with policy makers

We recognise that as investors we have an opportunity and a responsibility to help address market-wide and systemic risks as a well-functioning financial system is key to our being able to generate enduring, responsible wealth for our clients. We engage constructively with regulators and policymakers globally to address environmental, social and other market issues that may prevent the financial system from operating in the best interests of its ultimate asset owners. This includes addressing barriers to responsible investment and stewardship.

We have a dedicated advocacy team within our Responsibility Office, who work with experts across our firm to ensure our advocacy work is well informed, relevant and impactful.

Our stewardship service provider, EOS, also has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard setters to help shape capital markets. Our investment teams contribute their expertise through collaboration with the Responsibility Office and EOS, as well as direct involvement in external industry initiatives. The result is an advocacy approach that aims to lead rather than follow the policy debate. Given the global nature of our investments, this work spans asset classes and geographies.

Our systemic stewardship can cover a range of themes to help shape capital markets in the interests of our clients and end beneficiaries. We engage on regulation and market best practice relating to the investment industry and the assets in which we invest. This work may be on a country-specific basis or regulations and codes with a global remit. We identify areas for more in-depth engagement where we feel significant change is needed and where we can add value. In 2025 this included climate change, nature and the need for a just transition. More information is included later in this section.

We often engage directly with regulators and policymakers, both individually and through collaborative initiatives, as well as responding to public policy and market best practice consultations.

We are a member of several industry bodies and initiatives around the world and are cofounders of many of them. Through these initiatives we engage with others both within and beyond the investment industry to promote responsible investment, including ways that the industry and our investees can respond to market-wide and systemic issues such as climate change. Colleagues from across the business – including the Responsibility Office, EOS, Risk and the investment teams – take on advisory roles in many of these organisations to share our practical expertise. For instance, our fixed income team is a member of the UN PRI's Credit Ratings Advisory Committee, which aims to promote the systematic and transparent incorporation of ESG factors into credit ratings and assessments.

Over the course of 2025, FHL and EOS responded to 40 consultations or proactive equivalents from regulators, policymakers and industry initiatives.

In the following table (Figure 13), we have categorised our memberships of investment and stewardship-related initiatives or those at which we hold advisory roles.<sup>28</sup>

**Tier 1** represents the initiatives in which we play a leadership role, for example chairing a working group; holding a formal advisory role such as on an advisory committee or Board; taking a leading role in preparing or actively contributing content to position papers and joint statements; shaping the strategic direction or leading collaborative engagements.

**Tier 2** represents those initiatives in which we actively participate through membership of working groups, contribution to collaborative engagements, reviewing content or position papers, or lending support to joint statements.

And, finally, **Tier 3** represents the remainder of the initiatives in which we are involved where we have light-touch participation such as attending meetings to be informed of developments. There are other organisations that we may collaborate with on an ad-hoc basis.

In 2025, we joined 1 new initiative and remain an active member in approximately 100 different efforts. Examples of our involvement from each of these three tiers are included in our 'In focus' sections, found in later in this section. We also describe in further detail how we have been involved in collaborative engagement with individual issuers under Principle 3. FHL is also active in the key trade associations in the jurisdictions in which we operate.

## Engagement with investees

We focus our engagement on the issues with the greatest potential to deliver enduring wealth for investors, taking into account systemic risks.

In public markets, EOS has established a detailed public markets Engagement Plan on a rolling three-year basis, with themes ranging from human and labour rights to circular economy and zero pollution. EOS focuses its stewardship on the issues with greatest potential to deliver enduring responsible wealth for investors including through positive societal and environmental outcomes. The full taxonomy under Principle 3 identifies the key themes and related sub-themes for engagement, many of which could be considered systemic risks. Within this, our work maintains a focus on the most material themes.

As part of the development of our Engagement Plan, we have examined how the systemic risks highlighted earlier in this section are interlinked, and often have cascading effects, and overlaid these with the focus areas in our Engagement Plan. For example, the three big causal systemic risks illustrated in the diagram below – biodiversity loss, climate change and anti-microbial risk – which have cascading causal effects, are important themes in our Engagement Plan.

<sup>28</sup> This table is not exhaustive and does not cover all memberships of FHL.

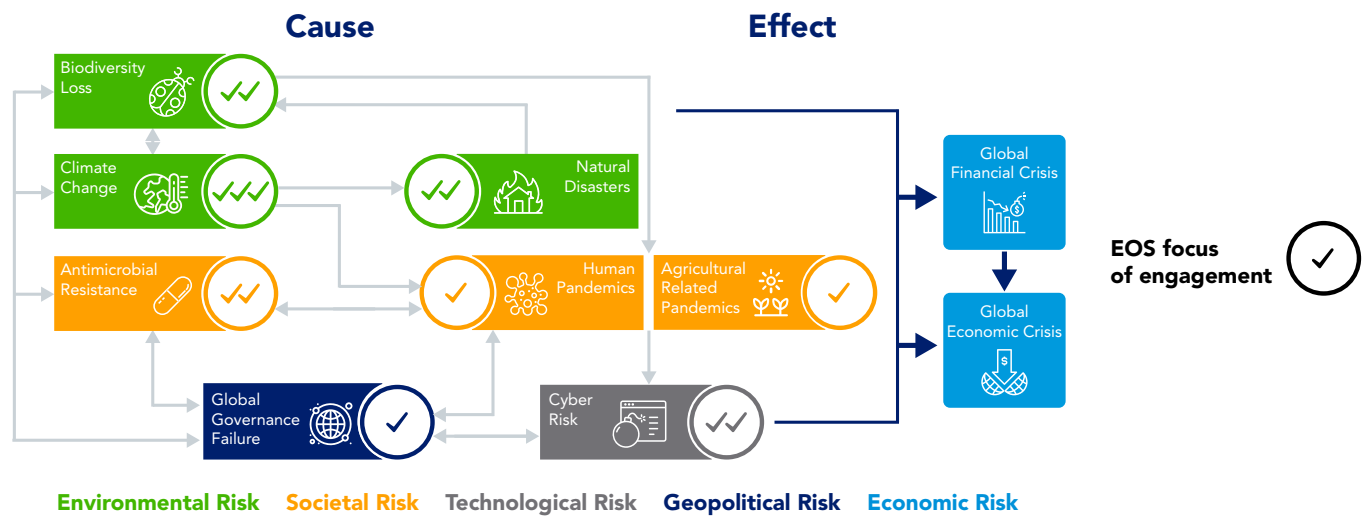
**Figure 13.** Investment and stewardship organisational memberships

Tier 1		
Asia Investor Group on Climate Change	FCA-PRA Climate Financial Risk Forum	Investors and Indigenous Peoples Working Group
Asian Corporate Governance Association	Finance for Biodiversity Foundation	Making London a Living Wage City Steering Group
Associação de Investidores no Mercado de Capitais	Finance Sector Deforestation Action Initiative <sup>29</sup>	Natural Capital Investment Alliance
Association of Foreign Investors in Real Estate	Global Network Initiative	Net Zero Engagement Initiative
Best Practice Principles Group for shareholder voting research (BPPG)	Housing Association Charitable Trust (HACT)	PRI Spring
British Private Equity & Venture Capital Association	Human Capital Management Coalition	Reading Real Estate Foundation
Ceres	Impact Investing Institute	The 300 Club
Climate Action 100+	Institutional Investors Group on Climate Change (IIGCC)	Transition Finance Council
Construction Leadership Council	International Corporate Governance Network	UK Sustainable Investment and Finance Association (UKSIF)
Council of Institutional Investors	Invest Europe	UN Global Compact
European Leveraged Finance Association	Investor Initiative on Hazardous Chemicals (IIHC) Steering Group	UN Principles of Responsible Investment (PRI)
FAIRR		
Tier 2		
Access to Medicine Foundation	Initiative Climat International (iCI)	One Planet
Access to Nutrition Index	International Sustainability Standards Board (ISSB)	PRI Advance
Better Buildings Partnership	Investor Advisory Group	Quoted Companies Alliance
Biopharma Sustainability Roundtable	Investor Consensus on Responsible AI	Science Based Targets initiative
British Property Federation	Investor Initiative on Responsible Nickel Supply Chains	ShareAction Good Work Coalition
Canadian Purpose Economy Project	Invest Ahead	Transition Plan Taskforce
Central Bank of Ireland Climate Risk and Sustainable Finance Forum	Investment Association	VBDO Nickel Supply Chain Initiative
CREFC	Investor Action on Antimicrobial Resistance	UK-China Financial Institutions Sustainability Disclosures Taskforce
Eumedion	Investor Forum	UK Endorsement Board
Financial Reporting Council Stakeholder Insight Group	Investor Policy Dialogue on Deforestation (IPDD)	UK Green Building Council
Global Infrastructure Investor Association	Long-term Investors in People's Health Initiative (ShareAction)	UK Sustainable Investment and Finance Association (UKSIF)
Global Investor Commission on Mining 2030	Nature Action 100	Workforce Disclosure Initiative
Healthy Markets Initiative (ShareAction)	Net Zero Asset Managers Initiative	World Benchmarking Alliance Investor Ally
Impact-Weighted Accounts Initiative		
Tier 3		
30% Club	Global Alliance for Buildings and Construction	Just Transition Challenge
British Council for Offices	Global Impact Investing Network	OECD Biodiversity Advisory Group
Business Coalition for a Plastics Treaty	Global Institutional Governance Network	Pensions and Lifetime Savings Association
Canadian Coalition of Good Governance	Global Real Estate Sustainability Benchmark (GRESB)	Powering Past Coal Alliance
CDP	INREV	Revo
CECP: The CEO Force for Good	Investor Decarbonisation Initiative (ShareAction)	Supporter Network of SPOTT
Dansif	Japan Corporate Governance Network	TNFD Forum
Financing a Just Transition Alliance	JapanSIF	UK Financial Institutions for Nature Group
French Sustainable Investment Forum (FIR)		UK-China Nature & Biodiversity Finance Workstream

Source: FHL, as at 31 December 2025.

<sup>29</sup> The FSDA sunset at the end of 2025 and we will continue our membership at the newly founded Deforestation Investor Group (DIG).

Figure 14. Risks: Cause and Effects and EOS Engagement Priorities



Source: University of Cambridge and Citi GPS Systemic Risk Paper, and EOS data, as at 31 December 2025.

In addition, the United Nations (UN) identified systemic risks and developed these into 17 Sustainable Development Goals (SDGs), adopted in 2015 as a global call to end poverty, protect the planet and ensure that everyone enjoys peace and prosperity by 2030. Our view is that the long-term success of businesses and the success of the SDGs are inextricably linked. We believe that all of our engagement and advocacy work is aligned to the delivery of the SDGs either directly or indirectly, enhancing our response to systemic risks.

Where we have identified market-wide and systemic risks, we intend to engage with our investees to ensure they have appropriately assessed, managed and mitigated the risks. This may be directly or through collaborative engagement alongside other investors or industry initiatives. Our engagement approach, including engagement relating to systemic risks, is described under Principle 3, and our voting activities under Principle 4, as well as in the Policy and Context Disclosure. In the 'In Focus' sections below, we provide more information and examples to describe how we engage with investees on systemic risks.

Figure 15. 1,745 of the issues and objectives engaged in 2025 in public markets were linked to one or more of the SDGs<sup>30</sup>




**1,745** of the issues and objectives engaged in 2025 were linked to one or more of the SDGs


Source: FHL, as at 31 December 2025.


<sup>30</sup> This is the total of unique SDG-linked objectives and issues engaged. Some of the objectives and issues may be linked to more than one SDG.


## Priority themes

Based on EOS' review, over 2026 we will continue our focus on the most financially connected drivers of long-term shareholder value creation, with a focus on four priority themes while varying our approach depending on the local legal and regulatory requirements in the relevant jurisdictions.

 **Board effectiveness:** In 2025 to enhance the quality of board performance, which is foundational to good corporate decision-making and durable financial returns, we continue to look to boards to set their risk appetite to be aligned with the company's strategic goals, including profitable growth. Whilst avoiding a box-ticking approach, we seek improvements to a board's "software" relating to how it functions, in addition to its "hardware" relating to its composition and structure. The board should continuously assess the prevailing company culture to ensure alignment with purpose, strategy and returns on capital employed.

 **Energy transition and extreme weather:** We support companies having a pragmatic approach to climate and targets. These actions can reshape capital allocation, seize opportunities to drive revenue growth and mitigate costs associated with risks from the energy transition. Where commercially feasible and subject to jurisdictional legal requirements, in particular for US issuers and US clients, we seek GHG targets aligned, so far as possible, to the long-term global goals of the Paris Agreement.<sup>31</sup> We continue to evaluate the credibility of transition plans and encourage disclosure of key policies, innovation, capital expenditures and market dependencies. Our areas of focus will include engagement with high-emitting industries associated with the AI ecosystem, and all relevant sectors navigating the energy transition and extreme weather, to build resilience to physical climate risks.


 **Human and labour rights:** With rising levels of conflict around the globe, we will continue to focus on protecting human rights in high-risk regions, helping companies to reduce liabilities and costs from operational and financial risks. We will also maintain our emphasis on supply chain rights where there is an elevated risk of forced labour, unsafe working conditions, and value chain financial vulnerabilities. We are increasing our focus on the protection of human rights and related obligations in the virtual world. This includes challenges to data privacy rights and the right to freedom of expression, and protection from unfair biases, which the use of AI may amplify, in order to enhance compliance, reduce costs and improve cashflow.

 **Human capital:** Our engagement focuses on upskilling and reskilling workers remains, given the likely disruption to jobs through the deployment of AI, robotics and the ongoing energy transition. We will also maintain our focus on talent management, asking

companies to achieve merit hiring practices that avoid discrimination, and to consider an expanded range of metrics of engagement and belonging, boosting productivity and agility, and future-proofing profitability. Our health and safety engagement now encompasses new areas, including managing heat-stress, psychological safety, and mental wellbeing, as well as actions to halt continuing incidences of sexual harassment.

Based on our review, and in addition to the above themes, our engagement will continue to intensify engagement on three rapidly evolving topics in 2026 and beyond as follows:

 **Geopolitics:** Whilst investors can and should engage with companies on their supply chain resilience, target markets and operational risk, influencing international political outcomes at a policy level is outside the remit of investor stewardship. The focus should be on mitigating individual investment risk without pursuing political agendas.

 **Climate transition:** Investors can engage with governments, regulators and standard setters to encourage measures that will facilitate profitable investments in the transition by companies, whilst benefitting the end consumer through energy security and affordability. Time-bound policies focused on infrastructure development, blended finance, sector-specific subsidies, workforce retraining, and carbon pricing could all provide companies with the impetus to take investment risk. Once renewable solutions are established, market forces will sustain profitable growth. Investors can also encourage companies to collaborate across sectors on the development of best practices.

 **Artificial Intelligence (AI):** The adoption of AI is accelerating, which will make some industries obsolete and transform others. AI will reshape jobs and the customer experience, while raising societal concerns around data privacy and consumer rights. Investors will benefit from engaging with policymakers and sector associations as well as companies, to develop economic models that safeguard consumer, employee and citizen rights as industries rapidly evolve.

The above represent particular priorities in the years ahead and more information on these themes can be found in our [Engagement Plan](#) (also detailed under Principle 3).

Below, we set out in more detail how we have responded to three of the key market-wide and systemic risks in 2025: climate change, nature, and human and labour rights.

These are examples of how our response to identified market-wide and systemic risks can result in changes to our investment portfolios, our engagement with companies and our advocacy efforts. The sections below are also therefore relevant to Principles 1, 3 and 4.

<sup>31</sup> The goals of the Paris Agreement can be summarised as limiting climate change to below 2°C and pursuing efforts towards 1.5°C.

### In focus: climate change

The systemic nature of the risks posed by climate change requires a tailored approach to risk identification and mitigation.

We consider all material investment factors, including risks and opportunities related to climate change. A risk is considered material if it ultimately impacts the financial performance of an investment. While the most pressing material risks are those that will crystallise in the short term, we strive to deliver enduring, responsible wealth creation for our investors. Our definition of materiality takes into account our clients’ time horizons and may therefore be wider than others. With regards to climate risk, our investment teams analyse the potential impacts on investments in the short, medium, and long term to identify material risks and opportunities. Understanding climate risk and opportunities (in particular for companies in carbon intensive sectors or sectors that provide solutions) is therefore a key part of our investment analysis.

Our [Responsible Investment \(RI\) Policy](#) (which features a Climate Change Policy Statement) and our [Climate- and Nature-related Financial Disclosures report](#) set out in more detail how we integrated assessment and management of climate- and nature-related risks and opportunities into our investment decision making, as well as our engagement and public policy advocacy activities. This includes the governance structures we have in place to ensure relevant risks and opportunities are appropriately managed and that the outcomes of our risk-

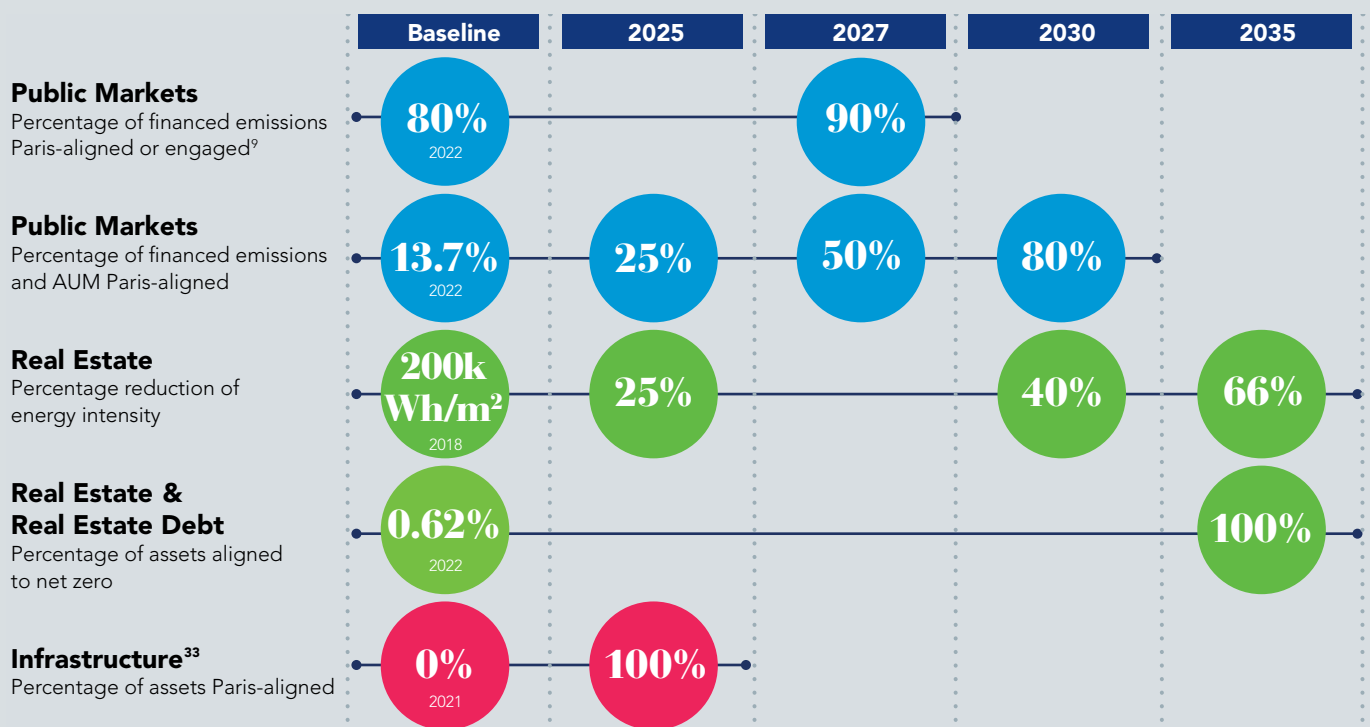
management processes feed into our business strategy.

Our assessment of, and response to, the systemic risk of climate change spans our top-down investment risk analysis, our asset-level analysis and our engagement activities.

Our Climate Action Plan<sup>32</sup> sets out our interim targets, which meet our obligations as a member of the Net Zero Asset Manager Initiative (NZAMI). It sets out how we will measure our progress, and the actions we will take to drive improvements. Our approach is focused on addressing climate-related risks and opportunities in the real economy. We have set targets for the proportion of our holdings that will be aligned with a 1.5°C trajectory (where consistent with local law, which may vary especially for U.S. issuers); these will drive our engagement with portfolio companies to profitably achieve reductions in greenhouse gas emissions at the company level and not just in our portfolios. We will modify or tailor our approach to engagement with companies on certain climate-related topics in line with local law and regulation in certain jurisdictions, particularly on behalf of U.S. clients and/or U.S. issuers, where fiduciary duties and/or applicable law may require a modified approach. The Climate Action Plan also covers our approach to tackling our own operational emissions.

We commit to work in partnership with clients on their decarbonisation goals. We report our progress toward our targets in our [Climate- and Nature-related Financial Disclosures report](#) on an annual basis.

Figure 16. Our interim 2030 targets



Source: FHL as at 31 December 2025.

<sup>32</sup> Our Climate Action Plan is currently under review and will be made publicly available via our website in due course.

<sup>33</sup> The Infrastructure target is under review and we will publish updated targets as part of our Climate- and Nature-related Financial Disclosures Report.

## Assessing risk in public markets

Our integrated approach to managing climate risk and opportunities is based on our belief that we can create positive feedback loops between investment and stewardship. This should help reduce climate-related risks and maximise the opportunities for the companies and assets in which we invest.

We monitor and measure the greenhouse gas (GHG) emissions of our investment portfolios through our proprietary carbon tool, which measures a fund's carbon footprint relative to its benchmark and calculates its carbon intensity/footprint. The tool enables portfolio managers, and engagers, to identify whether high-emitting companies in the portfolio are being engaged or whether engagement needs to be initiated and understand the progress on any climate or wider environmental engagements already underway.<sup>34</sup>

The information also helps increase our investment team's awareness of carbon-related risks, which can lead to updated valuations and potentially change investment decisions.

Our environmental tool assesses both portfolios and companies on their carbon, water and waste performance. It also looks to quantify the environmental cost of the impact via the following six lenses; carbon, water, waste, air pollutants, land/water pollutants and natural resource use. In addition, we have incorporated the temperature alignment of portfolios and companies alongside exposures to carbon intensive sectors; namely fossil fuels, mining and thermal coal.

We have continued our work in assessing the Paris Alignment of our holdings using our proprietary alignment methodology, outlined in the Climate Action Plan described above. In addition to using this data to identify companies for engagement, this is also a tool for our investment teams in assessing the targets set by portfolio companies, to help flag particular names that may be at risk in the transition to a net zero economy. In 2025, we made markable progress on Phase Two of our Paris Alignment methodology, which will enable the test to be more industry-specific. We will continue to enhance and look to roll out the methodology in 2026.

Our climate scenario analysis across our public equity and credit investments is conducted in partnership with a third-party, Planetrics. This allows us to understand transition and physical risks and opportunities related to climate change across different regions and sectors. Forward-looking data, such as that from scenario analysis, is becoming increasingly important to integrate into our investment decisions.

**We have also run analysis on our funds to understand nature-related impacts and dependencies. We will continue to enhance our approach in this area and aim to implement a more systematic approach going forwards.**



## EOS: engaging on climate change issues

Engagement is a crucial element of our approach to managing climate change risks and opportunities – and climate is a specific engagement focus in EOS' public markets engagement programme. EOS aims for all companies to have a business model consistent with achieving net-zero emissions and an effective transition plan to deliver this in line with the Paris Agreement ambition of 1.5°C.

Our Climate Action Plan sets out the way we categorise our investees based on their extent of alignment to a 1.5°C world over time, dependent upon further advances in policy and technology. We use an in-house Paris-alignment methodology for this assessment.

Companies identified as not aligned with 1.5°C are flagged as priorities for engagement and other stewardship actions. Engagement strategies are tailored to the region, sector and company context but include a combination of approaches, such as letters to the board, one-to-one meetings, collaborative engagement, and escalation strategies where appropriate. All engagement on this topic is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients. We will engage in line with the expectations outlined in the EOS Engagement Plan,<sup>35</sup> and best-practice frameworks, such as the IIGCC Net Zero Investment Framework,<sup>36</sup> Stewardship Toolkit,<sup>37</sup> and sector-specific climate change expectations.<sup>38</sup>

<sup>34</sup> All engagement on GHG emissions is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients.

<sup>35</sup> EOS, 'EOS Engagement Plan 2023-2025'.

<sup>36</sup> IIGCC, 'Net Zero Investment Framework'.

<sup>37</sup> IIGCC, 'Net Zero Stewardship Toolkit'.

<sup>38</sup> IIGCC, 'Resources'.

As an overview, in support of the goal of long-term financial value/wealth creation for clients and investors, we expect companies to actively demonstrate that their emission reduction targets and strategies are aligned to the goals of the Paris Agreement. Companies should commit to reaching net zero emissions and set short and medium-term targets that are science-based, in line with what is required for a Paris pathway. These targets should be backed up with a credible transition plan that articulates how the actions selected are expected to be sustainable and competitive once nature-related risks and dependencies are also considered, noting that targets should be met primarily through emissions abatement rather than offsetting.

Companies should be encouraged (where appropriate based on pecuniary considerations) to consider the social impacts of their transition plans, and to aim for risk management and disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”), with companies reflecting risks and opportunities in the annual audited accounts. Material capital expenditure investments should be demonstrably consistent with the goals of the Paris Agreement. Effective governance of climate-related risks and opportunities, including board oversight and ensuring that direct and indirect lobbying activities are aligned to the goals of the Paris Agreement, is also critical.

Companies should be encouraged (where appropriate based on pecuniary considerations) to assess exposure to the physical risks of climate change and develop adaptation plans accordingly. In the short-term, we expect to engage with issuers regarding emissions reductions that correspond to their climate strategies, and where local law allows, we will engage in discussion with companies that fail to deliver on their targets, in the absence of mitigating circumstances, including engaging in dialogue focused on the financial benefits of emission reductions.

The Climate Action 100+ (CA100+) initiative also supports intensive engagement on companies’ decarbonisation strategies, capital allocation alignment, climate governance, and emissions performance. As of 31 December 2025, EOS leads or co-leads engagement at 21 companies and supports more than 35. The Centrica case study below demonstrates recent progress made as part of the initiative.

Through EOS’s engagement across these initiatives in 2025, we continued to seek progress where companies lagged best practice, while encouraging efforts where progress had been made. We also elevated our engagement on areas of emerging best practice, such as the due consideration of material climate-related risks and opportunities in financial statements, and the financial resilience of any significant capital expenditure.





CASE STUDY

Centrica



**Centrica, a British integrated energy company, delivers energy services to households via its retail brands, including British Gas – the UK’s second largest gas and electricity utility – and Bord Gáis Energy in Ireland. The company also produces and stores energy through its stake in the UK’s nuclear fleet, a portfolio of renewable, storage and flexible assets, Spirit Energy (a gas production business), and the Rough gas storage facility. Centrica is also engaged in the trading of energy, including through its LNG shipping business.**

Technological change, innovation, and the energy transition challenge the company’s traditional business model of fossil fuel-driven electricity generation, natural gas retail and storage, and gas boiler installation and maintenance. At the same time, the transition presents a considerable commercial opportunity for Centrica to lead in low-carbon solutions, reshape its service offerings, and accelerate progress towards a more sustainable energy system.

**Our engagement**

In 2021, we began engaging Centrica as company co-lead under the Climate Action 100+ collaborative engagement initiative, focusing on the company’s energy transition strategy. The UK had announced its target for a net zero power grid by 2035, but uncertainty remained over how heat would be decarbonised to achieve the UK’s wider net zero by 2050 commitment. This raised questions around how the company would deliver its targets, with implications for capital expenditure and long-term growth.

Centrica had established a target to reduce its customer emissions intensity (electricity and gas sales) by 28% by 2030 versus 2019.<sup>39</sup> Over the next few years, we met several times with the CEO, the chair, the head of environment, the head of strategy, the company secretary, and technical experts from the company. We asked Centrica to consider whether this target was sufficiently ambitious to remain competitive, including evaluating the compatibility of this plan with the Paris Agreement goal of 1.5°C and the commercial opportunities that this presents.

In 2024, the company invited us and an investor to participate in a series of technical engagements with Centrica’s head of environment and sustainability strategy teams to allow an exchange of views on strategic opportunities for the energy transition. These covered how Centrica would address its gas-fired electricity generation, commercial levers for low carbon heat provision, its LNG growth strategy and its public policy advocacy strategy.

**Changes at the company**

In 2025, Centrica published its updated climate transition plan. It brought forward its Scope 1 and 2 emissions net zero commitment to 2040 from 2045, while retaining its 2050 net zero commitment for customer Scope 3 emissions, currently primarily attributable to the use of natural gas for domestic and commercial heating.

For the customer emissions intensity associated with electricity and heat, the company retained its target to reduce this figure by 28% by 2030 versus 2019, while also referencing a new ‘stretch’ goal to reduce the customer emissions intensity by 40% by 2030, recognising that this would be required to deliver a 1.5°C-aligned pathway.<sup>40</sup>

Supplementing these targets, Centrica has identified and quantified individual decarbonisation levers across electricity, heat electrification, and gas distribution, guiding investors on the strategic positioning of the business. The plan brings clarity to the roles for heat electrification versus hydrogen solutions, and each lever is complemented by an articulation of the company’s policy dependencies, as well as proactive advocacy actions identified to promote an enabling external environment. Over 50% of its future capex over the period from 2023 to 2028 is classified as ‘green’ by the company.

**Next steps**

We plan to continue engaging with Centrica on the implementation of its transition plan, including how energy transition implications will be addressed by the LNG shipping business and how the company will remain agile against a backdrop of policy uncertainty. We also aim to continue engaging on succession planning and board effectiveness as the company seeks to replenish its balance sheet through significant planned greenfield capital expenditure.



**Will Farrell**  
Theme co-lead:  
Climate Change

<sup>39</sup> Centrica’s Climate Transition Plan

<sup>40</sup> Emissions and Targets

### Real estate

Our real estate team has integrated transition and physical climate risk management throughout its investment decision-making and asset-management processes at fund level, asset level and within development management. This insures that ESG is fully integrated in each step of real estate management.

During 2021, the real estate team issued the Net-Zero Pathway document which set out both the targets and approach to reaching net zero emissions by 2035 across the managed assets included within our UK real estate portfolio.

We aim to deliver on the net zero aspirations set out in the pathway, with a focus on delivery against four specific pillars of activity:

- 1 Decarbonisation
- 2 Deliver energy efficiency
- 3 Stakeholder engagement
- 4 Utilise offset opportunities

We had two interim net zero targets for 2025, as detailed in the pathway, which have been met:

- **25% reduction in energy use intensity based on 2018 baseline**
  - Actual achievement was 26.79% based on occupied like-for-like assets
- **100% coverage of zero carbon electricity for landlord areas**
  - 100% of all landlord-sourced electricity uses zero carbon and our first asset with zero carbon gas was introduced in 2025.

Over the last 12 months, the team has also delivered new buildings which have been designed to maximise energy efficiency whilst also reducing the embodied carbon used in construction through replacement of high carbon content materials such as steel with wood and enhanced construction measures resulting in a 449kg CO<sub>2</sub>e/m<sup>2</sup> carbon below the UK NetZero Carbon Building Standards targets.

We will continue to develop and implement initiatives across our real estate portfolio that are designed to reduce carbon emissions and to improve efficiencies in our built environment portfolio, making use of new technology and best practice gleaned from our active engagement in peer-group benchmarking. Further progress made by the real estate team is detailed under Principle 3.

### Infrastructure

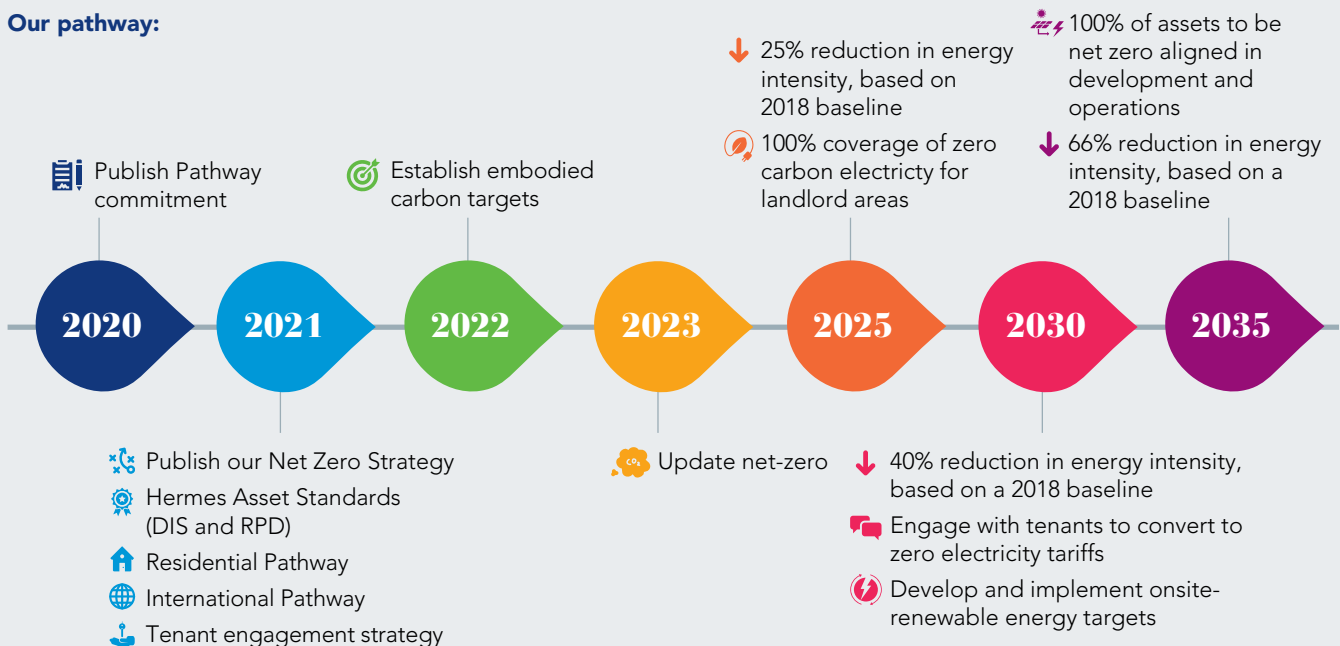
In the infrastructure team, we recognise that the transition to a lower carbon economy has the potential to significantly erode or enhance returns. Therefore, we integrate the consideration of climate risks and opportunities throughout the investment lifecycle and seek to understand how they interact with key investment value drivers.

As set earlier in this section of this report, in 2021, the infrastructure asset class announced our ambitious target of 100% Paris-Alignment of assets by 2025, as well as Net Zero by 2050 at the latest. While we have seen an increase in alignment of assets over time, we expect this target to have been missed (pending final data) and plan to publish updated targets later in 2026.

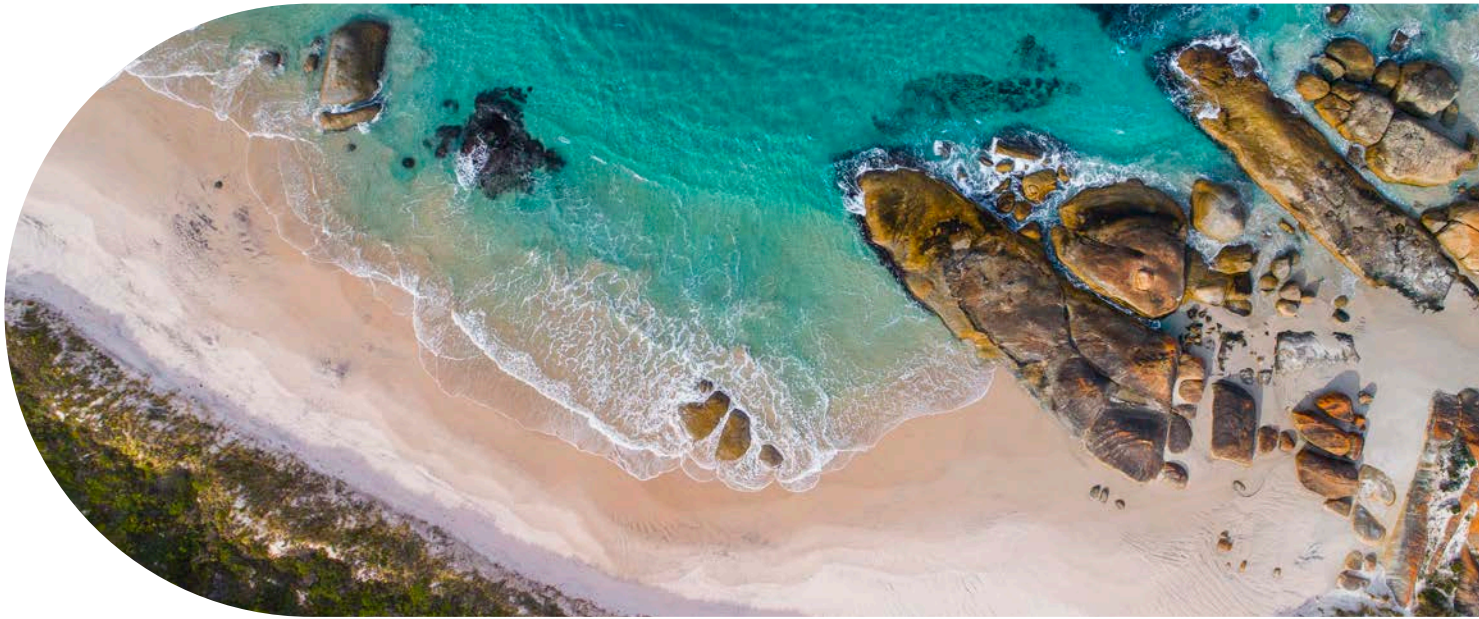
With regards to climate risk, the team, in partnership with an external consultant, periodically conduct scenario analysis assessments across their portfolio to provide insights and data on climate risks and climate-related trends relevant to each of

Figure 17. Real estate approach to net zero

#### Our pathway:



Source: FHL, as at 31 December 2025.



our portfolio companies. The scenarios selected by the team aim to provide a comparative view of possible climate risks under different decarbonisation and warming trajectories.

During 2024, our most recent reporting year, we engaged with 100% of our infrastructure portfolio companies, with 21% of our recorded ESG-related interactions focusing on climate change. At the time of reporting, 2025 statistics were in the process of being compiled.

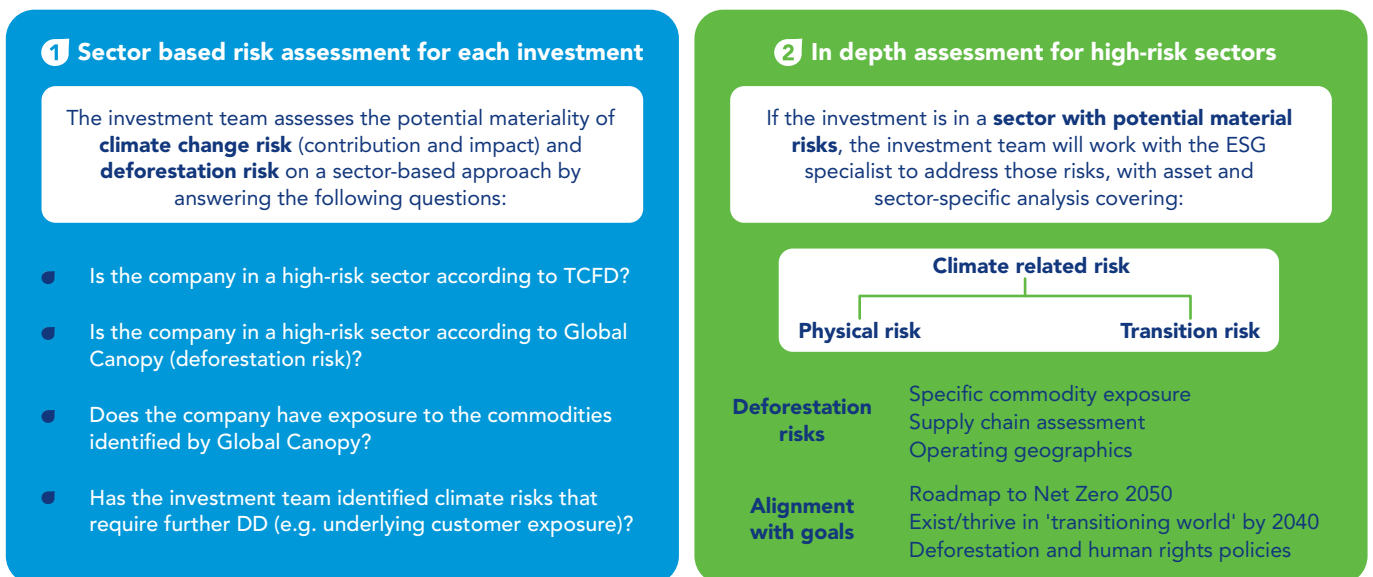
### Private equity

The private equity team uses a framework to assess the climate risk exposure of any potential investments. Significant transition risks require additional analysis in collaboration with the team’s sustainability specialist.

The additional analysis is tailored to the risks identified, whether relating to physical climate risk, transition climate risk or deforestation. The team seek to avoid making any investments in companies that are not able to thrive as the world transitions to net zero.

Post-investment, the team monitors our portfolio companies and reaches out annually as part of our engagement programme, focusing on climate change. Since the introduction of the programme in 2024 we have engagement with c.50% of our portfolio companies within scope, focusing on the highest emitters in the portfolio to discuss their approach and framework towards climate change.<sup>41</sup>

Figure 18. Two tier approach to climate change risk with in-depth assessment for high-risk factors



Source: FHL, as at 31 December 2025.

<sup>41</sup> All engagement on climate change is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients.

## Advocacy: Climate

Looking beyond investment and stewardship, we believe that policymakers have a key role to play in determining the investment risks and opportunities related to climate change. In 2025, climate-related issues were a primary focus of our advocacy work, culminating with our attendance the COP30 summit in Belem, and supporting events in Sao Paolo.

While COP30 was a critical anchor point for our advocacy programme, 2025 also reflected the strengthening of our strategic climate policy advocacy in key jurisdictions. This included defining our strategic advocacy messages and identifying how we could contribute to the policy environment with the most impact.

### COP30: From climate ambition to implementation

**Ten years on from 2015's landmark Paris Agreement, expectations were high for the Amazon-based COP30 to deliver concrete steps for multilateral climate action against a fractured geopolitical backdrop.**

Held at the inflection point between the UN's decade of ambition (2015-2025) and the decade of implementation (2025-2035), it was hoped that participants would be able to agree a road map for a global transition away from fossil fuels.

#### Our key messages for policymakers:

- **Bridge ambition and implementation** – Translate national climate goals into investable projects and predictable frameworks that attract long-term capital, particularly policy-backed, strategic sector transition plans.
- **Enable and reward credible and resilient transitions** – Focus regulation and incentives on measurable progress and real-world impact that deliver on citizens' core needs and incentivise growth in line with planetary boundaries, not just targets.
- **Scale blended finance** – Combine public and private funding to de-risk transition and nature-positive investment, particularly in emerging markets, including through strategic deployment through sector transition planning.
- **Protect forests and biodiversity** – Embed deforestation-free and nature-positive criteria in national transition plans and finance frameworks.
- **Agree adaptation funding and measurement models** – Integrate the Global Goal on Adaptation (GGA) adopted at COP28 into transition planning through clear measurement and funding models, resolving the prisoner's dilemma of who pays for adaptation across the private and public sectors.
- **Deliver a just and inclusive transition** – Ensure that climate and nature policies create economic and social benefits for communities and maintain their democratic consent, especially in emerging markets.

Our delegation to COP30 engaged with policymakers, industry, and civil society in the Blue Zone – the official negotiating area in Belém under UN jurisdiction – and the summit's side events, which were spread between Belém and São Paulo. The core positions for which we advocated were: translating national commitments into investable sector transition plans; scaling blended finance; protecting forests and biodiversity; agreeing adaptation funding; and delivering a just transition that ensures transition policies meet citizens' core needs.

#### What was achieved at COP30?

The UN's latest emissions gap report<sup>42</sup> states that the world is likely facing a global temperature rise of 2.8°C this century, well-above the Paris Agreement goal. Adaptation to the physical impacts of climate change was therefore a priority topic at this COP, concluding the Baku Adaptation Roadmap and emphasising the role of scaling international climate finance into adaptation. The final COP30 agreement ultimately saw countries call for "efforts to at least triple adaptation finance" by 2035.

While the language falls short of the binding commitments sought by developing nations, including small island states, the agreement secures adaptation finance as a key topic for subsequent COPs. Alongside progress on mitigation finance following on from the Baku to Belém Roadmap, this raises prospects for blended finance instruments to play a more significant role as a catalyst for mobilising and scaling private finance behind climate and nature opportunities, especially in emerging markets.

#### Where next?

COP31 will be hosted by Turkey and presided over by Australia. We expect that the funding of mitigation and adaptation mechanisms will be the centrepiece of international negotiations, while the nature and just transition workstreams will require continued development. Extending our focus on sector transition plans in 2025, we also expect Australia to elevate the focus of sector transition planning in its pre-COP31 roadshow of countries, in a bid to respond to the call for investable NDCs.

**For more information on our attendance at and reflections on COP30, please see the [latest EOS Annual Review](#).**

<sup>42</sup> UNEP, "Emissions Gap Report 2025" (November 2025).

We worked closely with the Institutional Investors Group on Climate Change (IIGCC) to develop a set of principles for governments drawing up sector transition plans to scale transition finance, including sitting on a dedicated investor working group. The principles, published in February 2025, outlined the importance of sector transition plans being credible and useful, underpinned by public policies that support a commercial sectoral transition, and accompanied by financing mechanisms that catalyse the investability of climate opportunities.

In February, we were appointed to the Transition Finance Council – co-launched by the UK Treasury and the City of London Corporation – as a member of the working group on sector transition plans. We subsequently lead authored guidance on the development of sector transition plans in the Finance Playbook. The playbook describes practical steps for how government, industry, and finance can work together to close the finance gap and accelerate the transition, with sector transition plans as the vehicle for implementation. It also provides a structured approach for deploying blended finance most effectively.

We have subsequently disseminated this UK government-focussed work internationally through a series of group and bilateral meetings with governments and related bodies through 2025, including Australia, Brazil, the European Union, Mexico, Norway, South Korea, and Japan.

In parallel with this real economy, sectoral policy focus, we have continued to actively support high-level climate policies that provide investors with confidence over the long-term policy environment. For example, amidst political headwinds, we wrote to both the president of the European Commission and an influential member of the European Parliament, expressing our general support for the proposed amendment to the EU climate law, which would set a target of reducing the EU's emissions by 90% by 2040 versus 1990 levels, providing long-term visibility to investors and companies over the shape and pace of the transition. We also highlighted the importance of underpinning any such target with real economy policies that will build investor confidence and enable and de-risk transition investments. Subsequently, the European Parliament, European Council, and European Commission agreed the 2040 climate target.

Through our pre-COP30 advocacy, we also amplified our engagement on integrating nature into climate policy. For example, we engaged with the UK and Brazilian governments via the Investor Policy Dialogue on Deforestation.

## Escalation

We continued to implement our climate voting policy, targeting companies that are lagging on climate opportunity and risk management indicators. In 2025, we implemented our voting policy against directors or other relevant proposals for 6 companies (BYD, Etihad, Subsea 7, Power Grid Corp, Sumitomo Mitsui Financial, Wuliangye Yibin Co.). This was 298 companies EOS-wide.

We use collaborative initiatives where we think they will strengthen engagement outcomes, supporting direct dialogue with companies. For example, EOS leads or co-leads engagement at 21 companies and supports more than 35 as part of the Climate Action 100+ (CA100+) initiative. In 2025, we progressed 56 objectives that were set as part of our CA100+ engagements. Further collaborative engagement initiatives we are part of to progress our engagement on climate change include the IIGCC's Net Zero Engagement Initiative and the IIGCC Banks engagement group.

We prioritise systemic stewardship to address the systemic risks and issues across the market as a whole.<sup>43</sup> We have increasingly focussed on the policy environment where companies have undergone best practice corporate transition planning, which has identified critical dependencies on the policy environment for these plans to be delivered commercially. More examples of our public policy efforts, including appointment to the UK's Transition Finance Council and advocacy at COP30, see above.

## In focus: Nature

Extensive scientific and economic research highlights the financially material risks and opportunities associated with nature degradation and biodiversity loss<sup>44</sup>. Nature and ecosystem services underpin economic growth, resilience and value creation, with companies across multiple sectors highly dependent on nature. Increasingly, issues such as water stress and pollution, declines in soil fertility, and deforestation present risks across asset, company, sector and systemic levels. As such, companies and investors should take steps to assess and address their nature-related impacts, dependencies, risks and opportunities.

As with climate, we adopted a tailored approach to risk identification and mitigation due to the systemic nature of the risks posed by nature loss.

Some advancements of our approach in 2025 include the onboarding of a new data provider to advance our ability to assess the nature-related impacts and dependencies of our portfolios.



<sup>43</sup> Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert, and all of these actions are understood to deliver enduring, responsible value for our clients. Furthermore, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

<sup>44</sup> TNFD, "Evidence review on the financial effects of nature-related risks" (August 2025).

## Engagement

We engage with companies to address marine and terrestrial biodiversity loss across their value chains in line with the mission to halt and reverse biodiversity loss by 2030, as agreed within the Global Biodiversity Framework (GBF). We encourage companies to assess and disclose their nature-related impacts, dependencies, risks and opportunities in line with the Taskforce on Nature-related Financial Disclosure (TNFD) recommendations.

Companies can use the insights from the TNFD assessment to develop a strategy and transition plan, with time-bound targets, to address the most material nature-related risks and impacts, as well as to realise relevant opportunities for their business model. We also focus on the governance of nature-related issues, including ensuring robust understanding and oversight at board-level and the alignment of direct and indirect policy engagement approaches.

In 2025, EOS increased its focus on oceans.<sup>45</sup> Overfishing, plastic pollution and global heating pose serious threats to the long-term health of the oceans, potentially jeopardising future food security. Ocean health is essential for long-term business resilience and value creation. We encourage companies across relevant sectors to strengthen their understanding of ocean-related risks and opportunities, and to elevate their focus on their value chain impacts and dependencies on marine ecosystems.

## Collaborative Engagement

In addition to direct engagement with companies, in 2025 we continued to deepen our engagement on nature through collaborative initiatives,<sup>46</sup> including Nature Action 100, FAIRR, PRI Spring, the Ceres Valuing Water Finance Initiative, the Investor Initiative on Hazardous Chemicals, FABRIC and the Finance Sector Deforestation Action (FSDA) initiative. We continued to play leadership roles in some of these initiatives in 2025, including being on the advisory committee of the Investor Initiative on Hazardous Chemicals and the steering group for Nature Action 100.

## Advocacy

Nature degradation and biodiversity loss pose material risks to many of the companies and assets in which we invest. It is not always within the control of individual companies to fully mitigate their exposure, given that nature-related risks are systemic and complex. In line with our fiduciary duty, we therefore engage on policy and market best practice developments to support measures to mitigate nature-related risks and impacts, as well as to capture the opportunities for enhanced resilience and value creation.

Following our attendance at the Biodiversity COP16 summit in Colombia in 2024, our policy and market best practice engagement in 2025 has continued to centre around the implementation of the Global Biodiversity Framework (GBF) at the national level, including through an increased focus on nature transition planning.

## Global Biodiversity Framework

### Resumed COP16 Session

We attended the resumed session of COP16 in our capacity as co-chair of the Finance for Biodiversity Foundation's policy advocacy working group. Ahead of the session, we called on governments to:

- Adopt a resource mobilisation strategy that includes concrete actions to enable the alignment of financial flows and close the nature funding gap.
- Secure a robust monitoring framework with meaningful indicators to create accountability and track government progress on implementing the Global Biodiversity Framework (GBF) targets.

We followed the negotiations on the resource mobilisation strategy and the monitoring framework. We also engaged directly with several negotiators, including those from Switzerland, the UK, and Norway, during the course of the session in Rome to exchange views. The resource mobilisation strategy and the monitoring framework were adopted following three days of resumed COP16 negotiations in Rome.

### UK National Progress Report Call for Evidence

The Finance for Biodiversity Foundation was asked to submit a response to the Convention on Biological Diversity's seventh National Progress Report Call for Evidence about the UK's progress on implementing the Global Biodiversity Framework (GBF). We provided input to this response through the Finance for Biodiversity Foundation UK policy sub-group.

The response focused on the four GBF targets that are most relevant to private finance: 14 (mainstreaming of nature across policymaking and aligning financial flows with nature targets), 15 (assessment and disclosure requirements for companies and financial institutions), 18 (subsidy reform), and 19 (financing of nature protection and restoration).



<sup>45</sup> EOS Public Engagement Report.

<sup>46</sup> Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert, and all of these actions are understood to deliver enduring, responsible value for our clients. Furthermore, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.



For targets 14, 15 and 19, the response indicated that progress has been made but at an insufficient rate. For target 18, the response indicated that there has not been significant progress. Evidence and suggestions for opportunities to strengthen GBF implementation were outlined for each of the focus targets.

Our recommendations included adopting a whole-of-government approach to address nature loss and the impacts it will have across sectors, and the need to develop sectoral transformation pathways with supporting policies to guide private sector action. It also emphasised the importance of continuing to focus on reducing financial flows and economic activities that are currently harming nature alongside increasing financing for nature. The response recommended proceeding with the adoption of the UK's deforestation due diligence law and implementing biodiversity net gain regulations without further delay. All countries' progress towards implementing the GBF will be reviewed during the global stocktake at the Biodiversity COP17 in Armenia in October 2026.

### UK Government's Land Use Consultation

We responded to the UK Government's Land Use Consultation, encouraging the Government to include companies and investors, alongside landowners and farmers, in the discussion around land use change. We questioned how the Government's proposed land use change would affect food production, and thus supply chain resilience for consumer goods companies.

We encouraged robust multi-level governance that supports supply chain resilience within the food system through the inclusion of clear and consistent signalling, and policies and incentives to support farmers during the transition to sustainable agriculture (including multifunctional land uses) over the long term. We also suggested that the Government could consider mandatory nature-related disclosure and incentivisation structures to drive insetting by companies.

We contributed ideas to accelerate the delivery of the GBF's "30 by 30" commitment. We also suggested that the Government could develop a framework for sectoral pathways that holistically address nature and climate.

### Nature Transition Plans

#### TNFD Discussion Paper on Nature Transition Plans

FHL and EOS jointly submitted a consultation response to the Taskforce for Nature-related Financial Disclosures (TNFD) discussion paper on nature transition plans. We strongly recommended that the TNFD's overall approach should focus on integrated nature-climate transition plans, rather than exclusively nature transition plans, and that the TNFD should develop guidance related to this. We provided recommendations to clarify and enhance provisions related to the disclosure of relevant activities by financial institutions.

We also suggested a greater emphasis on the inclusion of engagement around human rights and just transition, and how and when that might be facilitated during the development of transition plans. We recommended more robust discussion around governance and disclosure regarding nature-related lobbying. Finally, we recommended emphasising that biodiversity credits should only be used as a last resort, and expressed our support for aligning with guidance from the International Advisory Panel on Biodiversity Credits. Following the consultation, the TNFD published its Guidance on Nature in Transition Plans,<sup>47</sup> which encourages integrated climate and nature transition plans.

#### Australian Treasury Consultation on Proposed Transition Planning Guidance

We also responded to the Australian Treasury's consultation on its proposed transition planning guidance. We suggested that the Government should actively encourage and support the development of integrated climate (transition and adaptation) and nature transition plans.

Additionally, we recommended that the guidance should highlight how transition plans can support government in identifying the necessary policies to deliver national transition, adaptation, and nature goals. We also reiterated our suggestion that government can develop sector transition plans as vehicles for this engagement and implementation with industry.

<sup>47</sup> TNFD, "Guidance on nature in transition plans" (November 2025).



Given Australia's national climate and nature goals under the Paris Agreement and the Global Biodiversity Framework and subsequent policymaking, we suggested that investors and companies would benefit from greater clarity in the guidance over the suggested ambition of transition plans. We provided suggestions on how the government could do this while recognising commercial constraints.

## Deforestation

### EU Deforestation Due Diligence Regulation

We signed a joint private letter to the European Commission to encourage prompt implementation of the EU deforestation due diligence regulation, without further delays. The letter was signed by 31 investors, representing US\$6tn in assets under management or advice. The letter highlighted the financial materiality of deforestation-related risks to companies and investors. It said that calls to further delay or weaken the regulation sent counterproductive signals to the business community and eroded the legal and economic certainty that businesses and investors need. It also discouraged the addition of a "zero risk" country category for deforestation. Following the letter, businesses were given one additional year to comply with the new rules, and some other elements of the regulations were simplified.

## Oceans

### Deep-seabed mining joint statement

In July 2025, a group of 40 financial institutions, including FHL, reissued a joint statement urging governments to protect the ocean and to not go ahead with deep-seabed mining until the environmental, social, and economic risks are comprehensively understood, and alternatives to deep-sea minerals have been fully explored.

The signatories reissued the statement ahead of the 30th International Seabed Authority (ISA) Assembly on 21-25 July 2025. The statement was initially published in 2023 and, since then, the position of the signatories has not changed. The ISA Assembly closed without approving a mining code, effectively ensuring a pause on deep-seabed mining activities, marking significant progress for sustainable ocean stewardship. The outcome follows mounting global concerns about the environmental, social, and economic risks of exploiting seabed ecosystems.

## Escalation

We use a range of stewardship techniques to escalate engagement, with the goal of enhancing engagement outcomes. Annual meetings provide an important opportunity for doing so. We continued to implement our deforestation voting policy, focussing on companies that are lagging on the disclosure and management of deforestation-related risks. This year, we implemented our voting policy against directors or other relevant proposals at Meiji Holdings and Kikkoman,<sup>48</sup> amongst other companies. Following our meeting with WH Group in Hong Kong, we remained concerned about its ongoing supply chain deforestation risks, and therefore voted against the vice chair's election. We supported nature-related shareholder proposals at companies including General Mills and Woolworths Group.<sup>49</sup> We also supported shareholder proposals on deforestation at several Australian banks to enable better identification and management of nature-related financial risks and opportunities. In addition, we asked the chair a question on oceans at the Standard Chartered<sup>50</sup> annual general meeting in 2025.

We use collaborative initiatives where we think they will strengthen engagement outcomes, supporting direct dialogue with companies.<sup>51</sup> For examples, please see earlier section on collaborative engagement.

Nature is also an area where we prioritise public policy and market best practice work, given the need to address systemic risks and issues across the economy. We have several examples from 2025 detailed above.

## In focus: human and labour rights

A failure to protect and respect human rights undermines not just the wellbeing and dignity of individuals but also damages the wellbeing of economies and societies. The Universal Declaration of Human Right is clear that 'every individual and every organ of society' has responsibility to promote and protect human rights. As noted in the UN Guiding Principles on Business and Human Rights, this responsibility also applies to companies and investors.

For our investments, we consider the human rights impacts that the companies or entities in which we invest may cause, contribute to, or be directly linked to, through their own operations or business relationships. We recognise that

<sup>48</sup> These companies were not FHL holdings at the time of reporting.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert, and all of these actions are understood to deliver enduring, responsible value for our clients. Furthermore, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

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

More detail on our approach to human and labour rights is available in our [Responsible Investment \(RI\) Policy](#).

## Engagement

A strong commitment to protecting human rights is crucial for responsible business development and materially linked to long-term wealth creation for companies. Without this, companies may lay themselves open to legal and financial penalties, operational disruption, and stakeholder backlash, harming their social licence to operate and ability to deliver value for their investors.

Certain geographies carry heightened human rights risks and therefore require enhanced due diligence and consideration from companies. EOS does not have a fixed definition of high-risk regions, but we consider factors such as the presence of conflict and the degree of legal protection in place for workers.

In 2020, EOS outlined our engagement approach for human rights in high-risk regions. Since then, we have seen the invasion of Ukraine by Russia in 2022, and an escalation of violence in the Middle East. Meanwhile, the proportion of global land mass impacted by conflict has increased by 65% since 2021.<sup>52</sup>

Our engagement remains apolitical and is guided by the expectation that all companies should operate in alignment with the UN Guiding Principles on Business and Human Rights (UNGPs). Our underlying approach and commitment to the UNGPs has been relatively unchanged, but we may emphasise certain aspects on a case-by-case basis depending on the region in question and the nature of a company's involvement. More information on our approach can be found in our [2024 EOS Annual Review](#).

## Deep dive: why protecting worker rights matters

Protecting worker rights is materially linked to long-term value creation for companies. Those that uphold fair labour practices, whether within their own operations or across supplier networks, can reduce the risk of operational disruptions, improve productivity, and strengthen supplier relationships. In addition, improved employee retention resulting in lower turnover, and enhanced production quality, can lead to lower expenses and higher revenues, making this a potential source of competitive advantage, rather than just compliance.

Conversely, labour exploitation at any level exposes brands to the risk of higher legal expenses, as well as reputational risks that can erode brand value and negatively impact revenues. Strong supply chain standards build trust and identity, supporting employee and customer loyalty. Enhanced brand strength can drive higher margins and long-term profit growth, which improves investor confidence. Embedding these standards enhances transparency and resilience, helping companies avoid costly operating disruptions, fines, or supply chain interruptions.

As many consumers and investors increasingly favour businesses committed to responsible labour practices, firms that lead on these issues are better positioned to capture investment and growth, while maintaining their competitiveness. We encourage companies to recognise these dynamics and integrate robust practices that protect workers and long-term investor interests.

## Key drivers of supply chain worker rights

We identify several drivers that play a pivotal role in advancing supply chain labour rights: customers, regulators, investors, NGOs, and companies themselves.

### Customers

Consumers are increasingly vocal about ethical sourcing, with protests, boycott campaigns, and social media amplifying pressure on brands that fail to respect labour rights. This activism can quickly translate into lost sales and diminished brand equity, making it a powerful driver for change. Companies that demonstrate strong commitments to worker welfare often enjoy greater loyalty and pricing power, reinforcing the link between ethics and profitability.

Well-known brands such as Patagonia<sup>53</sup> and Unilever are recognised for their ethical sourcing practices, which strengthen their market position. In contrast, some brands operating in the discounted fast fashion space have attracted protests catalysed by allegations of unethical sourcing practices.



<sup>52</sup> Political Risk Outlook, 'Global conflict zones grow by two-thirds since 2021, topping 6 million km<sup>2</sup>' (November 2024).

<sup>53</sup> At time of reporting, Patagonia was not a FHL holding.



## Regulators

Regulatory frameworks are tightening globally. The EU Corporate Sustainability Due Diligence Directive (CSDDD), the UK Modern Slavery Act, and the US Uyghur Forced Labor Prevention Act (UFLPA) impose obligations on companies to identify and mitigate human rights risks in their own operations and supply chains. Non-compliance can lead to fines, litigation, and supply chain disruptions, causing reputational damage and short-term costs for companies. These regulations signal a global shift towards mandatory human rights due diligence, making proactive compliance essential for companies operating internationally.

## Investors

In addition to their focus on the reputational impacts on sales and costs from regulatory non-compliance, investors are increasingly linking human rights practices to access to capital. Initiatives such as the UN Guiding Principles (UNGP) and investor-led stewardship frameworks emphasise that poor labour practices can result in exclusion from sustainable investment portfolios and potentially higher financing costs. Conversely, strong governance on labour rights can attract sustainability-focused capital and enhance shareholder confidence, reinforcing the financial case for robust human rights management.

## NGOs

Non-governmental organisations (NGOs) play a watchdog role, monitoring and exposing violations that can trigger reputational crises. For example, in 2024, the Business & Human Rights Resource Centre alleged that certain fast fashion and luxury brands were linked to labour rights abuses.<sup>54</sup> NGO reports may influence public opinion and investor decisions, making transparency and collaboration essential for companies seeking to maintain trust. Engagement with credible NGOs can help businesses identify risks early and demonstrate accountability.

## Companies

Ultimately, companies themselves must embed human rights risk management into their global sourcing operations. This requires investment in thorough supplier due diligence from the outset, effective grievance mechanisms, and board-level oversight, in line with the UN Guiding Principles (UNGPs) followed by many companies. By addressing these drivers collectively, businesses can strengthen their competitive position while meeting growing expectations from stakeholders and capital markets.

## Challenges and caveats

While these drivers exert significant influence, there is no silver bullet for eradicating labour rights abuses. Customer activism can be powerful but often reactive, short term and inconsistent, with attention shifting quickly between issues. Regulatory frameworks, although strengthening, vary across jurisdictions and can be slow to enforce, leaving regulatory gaps. Even robust laws depend on effective monitoring of corporate compliance, which remains a systemic challenge.

Investor pressure is growing, yet ESG integration remains uneven, and overly short-term financial priorities can dilute commitments to human rights that would be supportive of long-term value creation. NGOs provide critical oversight, but their reach is often constrained by limited resources and a lack of formal investigative powers. This restricts engagement access, as companies may refuse to respond to requests, or respond defensively rather than collaboratively.

Corporate risk management is essential, but implementation across complex global supply chains is challenging, particularly where subcontracting and informal labour are prevalent, as in developing countries. We recognise these limitations and engage to encourage systemic improvements, fostering collaboration between stakeholders and promoting transparency. Progress requires persistent effort and shared responsibility, as no single actor can fully mitigate the risks alone.

<sup>54</sup> Business & Human Rights Resource Centre, "Fast fashion and luxury brands shift orders in hunt for cheaper labour, impacting thousands of garment workers" (December 2024).



## CASE STUDY

## BYD



**BYD is a leading Chinese electric vehicle (EV) manufacturer, seeking to build market share in key European territories. In April 2025 it outsold Tesla in Europe for the first time, following a consumer backlash against the US EV manufacturer.<sup>55,56</sup> However, in May 2025, Brazilian prosecutors brought a lawsuit against BYD over labour conditions at a factory construction site.<sup>57</sup>**

The case highlighted the severe risks of inadequate human rights oversight in global supply chains. According to media reports, a Brazilian labour department surprise inspection in late 2024 allegedly revealed poor conditions for over 100 Chinese workers at BYD's EV plant construction site in Bahia, Brazil.<sup>58</sup> The lawsuit filed in May alleged human trafficking and forced labour and sought damages of approximately US\$45m. The incident delayed the plant launch and disrupted BYD's South American expansion, while raising reputational concerns globally.

We have engaged with BYD on this matter since January 2025, pressing for stronger governance and risk management. While BYD has terminated its contractor, repatriated workers, and formed a compliance committee, we consider these steps to be reactive, exposing gaps in board-level oversight.

The case underscores financially material risks, such as legal penalties and associated compensation, which increase costs. Other risks include operational delays and reputational harm, potentially deterring prospective buyers, reducing sales and revenue. This is harmful to profitability and can also deter investors. We continue to advocate for systematic improvements, including third-party audits, greater local expertise, and robust oversight, to prevent a recurrence at other overseas manufacturing premises, and protect long-term value.

(Published March 2026)

## Escalation

We continued to implement our human rights voting policy, targeting companies that are lagging on the disclosure and management of human rights-related risks. This year, we implemented our voting policy against directors or other relevant proposals at one company, Amazon.

**We use collaborative initiatives where we think they will strengthen engagement outcomes, supporting direct dialogue with companies.**

For example, we are part of the PRI Advance collaborative stewardship initiative on human rights and social issues. EOS leads four PRI Advance engagements (Alcoa, Anglo American, POSCO, and Rio Tinto) and supports an additional five (Arcelor Mittal, BHP, Duke, Glencore, and Vale). We utilise these discussions to elevate human rights within our existing company dialogues. For example, our engagement with POSCO was highlighted as a case study in the [PRI Advance 2025 Progress Report](#) (page 43). The case study describes how investor concerns around labour issues in the company's joint venture led to enhanced board and management oversight of human rights risks.

<sup>55</sup> Reuters, "China's BYD outsells Tesla in Europe for first time, report says" (May 2025).

<sup>56</sup> Jato, "BYD outsells Tesla in Europe for the first time as registrations surge in April" (May 2025).

<sup>57</sup> BBC News, "Brazil sues China carmaker BYD over 'slave-like' conditions" (May 2025).

<sup>58</sup> BBC News, "Brazil shuts BYD factory site over 'slavery' conditions" (December 2024).

## Principle 3

Signatories engage to maintain or enhance the value of assets.

### How we select and prioritise issues for engagement and develop objectives

Our approach to engagement is driven by our purpose and investment beliefs. We believe that the purpose of investment is to create wealth responsibly over the long term and that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors and companies, which also delivers benefits for society and the environment. We aim to generate enduring, responsible wealth creation for the end beneficiary investor, encompassing both investment returns and their social and environmental impact.

As a result, our engagement is outcomes-driven and focused on ensuring that the companies we invest in are creating wealth responsibly. Given the time horizons of our strategies to meet our clients' needs (as described under Section A of our Policy & Context Disclosure) we are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies. We believe that this approach delivers the best results for our clients and end beneficiaries.

We adopt a systematic approach to identifying companies for engagement. We select companies and tailor the intensity of engagement based on the size of our investment, materiality of the risks and issues and feasibility of achieving change through engagement. We believe that this enables us to most effectively serve our clients' needs by focusing our efforts on where they are needed the most and can have the most impact.

Our EOS Engagement Plan and related corporate governance principles and voting guidelines, as well as our FHL Voting Policy and Guidelines which are updated each year drawing on our extensive experience as an active and engaged shareholder, set out a number of best practice recommendations which we believe should exist between owners, boards and managers to create a framework for communication and dialogue.

### Public markets

EOS has established a detailed public markets Engagement Plan on a rolling three-year basis, with themes ranging from human and labour rights to circular economy and zero pollution. EOS focuses its stewardship on the issues with greatest potential to deliver enduring responsible wealth for investors including through positive societal and environmental outcomes. The full taxonomy below identifies the key themes and related sub-themes for engagement. This breadth of coverage across the whole programme is necessary to reflect the diversity of issues in our global Engagement Plan, which covers all regions and sectors, including those which are most material to the individual companies. The selection of these themes is developed in line with input from the investment teams at FHL, as well as EOS' third-party clients.

We review our Engagement Plan every year to ensure it is up to date and reflects client priorities. In 2025, artificial intelligence (AI) moved firmly into the mainstream of business operations, with over half of global enterprises using AI tools to drive productivity gains while introducing new risks related to energy demand, job displacement, bias, data privacy and cyberattacks. Geopolitical instability persisted, with the Russia-Ukraine war entering its fourth year and conflicts across the Middle East driving higher defence spending and renewed scrutiny of the ethical and sustainability profile of defence investments. The energy transition continued, with renewables accounting for 38% of global energy supply growth<sup>59</sup> and global EV sales approaching 20% of all car sales.<sup>60</sup> Extreme weather events continued at an unprecedented scale, reinforcing the need for companies and governments to invest in climate physical risk resilience.

Businesses faced a challenging tariff landscape, with average effective tariffs increasing from 2.4% to 11-12%.<sup>61</sup> While inflationary pressures eased in certain markets, real wage growth remained sluggish, and consumers continued to face a high cost-of-living. Given the rising risks and opportunities associated with technological, environmental and societal megatrends, investor protections, strong governance, and an adaptive corporate strategy are more important than ever.

<sup>59</sup> World Economic Forum, "How far advanced is the energy transition?" (July 2025)

<sup>60</sup> IEA, "Global Energy Review 2025"

<sup>61</sup> The Budget Lab, "Short-run Effects of 2025 Tariffs So Far" (September 2025)

**Figure 19.** Engagement themes: our stewardship process to achieve long-term sustainable returns on investment



Source: FHL, as at 31 December 2025.

Through client feedback, it was again confirmed we were continuing to strike “about the right balance of breadth and intensity” of engagement.

Based on the review, our engagement work in 2025 continued to focus the four priority areas – energy transition, human and labour rights, human capital, and board effectiveness – as these remained the most material themes. Information on the four priority themes can be found under Principle 2.

We annually review, develop and publish a rolling three-year [Engagement Plan](#). The EOS engagement selection process is a key structure which enables us to support client stewardship. We select 307 companies for the core EOS Engagement Programme, of which approximately 151 are also held by FHL’s equity and credit teams (as at 31 December 2025). These companies are formally identified on an annual basis and reviewed for continuing materiality throughout the year. The three key considerations are:

**1 Size of holdings.** EOS take into consideration the aggregate holding size of FHL and EOS clients.

**2 Materiality of identified ESG and financial risks.** This is assessed by EOS engagers using quantitative and qualitative data sources, including inputs from external providers like Planetrics, NetPurpose, Sustanalytics, MSCI, Trucost, CDP, BoardEx, ISS, FactSet and Bloomberg. EOS also considers the output from our quarterly screening tool, the Controversial Companies Report, which looks at any severe controversies and a number of internal norms and standards including the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. It also uses the proprietary ESG Dashboard and QESG score, which captures how a company manages its sustainability risks and whether it is improving. All this data is scrutinised by the EOS team, alongside insights from engagement and voting history, media flow, investment management intelligence, public policy and market best-practice trends.

**3 Feasibility of engagement.** We endeavour to allocate our engagement resources efficiently and towards companies where we can affect change.



This combination of analysis supports our pursuit of stewardship.

Each company in our core engagement programme is given an appropriate intensity tier, based on the likely impact of engagement and ultimate benefit to the value of the underlying investment. We then assess the required intensity or depth of the engagement needed to resolve the issues:

**Tier 1+** – a small number of companies also termed ‘Super Tier 1’ companies with material client holdings that have more significant or numerous long-term sustainability or corporate governance issues with the opportunity of feasible engagement and where intense engagement and possibly time spent collaborating with other investors, supported by detailed research, is anticipated to be required in order to achieve material change, with the expectation of approximately eight to ten interactions per year.

**Tier 1** – Companies with material client holdings that have more significant or numerous long-term sustainability or corporate governance issues with the opportunity of feasible engagement and which we consider require more time and effort to progress, including more detailed research, leading to typically more intense engagement, with the expectation of approximately five interactions per year.

**Tier 2** – Companies with material client holdings and identifiable long-term sustainability or corporate governance issues with the opportunity of feasible engagement, which we consider can be meaningfully pursued with average levels of time and effort, with the expectation of approximately three interactions per year.

**Tier 3** – Companies representing significant client holdings which either a) face a particular identified ESG-related risk which can be addressed with limited, targeted engagement; b) have generally lower levels of risk to long-term sustainability; or c) are in the process of being monitored for implementation of the outcomes of previous engagement work. We typically only set one engagement objective, or follow a limited number of engagement issues rather than specific engagement objectives, and plan one or two interactions per year.

There are many companies with whom we engage that sit outside of our core Engagement Plan. EOS proactively engages with around 900 companies annually, of which approximately 450 are held by FHL. Around 375 of the companies which are not in the core engagement programme are selected as EOS engagement targets by our investment teams based again on the size of our holding, the materiality of the issues and the feasibility of engagement. Although these engagement targets are selected by our investment teams, the output of these engagements are also provided to EOS third-party clients. The remainder of reported engagements relate to issues around voting at general meetings or are in reaction to events that cannot be predicted in advance. In addition to the above, non-dedicated engagers in our investment teams also conduct engagements with companies directly. These engagements are not reflected in our overall engagement statistics.

In addition, EOS implements voting policies for around 13,500 meetings to both FHL and third-party clients, using engagement insights to inform its rationale where possible. Finally, EOS monitors around 25,000 companies held by FHL and third-party clients. Overall, these processes enable us to provide comprehensive stewardship coverage.

The EOS & Responsibility senior leadership team<sup>62</sup> review and advise on the design and implementation of our Engagement Plan and engagement programme, in addition to our voting and screening services. It considers engagement quality, continuity, and coverage in the interests of clients.

**Setting engagement objectives:** We set clear and specific objectives within our company engagements to ensure we achieve positive outcomes. An objective is a specific, measurable change defined at the company – an outcome we are seeking to achieve. Each objective is tracked using milestones. Objectives are regularly reviewed until they are completed – when the company has demonstrably implemented the change requested – or discontinued. Objectives may be discontinued if the objective is no longer relevant, or because the engagement is no longer feasible or material.

We may engage with a company on multiple objectives at any one time, covering a variety of material ESG issues. An example of an objective could be: “Development of a strategy consistent with the goals of the Paris Agreement, including setting science-based emissions reduction targets for operating emissions (Scopes 1 and 2 emissions).” Each objective relates to a single theme and sub-theme.

As of 2026, the Engagement Plan now fully integrates the Financial Connectivity™ platform into the prioritisation of engagement topics for each sector. This informs our selection of the more financially material engagement topics for individual companies. The platform further enhances engagement effectiveness, providing a clear financial compass to guide engagement due diligence and discussions with companies, to holistically assess risk and uncover opportunities. For more information on the Financial Connectivity™ logic and platform, please see the latest [EOS Annual Review](#).

<sup>62</sup> The EOS & Responsibility Senior Leadership Team consists of the Head of Responsibility; the Head of Stewardship; the Regional Team Leads (North America, Europe and Asia and Emerging Markets); the Head of Client Service & Business Development for EOS; the Head of Responsible Investment Business Management; the Global Head of Institutional Clients; the Sustainability Director; and Managing Legal Counsel.

**Issues:** An issue is a topic we have raised with a company in engagement, but where we do not precisely define the outcome that we are seeking to achieve. This can be more appropriate if the issue is of lower materiality and so we do not anticipate engaging with the frequency required to pursue an objective. Or perhaps we are still in the process of identifying what type of change we may want to see at a company and so are not yet able to set a precise objective. Issues are frequently used for companies outside our continuous engagement programme, for example those where we typically engage only around the annual shareholder meeting and our voting implementation.

**Measuring progress – Milestones:** To measure our progress and the achievement of engagement objectives, we use a four-stage milestone strategy. When we set an objective at the start of an engagement, we will also identify recognisable milestones that need to be achieved. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

Figure 20. EOS' proprietary milestone system



Source: FHL, as at 31 December 2025.

In this example, we have applied human and labour rights, which is one of our Engagement Plan social themes, and focused on the digital rights and AI sub-theme to set a tailored objective for a Chinese multinational technology company. We asked the firm to demonstrate alignment of the company's strategy with a reduction in net-zero emissions and detail below how we would recognise progress along our milestone stages:

- **Milestone 1:** Concerns raised at company that it should explain how it uses AI and how it is governed.
- **Milestone 2:** Company acknowledges our concerns and the requests we made to explain AI governance.
- **Milestone 3:** Milestone progress made: company confirms a plan to disclose the principles and approach of the company on the ethical use and governance of AI in a comprehensive document.
- **Milestone 4:** Completion: company successfully discloses their principles and approach on the ethical use and governance of AI, supported by additional detail provided through publication of an ESG report and relevant company webinars.

Our milestones are specific and measurable, which helps us identify progress towards achieving the objective. An engagement objective can take up to three years to complete,

depending on factors that include the nature of the issue and how receptive the company is to engagement. Engagement clinics are held with directors to review and challenge engagement strategy and tactics, to ensure that objectives are appropriate and also that milestone progress correctly reflects reality. In some rare instances, we will discontinue engagements on the basis that our engagement efforts have been met with strong resistance or the matter has dissolved.

**Actions:** These are the interactions that take place between our engagement professionals and the companies or public policy bodies with whom they are engaging. Every call, meeting or correspondence is recorded as an action. Actions can be linked to objectives or issues. We only consider companies to be engaged when we have an individual interaction with the company that relates to an objective or issue.

Our approach to climate change engagement is detailed in our Climate Action Plan.

### Private markets

For our private market strategies, engagements are prioritised according to the exposure of the portfolios. For example, in our Direct Lending strategy, the team engages with the sponsor and management team to remedy any ESG issue that arises during the life of a loan. This engagement is conducted in collaboration with EOS, where appropriate, to ensure that the engagement is outcomes-focused and impactful.

### Real Estate Debt

The majority of our real estate lending investments are bilateral loans, meaning we have a direct relationship with the borrower or sponsor. As a result, we engage with the borrower at origination when business plan and loan terms are determined and throughout the life of the investment to check progress or address any ESG issues that may arise during the loan term.

### Real Estate

Our real estate business is an industry leader in responsible asset and development management. The team has developed their sustainability framework with principles, commitments and targets.

The real estate team has been monitoring the sustainability performance of its directly managed assets since 2006 and has annual targets which are monitored and reported against in our public [Real Estate ESG report](#). The team has also created a range of dedicated tools and procedures that cover all aspects of our real estate operations. Our ESG programme integrates the following procedures and tools:

- Minimum sustainability requirements for refurbishments and developments set out in our internal Design Innovation Standards and Responsible Property Management Refurbishment Guide. These include requirements that construction contractors comply with sustainability guidelines, environmental site-selection requirements, environmental site-development requirements, resilient building design and orientation and minimum requirements on pollution, sustainable materials, waste, energy, water and biodiversity.

- Dedicated ESG guidelines for our directly managed assets, such as on the following topics: water efficiency requirements, energy efficiency requirements, energy generation from on-site renewable sources, waste management plans at sites and occupier health and wellbeing requirements.
- Strategic and operational sustainability benchmarking of our real-estate funds.
- Active data management systems for utilities and waste.
- Ongoing monitoring of performance with continuous feedback between property managers, investment managers and sustainability experts.
- Stringent risk and safety requirements and supporting tools.
- Community and occupier engagement tools and programmes.

These tools enable us to assess, monitor and manage social and environmental risks and opportunities in the real estate portfolio, and therefore inform the objectives of our engagement.

As part of our Real Estate ESG programme, we have been assessing what positive impact investment would mean for each step of our investment process. Our ‘impactful intent’ approach aims to deepen our sustainability practice by intentionally seeking a defined positive environmental or social outcome in a particular place or market as a core focus of our responsible investment strategy, in addition to strong risk-adjusted financial returns. This involves using a purposeful framework to focus our real-estate operations on three specific impactful investment themes. For each of these

investment themes, we are committing to activities with measurable environmental, economic and societal outcomes, which ultimately support specific SDG targets.

At the heart of our approach is our commitment to creating a ‘meaningful city’ – or a place that people want to live and work in, and which foster a sense of belonging among inhabitants. Because most of our investment is concentrated in densely populated urban areas, it is inevitable that the way we manage these developments will have a deep, long-lasting effect on the cities and the people that live in them.

Under Principle 2, we describe our real estate team’s commitment to net zero and the pathway to achieving these goals.

### Infrastructure

Every investment professional in the infrastructure team has responsibility for asset management, albeit with certain professionals primarily focussed on this area. The asset management team is responsible for the ongoing monitoring of each investment including annual strategic reviews, semi-annual valuation processes and investor reporting, and engagement at the portfolio company-level. This may be through Board representation on operating or holding companies, or as active members of ESG or Sustainability Committees, as applicable.

Our principal asset management purpose is to generate long-term, sustainable and mandate-compliant returns for our investors. We have a mature framework in place which creates the environment to achieve this purpose. The figure below demonstrates this approach.

Figure 21. Infrastructure asset management approach



Source: FHL, as at 31 December 2025.

Post initial acquisition, annual strategic reviews, undertaken in Q1 each year, provide a status update of each investment’s performance to date, key valuation metrics and outlook, and key risks and opportunities, informing our strategy at asset- and portfolio-level. These reviews incorporate an assessment against our baseline expectations alongside investment-specific analysis to identify material sustainability factors that could impact value creation or preservation. This approach enables us to integrate sustainability priorities into asset- and portfolio-level strategy in a way that is both targeted and commercially relevant.

Objectives are tracked quarterly using an EOS-informed milestone approach with the aim of seeking continuous improvement. Performance is monitored, analysed and reported through an internal monthly flash report.

From a thematic perspective, climate change remains our primary sustainability engagement focus across the infrastructure portfolio. With extreme climate events intensifying, we continue to push for robust Board-level oversight of climate risks and opportunities, supported by our strong governance rights and active engagement approach. The infrastructure team has committed to achieving 100% Paris Alignment across all assets by 2025 and Net Zero by 2050. Alongside climate, we recognise the growing importance of nature and biodiversity and in 2024 committed to assessing our portfolio’s impacts, dependencies, risks and opportunities to build a deeper understanding of these issues.

Beyond climate and nature, we prioritise action on pollution, waste and resource use, encouraging circular business models and responsible natural resource management. We also focus

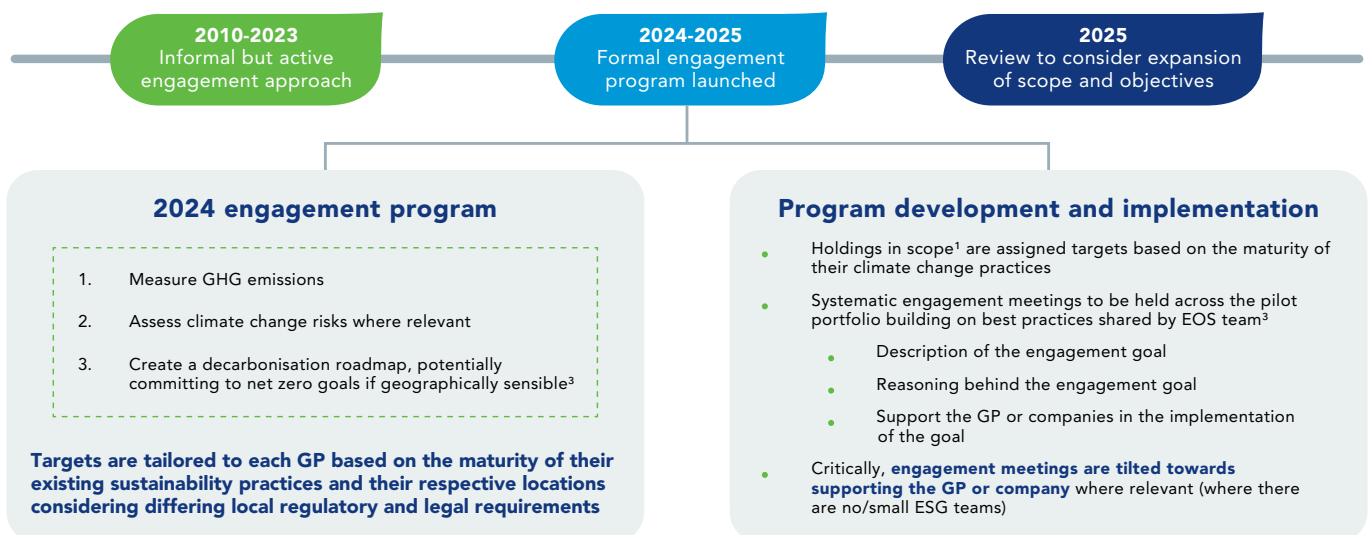
on occupational health, safety and wellbeing given the industrial nature of infrastructure assets, and promote strong D&I strategies that include targets, resources and transparent reporting. Underpinning all of this is an appreciation of the public-service nature of infrastructure and the need to maintain our social licence to operate, ensuring that our investments remain a force for good for stakeholders and communities.

**Private equity**

We seek to improve and protect the financial value of investments through assessing, monitoring and seeking improvements to material sustainability risk areas. Our private equity team takes a risk-based approach to effectively identify, monitor and manage sustainability risks, opportunities and impacts identified across its portfolio. For direct co-investments, we receive quarterly reports from the GP that include both financial information and qualitative data. These reports often contain E, S and G information. In addition to this, we follow up with the GP and discuss the reports and any other topics we wish to raise. For fund investments we also receive quarterly reports and are invited to participate in AGMs. In a minority of cases, we are part of the limited partner advisory committee (LPAC) and hence part of the fund’s governance structure.

Engagement objectives are focused on the assets with higher identified sustainability risks and on the largest positions, due to their potential systemic impact. While we have traditionally engaged in an informal manner as described above, we have developed a more structured engagement framework on a pilot portfolio focusing more directly on climate and related risks.<sup>63</sup>

**Figure 22.** Engagement programme focused on climate-related risks<sup>64</sup>



Source: FHL, as at 31 December 2025.

<sup>63</sup> All engagement on climate and related risks is subject to careful consideration to ensure that it is aligned to client objectives and directions, as well as fiduciary obligations and jurisdictional legal requirements, in particular for US issuers and US clients.

<sup>64</sup> Scope defined based on LPs’ requirements and own ESG policies.

## How we engage

### Public markets

Our public markets dialogue with investee companies is primarily conducted through in-person meetings, calls, letters or emails, either individually or as part of a collaborative group.<sup>65</sup> The nature and frequency of the dialogue depend on the location of the company, stage of engagement, severity of the issue and willingness of the company to engage.

As evidenced by research, effective engagement that delivers value, demands a specific skill set that goes far beyond written activity or interaction with lower-level company representatives. Change is brought about by access at the board level gained by engagement professionals who have industry or professional experience, gravitas and specialist skills at challenging senior decision makers.<sup>66</sup>

The majority of our dialogues are conducted with the board of directors (primarily the chair, lead independent director and chairs of board committees), corporate secretary, subject specialists or investor relations. Occasionally the dialogue is with executive teams, although only where we believe the concern justifies their time and attention.

**Figure 23.** Number of companies engaged at board/senior level in public markets

**We have engaged 334 companies at board/senior management level,<sup>67</sup> including:**

Senior management	
CEO	46
Chair	35
Company secretary	85
Executive management team	83
Head of Sustainability	147
Other board director	49
Other company executive	107
<b>Grand Total<sup>68</sup></b>	<b>334</b>

Source: FHL, as at 31 December 2025.

We use our own relationships to initiate and progress engagements in the majority of cases, whether this is through the investment teams or EOS, in addition to attending meetings facilitated by intermediaries. Most public markets engagements are carried out by EOS, who may be joined by relevant portfolio managers or analysts from our investment teams. The investment teams also carry out engagements themselves, although these are only reported if conducted by dedicated engagement staff. The Responsibility Office ensures that our investment teams and EOS work closely together with a joined-up approach.

Making realistic and realisable demands of companies, informed by hands-on experience of business management and strategy setting, is critical to the success of our engagements. With all engagements, we seek to build a strong relationship with the company and are willing to be patient, remaining focused on achieving goals which are directed towards long-term success. Our proprietary systems enable us to track progress against specific objectives and remain outcomes-focused throughout the duration of our engagement with a company. We have invested in the underlying systems in which we capture, measure, manage and then express our stewardship activity and outcomes. Not only can our engagement professionals better capture their progress, momentum, challenges and next steps and general workflow, but our clients are able to absorb the information in ways and through lenses that suit them.

**Geographies:** There are some nuances in how we engage with each market. EOS has developed regional voting guidelines and policies which set out our clients’ fundamental expectations of the companies our clients are invested in across a number of important sustainability topics. This regional approach reflects the variations in the markets in which the companies our clients invest in operate, and the differences in jurisdictional legal requirements. They also inform [EOS’ Global Voting Guidelines](#) and [FHL’s Global Voting Policy and Guidelines](#). Together these guide EOS’ voting service implementation and our investment teams’ voting decisions for listed equities. EOS has intentionally built a diverse team of experienced and international voting and engagement professionals who have the expertise, language skills and cultural knowledge to work to deliver real beneficial change at companies. Our ability to engage in the local language and understanding of local culture and business practice are critical to the success of our engagement work. Within our team, we have nationals from a range of countries and fluency in 17 languages.

**Figure 24.** 2025 Engagement activity<sup>69</sup>

Theme	Issues and objectives engaged
Environmental	982
Social and Ethical	701
Governance	659
Strategy, Risk and Communication	240
<b>Total</b>	<b>2,582</b>

Source: FHL, as at 31 December 2025.

We engaged with 538 individual investee companies, some of which were engaged on one or more themes.

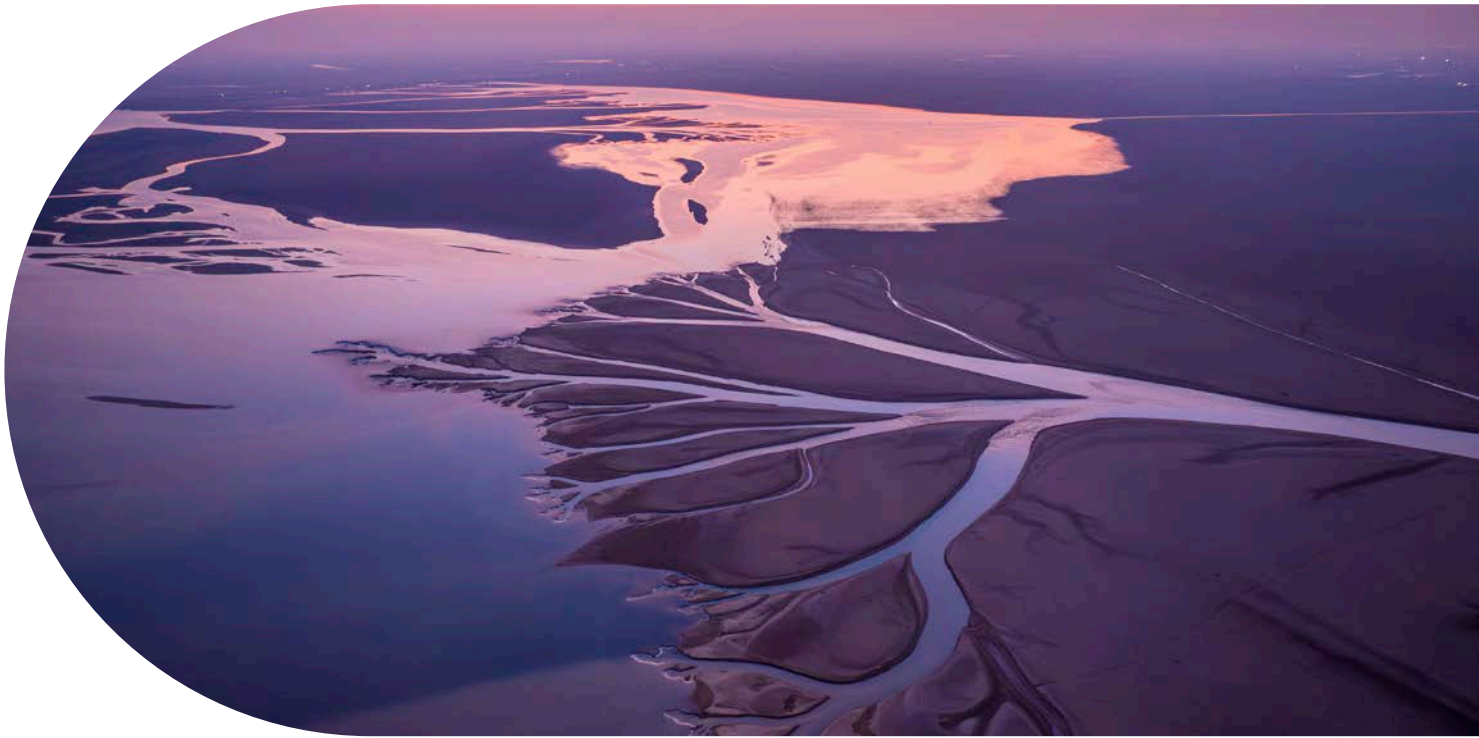
<sup>65</sup> Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert, and all of these actions are understood to deliver enduring, responsible value for our clients. Furthermore, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

<sup>66</sup> FHL, ‘New research shows the importance of board’, (September 2017).

<sup>67</sup> Individual companies may be engaged at multiple levels of board or senior management.

<sup>68</sup> In the table we count a company in multiple categories, hence why these don’t add up to the Grand total.

<sup>69</sup> We engaged with 571 individual companies, some of which were engaged on one or more themes.



**Figure 25.** Engagement by region in 2025

Region	Companies engaged	Issues and objectives engaged
Australia & New Zealand	28	92
Developed Asia	53	314
Emerging & Developing Markets	82	334
Europe	112	554
North America	231	1,117
United Kingdom	32	171
<b>Total</b>	<b>538</b>	<b>2,582</b>

Source: FHL, as at 31 December 2025.

**Equity vs. Credit:** Both equity and bond holders have a shared interest in sustainable growth, increasing enterprise value and the long-term health of companies. EOS’ breadth of engagement allows us to engage with companies on behalf of equity and bondholders. We believe that engaging simultaneously on equity and credit creates a common long-term voice, increases access and influence and shared resourcing to pool the priorities of like-minded investors. In a two-part paper over 2018-19, we explained why we believe the shared interests of bondholders and shareholders provide incentives to jointly engage companies – and generate positive outcomes by doing so.<sup>70</sup>

Where there are rare conflicts such as when a company is failing, and its very survival is in doubt, the interests of bond and shareholders can diverge as they compete over what remains for investors. We have established a Stewardship Conflicts of Interest Policy to follow in such rare situations, as described under Section D of our Policy and Context Disclosure Report. If a potential conflict of interest is identified,

the issue is escalated first to a line manager and then to the escalation group if the conflict cannot be resolved. If a potential conflict materialises, the joint equity-credit engagement is restricted to those objectives that are not affected.

As shareholders and creditors are both financial stakeholders, they share a common basis to engage in constructive dialogue with companies. However, as creditors serve as a recurring source of cash to a company, they have a different kind of influence. This influence varies even within fixed income. For example, for smaller companies in leveraged finance or direct lending, the disintermediation of capital is spread over a smaller investor base. This means these investors may have greater influence versus any individual investor in a large-cap name. When engaging as bondholders, we may be able to use other routes to the company such as the Chief Financial Officer or treasury department, or as part of bond roadshows, which are typically more frequent than equity issuance. Also, we may encourage companies to issue green and sustainability-labelled bonds to encourage clearer sustainability frameworks and reporting, and, in cases where companies issue such bonds, we may engage on the validity of any sustainability claims made.

Engaging on derivatives in credit portfolios is done in the same way as we engage with equities and bonds; we engage with the underlying issuer. Engaging on sovereign bonds poses a particular challenge, as there is often a shortage of relevant data and little accessibility. However, we use what data we do have to assess sustainability risks and their potential impact on the sovereign’s ability and willingness to meet financial obligations. Momentum is building across the investment industry to improve the availability of data and engagement within this asset class.

<sup>70</sup> FHL, ‘We can all get along’, (September 2018); FHL, ‘We can all get along: Part II’ (June 2019)



### Collaborative engagements: Public Markets

We collaborate with other investors in our engagement with companies when this may be beneficial for the engagement and could influence the actions and governance of investee companies. We seek collaboration where interests are aligned, and the objectives are based on material issues. Any collaboration is carried out in line with applicable laws and regulations relating to issues such as antitrust, conflicts of interest and acting in concert in the relevant jurisdiction(s) and all of these actions are understood to deliver enduring, responsible value for our clients. Furthermore, each investor will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

In order to succeed in the long run, we believe that companies will need to effectively manage relationships with key stakeholders. They also need to be mindful of their impact on the environment and their role in both the communities in which they operate and society as a whole – something that grants them their licence to operate. As a result, we are interested in and seek (if necessary) to ask a company's management to consider these wider risks, where they have been raised. While we do not generally communicate directly with stakeholders, we will feed back their concerns – once verified – to company management through our position as shareholders. We believe we have a duty to use our influence to improve the behaviour of the companies in which we invest; in turn, this should benefit society as a whole. Our stewardship activities may also include discussions with relevant stakeholders of investee companies, such as industry bodies, policymakers, regulators, customer groups, employee groups and civil society organisations. All of our activities are supplemented by our belief in transparency, and our public reporting may be of value to relevant stakeholders.

Below are some examples of how we have collaborated with other investors to engage with issuers in 2025:

- FAIRR:** In collaboration with the FAIRR Initiative, our engagement at Mitsubishi<sup>71</sup> has centred on improving traceability across the company's seafood supply chain to manage environmental and social risks such as IUU fishing, overfishing, habitat degradation, and human rights. It is estimated that traceability systems could cost as little as 1% of seafood revenue, yet boost profitability by up to 60%.<sup>72</sup> Following the first phase of engagements in 2024, the company released its seafood procurement policy in 2025, clearly acknowledging seafood-specific risks. We are encouraging the company to go beyond this by enhancing the scope and implementation of its commitments, further strengthening transparency and traceability.
- Climate Action 100+ (CA100+):** Through our engagement with Siemens Energy as part of the CA100+ initiative, we focused on strengthening the company's climate governance and transparency, particularly its alignment with the TCFD framework. Early discussions highlighted the need for clearer climate scenario analysis, including a 1.5°C pathway and improved disclosure of key assumptions, risks and opportunities. Following sustained dialogue with sustainability leadership and questions raised at the 2023 AGM, Siemens Energy significantly enhanced its reporting in 2024 by incorporating quantitative scenario analysis – including an explicit 1.5°C scenario for scopes 1 and 2 and a well-below-2°C scenario across all activities – along with more robust disclosure of variables and key climate-related risks and opportunities. We will continue engaging with the company as it further develops its TCFD reporting, with a particular focus on improving transparency of scope 3 emissions from the use of sold products and alignment with SBTi standards.

### Private Markets

Within private markets, **our real estate team** has an extensive community and occupier engagement programme across our retail and office assets that focuses on governance, skills, safety, health and wellbeing. Retail and office assets represent, on average, about 50-60% of our direct investment, depending on the fund. We aim to positively impact the health and wellbeing of our occupiers and local communities by establishing a constructive dialogue through a range of activities carried out during the life cycle of real estate assets, including: development and refurbishment; asset management; wellbeing and comfort; as well as:

- Attaining wellbeing certification:** In 2025, we continued to maintain our BREEAM in-use coverage. This certification adds value to our assets demonstrating that they are run in a sustainable manner, ensuring that occupiers benefit from reduced utility costs from occupying space in an efficient building and showcasing environmental improvements over time for an asset. In total, we obtained 28 BREEAM in-use certifications, seven Active Score Certificates, three NABERS design for performance Certificates and three Fitwel certificates.

<sup>71</sup> Mitsubishi Corporation, a Japanese trading house, operates seafood-focused subsidiaries.

<sup>72</sup> Planet Tracker, "How to trace \$600 Billion" (September 2022)

- **Participating or supporting initiatives that promote wellbeing among occupiers and communities:** we have introduced sustainable transport programmes, initiatives on healthy living among occupiers and community health, and have implemented measures in line with the UK Modern Slavery Act through our activities and supply chain.
- **Achieving greater occupier engagement:** The team have also engaged with all occupiers during lease negotiations, with the intention of including sustainability clauses in all lease agreements.

We have continued to focus on our journey within real estate to become Net Zero Carbon by 2035 by reducing carbon emissions and energy use and using technology to increase the energy efficiency of our managed assets in 2025.

**For our direct lending and real estate debt teams,** the key is to identify both current and potential meaningful ESG risks before investing. Due to the difficulty of divesting these illiquid investments at par prior to maturity, it is important to manage the downside ex ante. Because of a lack of market benchmarks, the teams often use more qualitative information – often gained through dialogue with the borrower – as well as information contained in the due diligence packs. The teams collaborate with EOS, where appropriate, to ensure that their engagement is outcomes focused and impactful.

Following the completion of an investment in the direct lending funds, sustainability risks – like all credit risks – are monitored. Should an E, S or G issue arise during the life of the investment, the Direct Lending team will seek to engage with the sponsor and management of the borrower to rectify or improve the issue.

We include information requirements in all of our real estate debt loan documentation to ensure that the borrower passes on the relevant E, S and G information to us, which we use to monitor sustainability in our investments. Some of our real estate debt loans support assets where a wider impact is delivered, such as refurbishments and regeneration. These factors are a strong consideration before investments are made, as are risks posed by sustainability factors. As with our direct lending investments, the key is to identify risks that may impact on a borrower's ability to repay their loan. We also intend to engage with the borrower where additional E, S and G issues arise during the life of the loan.

For our **infrastructure team**, superior investment performance, for the benefit of all stakeholders, begins with best-in-class governance, where transparency of information, clear lines of responsibility, accountability and appropriate management of conflicts are paramount.

**We actively encourage management teams to integrate sustainability considerations into companies' governance structures, strategies and risk registers, recognising that this can have a catalysing and meaningful, positive impact on a company's long-term resilience and value creation.**

As an active investor, we engage directly with companies, at all levels, on material sustainability issues alongside broader strategic priorities. Engagement priorities are defined using our updated sustainability strategy, which identifies sustainability factors most likely to impact financial performance through interaction with key value drivers or operational foundations of the company. Each investment has at least one sustainability-related engagement objective that we monitor performance against quarterly using a tailored milestone system, adapted from the EOS stewardship model.

In **private equity**, for a small proportion of our assets where the team have some control and/or the ability to influence company decisions directly, we seek to work closely with investee companies to monitor, challenge and improve sustainability performance. We engage with the lead GP and management team on a regular cadence (quarterly or yearly, depending on the severity of the risk) to monitor the risk and engage on potential outcomes. Engagement objectives are focused on the assets with higher identified sustainability risks.

However, in almost all cases our team has limited control and/or ability to influence decisions directly (whether for direct or indirect co-investments). In these instances, the team will work closely with the lead GPs to assess, monitor, and seek to improve sustainability performance of the underlying investee companies. Where we believe there are significant E, S and G risks we will ask the lead GP to address these. Whilst we have no formal rights in this situation and the assets are illiquid, we seek to leverage on our relationship with the GP to have a constructive discussion. The GP would then typically engage with the company management. We only invest with active GPs who are very closely involved with the investee companies and in regular contact, and as set out under Principle 1, ESG considerations are factored into the GP selection process.



### Collaborative engagement: Private Markets

As well as to collectively finance a loan, our **private debt** teams may collaborate with other lenders to influence borrowers as part of the engagement process. As described under Principle 9, we would typically do this at a point at which we are in the strongest position, i.e. when we have been mandated to provide the financing and we are negotiating the loan documentation. In particular, as our direct lending team has a co-lending programme with four major European banks, we often work with the relevant co-lending bank to influence the borrower. For example, during 2025, with regards to three loans we made alongside one of our co-lending banks, we are currently negotiating the appropriate ESG KPIs which will be incorporated into the loan documentation and which will contribute to the calculation of the interest rate of the loans, for example, the interest rate will decrease as the company reaches targets across the sustainability targets, while the interest rate will increase if the borrower fails to meet the targets.

We work with the other investors within our joint ventures in the real estate portfolio. The boards of our joint ventures have representatives from both investors. We work together with investors within the decision-making framework of the Partnership Agreement. Each vehicle has an appointment with an FHL company (including MEPC, a fully owned subsidiary) for one or more of the investment management, development management and/or asset management of the asset. The appointed team reports to the board and is responsible for the day-to-day running of the asset, engaging with both owners within the joint venture to suggest and progress initiatives. It is at this level that our sustainability approach strongly influences the delivery of the asset and property management services.

Our **infrastructure** team invests directly in assets, predominantly as a minority shareholder, with proportionate governance rights, typically a Board seat. Collaborative engagement with portfolio company management teams and co-shareholders is part of our day-to-day interactions, as described earlier in this section, along with a case study later in this section.

In **private equity**, as described under Principle 1 and earlier in this section, as a minority investor we interact with the lead GPs of our direct co-investments and fund investments. Due to the nature of the asset class, other collaborative activities with other investors are limited and usually relate to informal discussions around governance or fees.

Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert, and all of these actions are understood to deliver enduring, responsible value for our clients. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while

engaging in any collaboration. More information on our advocacy and collaborative engagement on thematic issues and public policy through industry initiatives is available under Principle 2.

### Outcomes of engagement in 2025

#### Public markets

Through stewardship activities, led by EOS, we engaged with **538** of our public markets' holdings in 2025, covering **2,582** identified objectives or issues. We made progress on **41%** of all objectives related to our holdings, which equated to **76%** of our equity and credit AUM (compared to 80% in 2024).<sup>73</sup>

We monitor the progress of our collaborative engagements with specific issuers in the same way we monitor our direct engagements. We do not categorise our engagements with specific issuers into either collaborative or individual/staff engagements. The outcomes of our collaborative engagements are therefore included in the figures below.

**Figure 26.** Fund level engagement coverage for pooled public equity and credit funds during 2025

Fund name	% AUM Engaged in 2025
Federated Hermes Asia Ex-Japan Equity Fund	61%
Federated Hermes China Equity Fund	40%
Federated Hermes Climate Change High Yield Credit Fund	66%
Federated Hermes Emerging Asia Equity Fund	27%
Federated Hermes Emerging Markets Debt Fund	27%
Federated Hermes Global Emerging Markets Equity Fund	96%
Federated Hermes Global Emerging Markets ex-China Equity Fund	83%
Federated Hermes Global Equity ESG Pathway Fund <sup>74</sup>	82%
Federated Hermes Global High Yield Credit Fund	66%
Federated Hermes Global Small Cap Equity Fund	79%
Federated Hermes Global SMID Equity Engagement Fund <sup>75</sup>	96%
Federated Hermes Global High Yield Credit Engagement Fund <sup>76</sup>	92%
Federated Hermes MDT US Equity Fund	62%
Federated Hermes Sustainable Global Equity Fund	92%
Federated Hermes Sustainable Global Investment Grade Credit Fund	69%
Federated Hermes Unconstrained Credit Fund	69%
Federated Hermes US High Yield Credit Fund	39%
Federated Hermes US SMID Equity Fund	78%

Source: FHL, as at 31 December 2025.

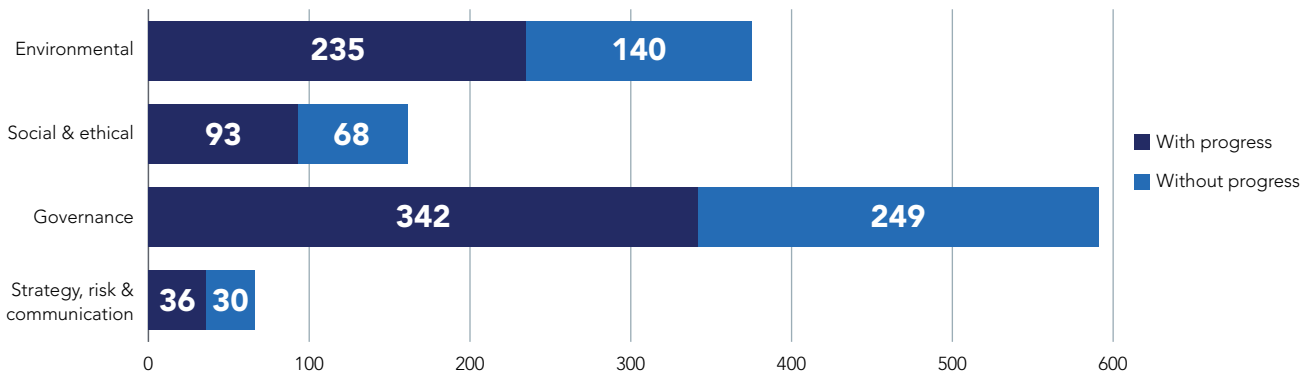
<sup>73</sup> Our AUM here includes equities, warrants and bonds, as well as single name credit default swaps that give the firm long exposure to the underlying instrument and its associated company. Other derivatives, cash, index and government instruments are excluded.

<sup>74</sup> Formerly Federated Hermes Global Equity ESG Fund.

<sup>75</sup> Formerly SDG Engagement Equity Fund.

<sup>76</sup> Formerly SDG Engagement High Yield Credit Fund.

Figure 27. Progress made on our engagement objectives by theme in 2025



Source: FHL, as at 31 December 2025.

We publish case studies throughout the year on our [website](#) to demonstrate the approach we take and the outcomes of our engagement, as well as the case studies published throughout this report. EOS case studies are fact checked by the engagement companies and published on the [EOS Insights](#) website page.

As an update, in 2026 we have introduced new approaches to ensure that our engagement is focused on achieving positive outcomes aligned with the enhancement of sustainable long-term value for our clients. This includes seeking to identify the potential future outcomes that may result from our engagement activities and monitoring these over time.

CASE STUDY

Tesco

**Engagement Theme: Biodiversity & nature**

Tesco is the UK’s largest supermarket chain with a market share of 28.4%.<sup>77</sup> The company primarily sources and retails food and beverage products and, therefore, identifies security of supply as a principal risk for the business. Agricultural supply chains are dependent on nature and ecosystem services to support their productivity, resilience, and competitiveness, with impacts on the company’s profitability and revenues.

Between 2021 and 2025, we met regularly with the company’s sustainability leaders and the board chair. We engaged the company on identifying, assessing, and measuring its impacts and dependencies on nature in its agricultural supply chain, including any risks and opportunities. We suggested that the company develop a strategy to address these risks and opportunities via the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD).

**Changes, potential outcomes and next steps:<sup>78</sup>**

In 2025, the company demonstrated progress in its adoption of the recommendations of the TNFD.<sup>79</sup> The company followed the locate, evaluate, assess, and prepare (LEAP) process to assess its impacts and dependencies on nature in its high-risk commodity supply chains. It subsequently announced strategic actions to mitigate nature risks and shore up supply chain resilience. These actions include direct interventions to protect nature in key UK sourcing landscapes, support for the scaling of agricultural innovations, and advocacy on the public policies that would enable its supplier farms to commit to longer-term investments in nature.

As downward pressures on yields from climate change and nature loss intensify, the company’s strategic actions to protect and enhance nature could help enhance agricultural supply chain resilience, for example helping to reduce business interruptions and limit commodity price risk exposure. In turn, this could protect the business from disruption-related costs and lost revenues, contributing to long-term profitability.

We will continue to engage the company on demonstrating how its nature strategy enhances its resilience to physical climate risks and to ensure this strategy is fully integrated with and governed alongside the company’s broader actions to mitigate security of supply risks.

(Published December 2025)

<sup>77</sup> As of August 2025. [Grocery Market Share](#).

<sup>78</sup> Potential outcomes stated above are not intended to be a forecast of future performance, which will depend on a range of factors which cannot be guaranteed. These may include factors such as wider business performance in the context of dependencies such as developments in public policy, technology and market demand. Any quantified potential outcomes are based on the company’s disclosed targets and other assumptions as referenced in this document.

<sup>79</sup> [Tesco Annual Report 2025](#).

 CASE STUDY

## Telefónica

**Engagement Theme: Board effectiveness**

Telefónica is a global telecommunications operator networks (fixed and mobile) provider. We started engaging on board gender diversity in 2017 when female representation on the board was at 18%. Increased diversity is a driver of innovation and competitive advantage in the telecommunication sector which can support stronger cash flows and financial performance. The company's board had recognised this and approved a global policy on diversity and inclusion. In 2018, we had an in-person meeting with the company at its headquarters in Madrid to discuss the initiatives being undertaken to increase diversity in the board and across the organisation. Despite the company's policy there had been little progress on board diversity, and we informed the company that we would like to see a credible plan to increase female representation on the supervisory board. We met regularly with the company to discuss progress on board diversity, including in October 2025 with the company's Director of Labour Relations and Diversity.

**Changes, potential outcomes and next steps:<sup>80</sup>**

In subsequent years, the company increased its gender diversity on the board. In 2019, this increased to 29%, then 33% in 2021, and reached 40% in December 2023. Despite a number of changes on the board in 2025, including the appointment of a new Lead Independent Director (LID), the company has conclusively maintained its 40%2 female representation at board level. The changes should increase the diversity of views on the board, and consequently the quality of debate, as well as support the company to achieve stronger financial performance such as improved revenues and profit margins by promoting diversity and innovation within the wider workforce. Telefónica has said it would next focus on increasing gender diversity at senior leadership and it stated that it is on track to reach its targets for 2027 and 2030. We plan to continue monitoring the company's progress on gender diversity across all levels of the organisation.

(Published December 2025)

 CASE STUDY

## Alibaba

**Engagement Theme: AI and digital rights**

We have been engaging with Alibaba, a Chinese multinational tech company providing e-commerce and cloud services, on AI governance since 2019. Having appropriate governance structures and principles in place can reduce costs associated with legal and regulatory risks, avoid potential lost sales from reputational risks, and assist in identifying future business opportunities. In 2019, we wrote to the company's board asking how AI is managed and shared our paper on AI and data governance. In 2022, in a call with the Alibaba's ESG Director, the company acknowledged the need to respect digital rights when deploying AI and said that it would think about how to make its approach public. During a meeting in 2023 with representatives from relevant businesses and teams who were involved in technology ethics governance at the company's headquarters in Hangzhou, the company acknowledged that it would benefit from articulating its principles and approach in a single document. Following the release of the company's 2024 ESG report, which described measures it had implemented relating to the three main stages of an AI model's lifecycle, we asked whether there is training across the group to ensure the company's principles are understood and applied.

**Changes, potential outcomes and next steps:**

While Alibaba has not released a single, overarching document on AI governance and principles, when taken together, its ESG reporting, white papers, and webinars provide investors and other stakeholders with a greater understanding of its approach. The company's 2025 ESG report outlined data labelling work aimed at the protection of minors, intellectual property, and the elimination of discrimination or bias and its approach to technology safety, the establishment of an external advisory team, and training courses for employees. During its ESG webinar in September 2025, the company went further, elaborating on its technology ethics review process, introducing generative AI use case risk classification, and giving examples of higher risk use cases that required modification or were not allowed following the review process.

By establishing AI governance structures and principles, and communicating these to stakeholders, the company should benefit from increased confidence that it can capture AI-related opportunities, while avoiding potential costs associated with legal and regulatory risks and potential loss of revenue that might be caused by reputational impacts.

(Published December 2025)

<sup>80</sup> Potential outcomes stated above are not intended to be a forecast of future performance, which will depend on a range of factors which cannot be guaranteed. These may include factors such as wider business performance in the context of dependencies such as developments in public policy, technology and market demand. Any quantified potential outcomes are based on the company's disclosed targets and other assumptions as referenced in this document.

<sup>81</sup> Potential outcomes stated above are not intended to be a forecast of future performance, which will depend on a range of factors which cannot be guaranteed. These may include factors such as wider business performance in the context of dependencies such as developments in public policy, technology and market demand. Any quantified potential outcomes are based on the company's disclosed targets and other assumptions as referenced in this document.

In some instances, we will discontinue engagements on the basis that our efforts have been met with strong resistance, or the matter is no longer relevant. The following are reasons an objective may be discontinued:

- **Company unresponsive:** the company has not been responsive to our engagement, and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- **Company disagreed:** the company has expressed its disagreement with our engagement proposals, and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- **No longer relevant/material:** the original objective is no longer considered sufficiently material or relevant. This could be due to a change in the company's business profile (such as divestment of a business unit of concern) or if engagement reveals that the original concern is of lower materiality than originally anticipated.
- **Restarted as new objective/issue:** engagement reveals that the original objective should be materially changed – for example, split into two separate and related objectives or combined with another objective.

Providing explanations for scenarios where engagement has stalled – that is, in instances where engagement is moving slowly, or a company refuses to make changes – is more



challenging because we conduct the majority of our engagements behind closed doors. We are mindful of the relationships we have built with companies, as well as our future engagements with them. For these reasons, we provide anonymised case study examples.

## CASE STUDY

### Discontinued objective, executive remuneration

Since 2018, we have suggested reforms to executive remuneration at the company that we believe could improve accountability to and alignment with long-term shareholders. Specifically, we asked the company to disclose stock ownership guidelines for the CEO; strengthen its claw-back policies to include misconduct and reputational harm; and implement policies that limit or prohibit share pledging by executives. We consistently relayed this feedback during say on pay votes, which the company puts forth in three-year increments, and in our annual feedback on director elections.

#### Changes, potential outcomes and next steps:

As of 2025, the company discloses stock ownership requirements for directors, but they do not include minimum shareholding requirements for the CEO.<sup>82</sup> The company views these requirements as unnecessary considering its existing culture of share ownership, and that all named executive officers are underpaid relative to the market.

The company's claw-back policy appears in line with standard practice and permits it to recover equity and cash bonuses from current and former named executive officers and other members of senior management if they engage in fraud or intentional misconduct that causes or contributes to a restatement of its financial statements, however, it does not mention reputational harm.<sup>83</sup>

The company remains without policies that implement limits on share pledging by executives. The company views these policies as unnecessary given that executives have not pledged any shares. We discontinued this objective but plan to continue to engage with the company on executive remuneration and other governance matters to ensure alignment with long-term value creation to shareholders.

(Published December 2025)

<sup>82</sup> Amazon 2025 Proxy Statement, page 3.

<sup>83</sup> Amazon 2025 Proxy Statement, page 95.

## Private markets

### Real Estate

Our real estate team publishes an annual ESG report, which publicly discloses environmental and social outcomes for our real estate funds. Through our placemaking activities, we have created significant social and economic growth in a number of our development projects. This has been achieved through generating construction jobs, apprenticeships and local supply chain spending. As we expand our reporting to cover the eight social hubs identified for real estate placemaking initiatives, we have developed a comparative framework which enables us to clearly measure and analyse the positive impact that investment has on social infrastructure. This work will focus on different types of operational assets within our portfolio in a range of locations. We have continued to work with Social Value Portal to develop our understanding of the social capital generated by our placemaking schemes in Leeds and Manchester.

**GRESB** – the global real estate sustainability benchmark for real assets – is an investor-driven sustainability benchmark and reporting framework for listed property companies, private property funds, developers and investors that invest directly in real estate. The assessment is shaped by what investors and the industry consider to be material issues in the sustainability performance of real estate investments.

In 2025, the real estate team continued to support the GRESB benchmark, submitting 10 funds and all assets for assessment. This shows our commitment to sustainability on both new build and operational assets. The use of the benchmark increases our understanding of asset performance and identifies areas of improvement.

Significant effort was carried out for the submission focusing on cleansing our dataset, ensuring progress on our targets and establishing the right processes. We achieved outstanding results across our submissions, seeing consistently high scores, with some funds increasing by an impressive +22 points. We maintained and even improved our position within the peer groups across both standing and development submissions.

**These results are a testament to the strength of our collaboration and our commitment to operating and building sustainably.**

Continual improvement at the asset level is a key driver of our sustainability goals. To measure this, we use recognised certification schemes that focus on environmental and social improvements. Over the past twelve months, we have achieved 8 recertifications and obtained one new certificate at asset and placemaking scheme-level to demonstrate social impact. These schemes not only demonstrate our commitment but also highlight areas for future focus.

Figure 28. Real Estate 2025 GRESB scores

Fund	Star Rating		GRESB Rating		Peer Ranking	
	2024	2025	2024	2025	2024	2025
BTPS Direct Real Estate Portfolio	3	4	79	85	4	2
BTPS Developments	3	3	92	91	8	5
Federated Hermes Property Unit Trust (FHPUT)	2	2	70	74	79	61
Hermes Central London (HCLLP)	4	4	87	88	3	2
Centre:MK	4	4	85	86	3	1
Hestia (UK residential)	3	4	78	86	12	5
Hestia (UK residential) Developments	2	3	82	89		3
Paradise	4	4	86	85	4	3
Paradise Developments	4	4	93	95	7	3
NOMA	3	3	80	82	5	4
Wellington Place	4	5	87	92	3	1
Wellington Place Developments	4	4	95	95	5	5
Silverstone Park	2	4	68	85	4	1
Silverstone Park Developments	N/A	2	N/A	87	N/A	6
Milton Park	1	3	60	82	5	4
Milton Park Developments	2	3	78	92	12	4

Source: FHL, as at 31 December 2025 (scores for 2024 included as information only).

Information on our wellbeing certifications can be found earlier in this section.

**Infrastructure**

At a number of our portfolio companies, our roles at Board- and Committee-level have enabled us to successfully collaborate and influence sustainability strategy and go on to approve matters related to the strategy’s implementation.

Owing to our engagement approach and nature of the asset class, we have a significant number of day-to-day engagements. We choose to monitor number and quality of engagements on a sample basis, using a single quarter of the year. For 2024, we recorded engagements for Q4.<sup>84</sup> In Q4 2024, we recorded 86 sustainability-related engagements. Of these, 55% were direct engagements with investee company management teams and co-shareholders.

The other engagements were mainly with co-shareholders and Board Committees. In terms of theme, 20% of engagements were related to climate and 28% focused on health, safety and wellbeing.

Given the maturity of the infrastructure portfolio, which comprises large-scale, established, operational assets, many of our engagements are part of ongoing, often multi-year, implementation efforts. This means mapping individual engagements to the 1 to 4 milestone tracking framework is challenging. Nonetheless, we consider that around 15% of the Q4 2024 sample engagements either resulted in or were related to the implementation of an action by the underlying portfolio company (i.e., Level 4).

**CASE STUDY**

**Cadent**

Cadent Gas represents the UK’s largest gas distribution network serving 11 million homes, businesses, schools and hospitals. Cadent has a responsibility to deliver secure and sustainable energy supplies across the country. The company’s long-term ambition is for its network to support the UK in achieving net zero through transporting low-carbon gases such as hydrogen or biomethane. However, in the shorter term our engagement has focused on reducing methane emissions from leakages, which make up the vast majority of the business’ scope 1 emissions.

We have used our position on the Board and the Sustainability Committee, which we chaired from 2020 until 2024, to drive this agenda. Cadent established a baseline in 2021, and in latest reporting (March 2025) had reduced scope 1 and 2 emissions by 13.8%.

This has been achieved by:

- Lowering gas use within their own operations, including harnessing renewable energy across office sites.
- Replacing iron mains with modern plastic pipes through the Iron Mains Risk Reduction programme – improving safety, efficiency and reducing leakage.
- Investing in new and innovative technologies to accelerate leak detection and reduction.

In continuation of this, we have also engaged extensively with Cadent on the planning process for the latest regulatory period which runs from 2026 to 2031. This includes a comprehensive Environmental Action Plan with an emphasis on further methane leakage reduction, net zero transition planning and supply chain engagement, in alignment with the Environment Agencies’ global methane reduction pledge and the UK Governments’ climate change targets.



<sup>84</sup> At time of reporting, Q4 2025 figures were still being compiled.

### Private equity

While we are minority co-investors, our private equity team still aims to engage as part of our private equity team’s ESG engagement program. Our focus is on discussing best practices and targets with our lead co-investment partners. These partners work closely with the management teams of underlying companies. Below is an example of information gathered as part of our engagement with a GP partner during this process.<sup>85</sup>

### Escalation

Any voting or other intensification or alternative stewardship approach is carried out 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 vote. Our engagements across all asset classes are outcomes focused, although the nature of stewardship approach varies depending on both the rights available and the specific context.

## CASE STUDY

### Scottish Equity Partners (SEP) – Evolving ESG Strategy

SEP introduced its first ESG policy in 2012 and significantly strengthened it in 2020 with support from an external consultant. The firm applies a strong materiality lens, using an annual Sustainable Growth questionnaire of more than 120 questions, incorporating EDCI metrics. SEP prioritises 1.) Governance, 2.) Social, and 3.) Climate, and provides each portfolio company with a tailored value-creation pack that includes a bespoke ESG action plan and measurable targets. The firm also uses an ESG data platform and offers a greenhouse gas estimation tool to increase portfolio-company participation in carbon reporting.

**Integrating AI into ESG:** SEP is currently working with a consultant to develop an internal AI framework. AI considerations already form part of the due-diligence process, both for assessing product-enhancement opportunities and managing ethical risks. A key priority going forward is to expand AI-related questions in the Sustainable Growth questionnaire and potentially introduce a formal Responsible AI policy.

**Engagement on Project Woodpecker:** Our recent engagement focused specifically on Woodpecker, a manufacturing-focused software company within SEP’s portfolio. SEP has supported Woodpecker in strengthening its responsible-investment practices by establishing a structured ESG governance and risk-management framework.

**ESG Progress at Woodpecker:** Woodpecker has made notable progress, including appointing a dedicated Chief Sustainability Officer to move from ad-hoc efforts to coordinated, company-wide ESG stewardship. The company is also advancing diversity, recently appointing its first female C-suite executive and first female chair. Transparency has improved through public ESG reporting and ISO-certified internal processes, while SOC 2 compliance work is ongoing. A current priority is developing Scope 4 emissions insights for clients — positioned as a key differentiator and commercial advantage for the platform.



### Public markets

The companies identified for the core engagement programme at the beginning of each year are assigned an engagement intensity tier, although this is subject to change throughout the year, as individual company circumstances change.

We escalate the intensity of an engagement activity over time, depending on the nature of the challenges each company faces and the attitude of the board towards our dialogue. Generally, our engagement activity becomes more active where we believe that engagement will lead to an increase in or prevent/limit a decrease in the value of a company over the long-term.

Engagements on some objectives may involve only a small number of meetings, although others are more complex and will entail multiple meetings with management and board members over several years. Such activity often requires persistence. Our long-term and diverse perspective enables us to persist with the more difficult and time-consuming engagements to bring about changes in either strategy, financial structure, operational or risk management or

<sup>85</sup> Since 2010 we have had an informal but active approach to GP ESG engagement. In 2024, we launched a formal engagement progress across a pilot portfolio.

governance, including in relation to ESG risks. Any change we encourage a board or management team to make will be with the intent of improving a company’s long-term performance.

While we can be robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines which could undermine the trust that we believe should otherwise exist between a company and its owners. As a result, we generally prefer to conduct engagement privately, rather than taking a public route when seeking change at companies, although (as described earlier under Principle 7) details of all engagement meetings conducted by our stewardship team are shared across investment teams and with EOS’ third-party clients. In our experience, working constructively with boards and management in private is the most effective way to achieve positive change, as it allows us to build trusted relationships with companies, which results in more open and frank discussions.

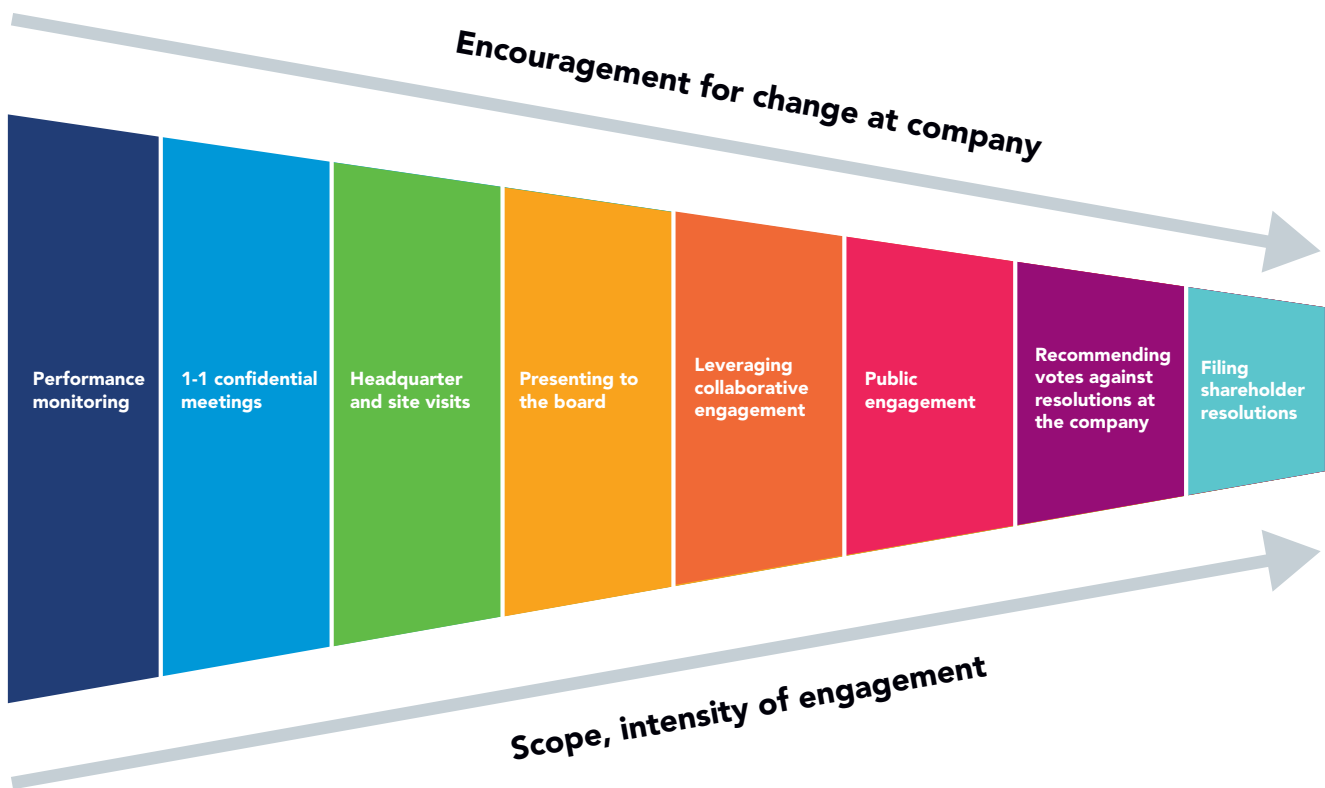
However, on the occasions that we are not able to achieve success by our usual methods of conversations behind closed doors, we may intensify or adapt our engagement approach, for example by choosing to speak publicly at the company’s annual general meeting (AGM) to garner additional investor support. We may also vote against a resolution or management/the board at a company’s AGM – we consider this choice carefully as we only want to use this technique if

our usual engagement has consistently stalled, and we are not confident that the company is taking any action to address our concerns. We disclose a number of these instances under Principle 12. Given the assets we represent, such action sends a strong signal to the company and can help progress our dialogue.

Similarly, we have demonstrated a willingness to use the full range of rights that we have at our disposal, including the tabling of resolutions at shareholder meetings when necessary or collaborating with others to co-file shareholder resolutions (as described under Principle 12). We prioritise issues for escalation for the most material issues and companies, typically with our Tier 1 engagement companies, our most intense dialogues. Using the stewardship techniques described can be a time consuming, and sometimes costly, process. As mentioned above, through the EOS annual survey, we have seen that a consistent majority of clients say engaging for impact and outcomes is a priority.

EOS uses the following engagement tools to adapt engagement over time to the needs of the situation in the interests of clients. The graphic demonstrates how different tools are selected as the scope or intensity of the engagement increases in tandem with encouragement for change at company.

Figure 29. Engagement tools employed by EOS



Source: FHL, as at 31 December 2025.



If our usual private engagement approach has not been successful and EOS decides it is appropriate to change stewardship strategy, relevant portfolio managers are notified about it as soon as possible, to allow this to be factored into their investment decision-making process. Companies that consider changing their practices show a willingness to engage and listen to shareholders. This indicates the potential for positive change, which may enhance the investment case. On the other hand, a red flag is raised when a company is not willing to engage with its investor base or is resistant to change even after a change in approach, such as intensification of engagement. If a company is unwilling to

make changes in relation to material strategic or performance (including E, S or G) issues, this may be an indication that it is less likely to create responsible wealth over the long-term.

Adapting engagement on debt has many similarities to equity, including the use of collaborative engagement, formal letters to the company and public statements. There are, however, some differences. Companies have a recurring presence in the debt capital markets, which gives our public credit teams additional opportunities to influence corporate behaviour. Where a company has been unresponsive to our engagement efforts, we may also contact the banks involved in a new issuance.

For our engagement-focused funds, we may also withdraw our capital where we deem the engagement has failed, for example, where the company's actions contradict the outcome, our engagement has been seeking. However, this is a last resort and only used after allowing sufficient time for the situation to improve.

Our case studies provide detailed insights into how our engagement changes over time and can lead to change and completion of our objectives. In addition to the case study below, there are further examples of how we have used voting and shareholder resolutions as a technique, and the breakdown of why we have voted against proposals during 2025, under Principle 4.

## CASE STUDY

### BASF<sup>86</sup>

This summary example demonstrates the intensification of an engagement over several years, using a selection of engagement tools, including collaborative engagement and detailed site visits.

BASF is a chemicals company headquartered in Germany. As members of the collaborative engagement of the Investor Initiative on Hazardous Chemicals, EOS wrote to the CEO of BASF to highlight our concern that manufacturers and users of per- and polyfluoroalkyl substances (PFAS, also known as persistent chemicals or forever chemicals) could be exposed to possible liability and insurance risks, which could result in costs for the company.

To help the company demonstrate actions aligned to the protection and enhancement of long-term shareholder value, we asked the company to be more transparent about the type and volume of hazardous substances, including PFAS that they produce, publish a time-bound phaseout plan of products that are, or contain persistent chemicals and develop safer alternatives.

EOS engaged regularly throughout 2023 and 2024 including at a capital markets day in Germany in September 2024. In March 2025, we visited the company's Ludwigshafen site together with representatives of our stewardship clients. We met several laboratory scientists, including those identifying solutions to avoid the PFAS in the transfer of intermediate products. We also had a focussed meeting with the individual in charge of the Chemicals Strategy for Sustainability.

#### **Changes, potential outcomes and next steps:<sup>87</sup>**

In 2025, the company published a position statement on PFAS that provided more clarity to investors. The company confirmed that it has undertaken an internal review that showed that only a limited number of products contained PFAS and that all these products would be phased out within five years. This phase out was part of the company's TripleS methodology, which aims to increase the sales of sustainable products, for which the company reports related revenues. However, the company states that its agricultural solutions division's active ingredients (including pesticides) are not in scope for this phase-out as these fall under sector-specific regulations that require separate risk assessments and approvals.

<sup>86</sup> At time of reporting, BASF was not a FHL holding.

<sup>87</sup> Potential outcomes stated above are not intended to be a forecast of future performance, which will depend on a range of factors which cannot be guaranteed. These may include factors such as wider business performance in the context of dependencies such as developments in public policy, technology and market demand. Any quantified potential outcomes are based on the company's disclosed targets and other assumptions as referenced in this document.

## Private markets

For most of our private markets' teams, a lack of liquidity means that it is not easy to divest or decrease exposure to investments. As a result, investments in this space are considered to be long-term relationships, and it is for the investment team to conduct appropriate due diligence prior to investing to ensure that the firm and its shareholders are willing to work with us to drive positive change. At this point, positive behavioural changes in relation to sustainability risks can be included as a requirement in the documentation to ensure progress. However, it is not always possible to envisage all sustainability risks that could arise during the life of the investment. In these situations, our private debt and real estate teams would engage with the appropriate stakeholders such as the borrower or the occupier, potentially with the help of EOS, to escalate and resolve any issues through dialogue. Our **direct lending** team may also involve the private equity shareholder. There can be additional instances during the life of a loan when we have an ability to influence the company's behaviours. This is primarily when the borrower needs to amend the terms of the loan. As described under Principle 4, while we have enforcement rights when a borrower breaches the agreed terms or defaults on a loan, we use these rights only as a last resort. In the first instance, we seek to negotiate a positive outcome for all parties involved, although we will always act in our investors' best interests in line with our fiduciary duty.

As a direct investor in portfolio companies, our **infrastructure team** escalates from asset management (operational) level, to committee, then board, then shareholder level discussions frequently, as required.

Due to the nature of the asset class and our position as a co-investor, our **private equity** team aims to identify ESG risks at the point of investment due to the difficulties faced in escalating activities during the investment hold. Post-investment, we continue to assess management or GP's progress in addressing ESG concerns as part of our post-investment monitoring. The ESG scores of all portfolio companies are reviewed and updated on a quarterly basis by the deal team and any company with a rating of 2 or 3 is automatically put onto the Federated Hermes Private Equity 'ESG watchlist'. The portfolio companies on this watchlist are reviewed and discussed on a quarterly basis by the Portfolio Review Group (PRG), a committee focused on reviewing portfolios and strategy in the context of the market and monitoring client outcomes delivery.



## Principle 4

Signatories actively exercise their rights and responsibilities.

### Our rights and responsibilities as an investor

As we set out in our Policy & Context Disclosure, we believe that the purpose of investment is to create wealth responsibly over the long-term. Intertwined with this is the belief that, consistent with client objectives and applicable requirements, investors must be responsible stewards of capital in order to contribute to positive outcomes for our clients and beneficiaries, as well as society and the environment.

Throughout this report, we have sought to demonstrate how we have responded through active stewardship across all of our products and asset classes. Investor rights are themselves an asset, and we view the exercise of these rights as part of our fiduciary duty and a responsibility of effective stewardship.

For listed equities, our voting and engagement are co-integrated as part of our overarching approach to stewardship. As such, our voting decisions – as well as EOS' implementation of third-party clients' vote policies – are, where practicable, informed by the insights and experience of engagement with the investee company. We may attend the AGMs of investee companies or arrange for representation at the AGMs by the EOS team. This can include asking questions or making statements to the board. We may also file or co-file shareholder resolutions. The exercise of all such rights is based on an evaluation of materiality and an analysis of costs and value. EOS engagement professionals go through a training and onboarding process which involves shadowing more experienced colleagues to ensure they sufficiently understand the voting policies and how shareholder rights differ according to the markets involved. Senior engagement professionals dedicate time to handling escalated votes and discuss market developments. We set out in more detail how we have exercised our shareholder rights for listed equities, including voting rights, in the following section.

The approaches taken by our other asset classes can be found later in this section.

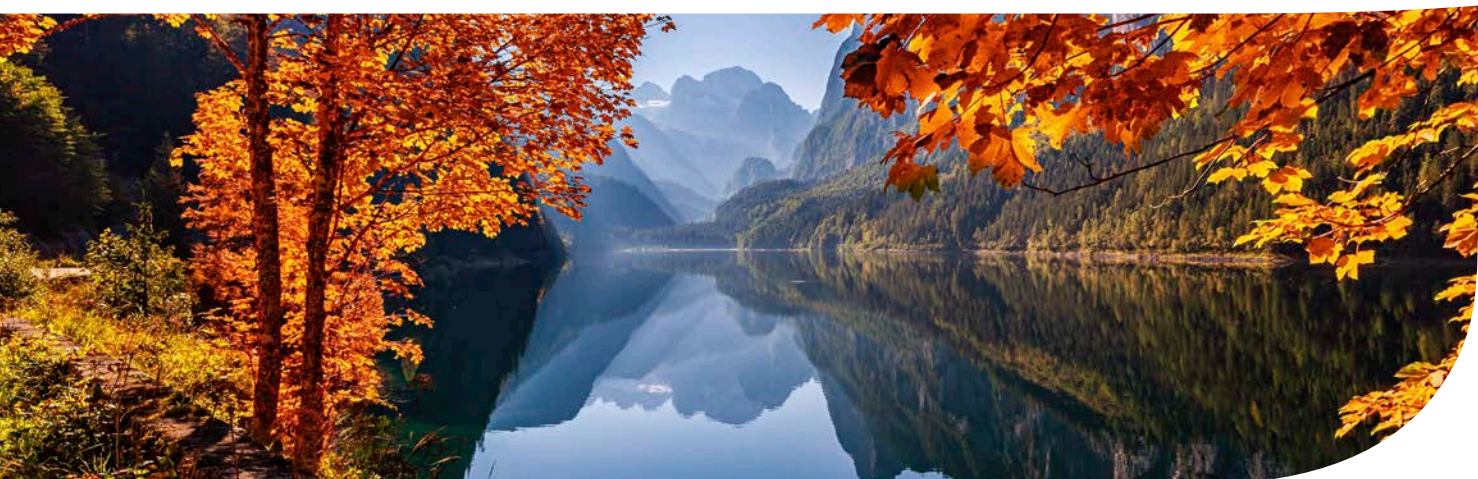
### Listed equities: voting approach

We, as shareholders, are granted a wide range of rights which both offer us a level of protection and enable us to fulfil our stewardship responsibilities effectively. In particular, we consider the vote as part of the asset and accept that we have a responsibility to exercise this right in a considered fashion.

### Our voting policies

EOS' [Global Voting Guidelines](#) act as a policy to inform EOS' voting services to our investment teams, as well as to EOS clients who request to receive EOS' voting service and who adopt a policy that is informed by the Guidelines. FHL's [Global Voting Policy and Guidelines](#), which are aligned with EOS' Global Voting Guidelines, inform the voting decisions made by our investment teams. The Guidelines are informed by a hierarchy of external and internally developed global and regional best practice guidelines. The most important of these are the EOS-developed regional voting guidelines and Corporate Governance Principles, which are available on [our website](#). For more information on our guidelines and the policy development cycle, please see Section C of our Policy & Context Disclosure.

Some of the updates made to the voting guidelines in 2025 included: introducing a voting guideline to identify and address potential corporate governance and capital efficiency concerns in companies where the equity persistently trades at a price-to-book valuation of below one; increasing board diversity expectations across Asia and Global Emerging Markets; aligning European Market guidelines with the EU Diversity Directive; addressing company reincorporation actions in North America, and further enhancing the approach to voting on climate and natural resource stewardship topics.



<sup>88</sup> Individual shares may be double counted where there were multiple meetings during 2024.



## Voting decisions

Voting rights are exercised with a view to achieving best practice standards of corporate governance and equity stewardship and with the aim to support the delivery of long-term value in our funds. Ultimately our investment teams make all voting decisions, based on EOS' implementation of our policy. EOS engagers, who are well versed in the voting policies, share vote instructions with our investment teams based on our voting guidelines, as well as any further information that they receive through their research, engagement and specialist knowledge of the company.

Further information on how we come to our voting decisions, and securities lending, can be found under Section C of our Policy & Context Disclosure.

## The proportion of shares voted and votes withheld

We aim to vote either in favour or against a resolution and only to abstain in exceptional circumstances, such as when our vote is conflicted, a resolution is to be withdrawn or there is insufficient information upon which to base a decision. In 2025, we voted 98% of all votable shares.<sup>88</sup> There were a number of technical reasons we were not able to successfully execute votes, such as share blocking.

## Listed equities: 2025 voting

### Our 2025 voting records and rationale

Shareholders and companies grappled with heightened geopolitical tensions and policy uncertainty in the 2025 voting season. In Europe and Australia, environmental topics remained high on the agenda, while in North America there was a marked reduction in the number of shareholder proposals filed. This was accompanied by a decline in their quality, as new guidance from regulators, and resource constraints for co-filers, limited the number of proposals making it on to the ballot. Across Asia, we saw notable improvements in board independence. Female representation on boards also improved, helped by regulations in markets such as China.

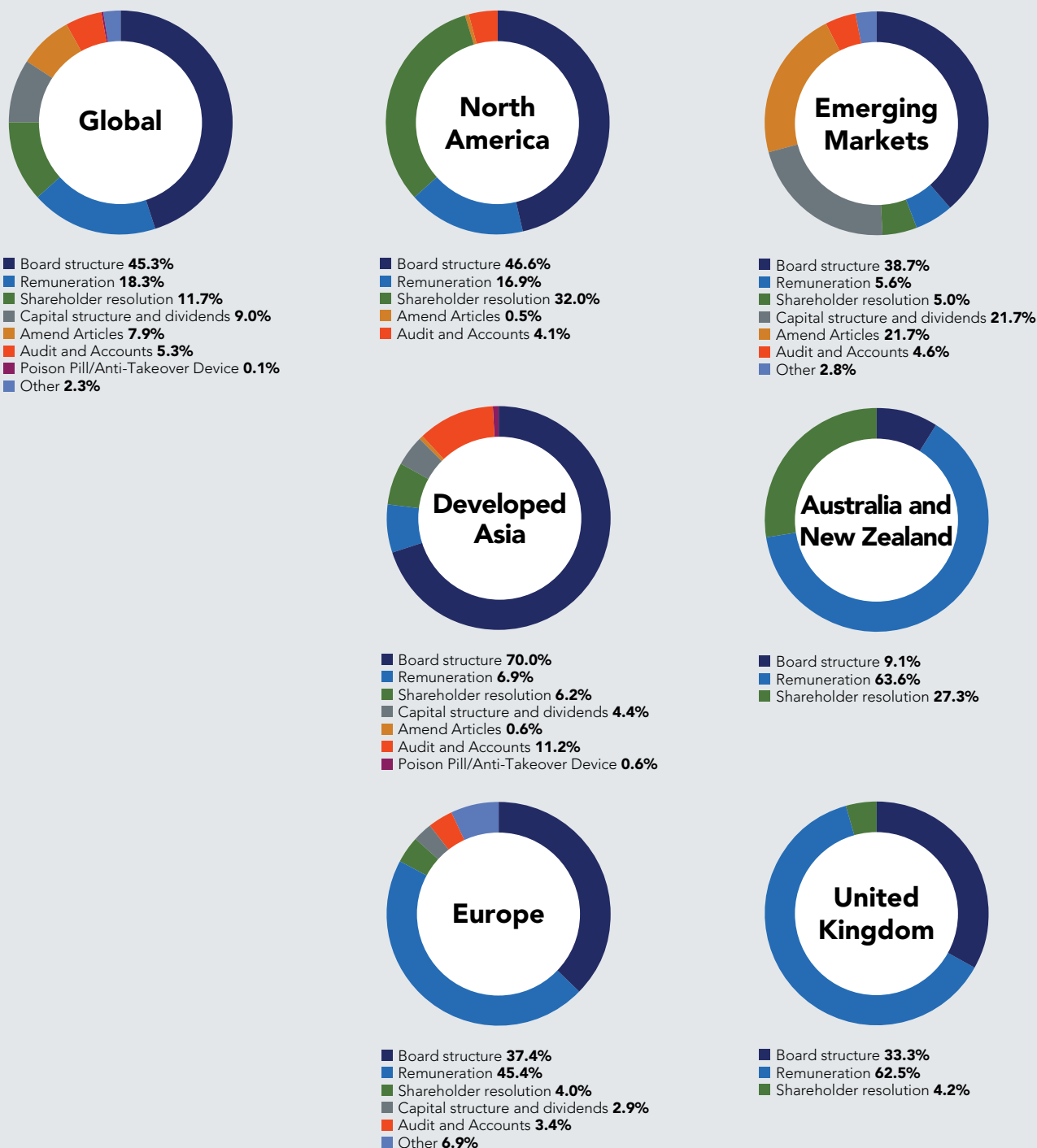
Our voting records are published online in arrears. This ensures that we are transparently accountable, but that our dialogue with companies around voting issues is not compromised. The records include all voting decisions of FHL. These records relate to the voting decisions of the FHL teams on behalf of FHL funds and clients. In 2025, we cast votes at 616 meetings involving 7,157 resolutions.

**Votes against the board:** We provide the rationale behind our decision when we have voted against management on one or more resolutions. We seek to be supportive of boards and to instruct votes in favour of proposals unless there is a good reason not to do so. This is in accordance with our voting policies and global or regional governance standards. We will vote against management if, by doing so, we are striving to protect long-term shareholder interests, including fiduciary interests.

There are occasions where we are not able to achieve success by our usual methods of engagement behind closed doors. We can escalate through voting. We may vote against a resolution or management/the board at a company's AGM. We consider this choice carefully as we only want to use this technique if our usual engagement has consistently stalled, and we are not confident that the company is taking any action to address our concerns. The rationale for such votes is provided in our voting disclosures, and we also provide examples below.

**Votes not in line with our policy:** We retain the ability to vote differently to that indicated by our high-level policy when warranted. This is on the basis of particular company circumstances or engagement insights, to best serve the interests of long-term shareholders. If EOS engagers are considering whether to instruct a vote that is not in line with our policy, this will generally be escalated to a more senior team member or otherwise follow an established and agreed precedent that was earlier escalated. In these cases, engagers record in our Engagement Management System that they have consulted a senior engager. When a potential conflict is identified, the matter is escalated in line with our Conflicts of Interest policy, following the process outlined in Section D of our Policy & Context Disclosure.

Figure 30. Breakdown of votes against by region



Source: FHL, as at 31 December 2025.

**Shareholder resolutions:** We support the selective use of shareholder resolutions, as they can be a useful tool for communicating investor concerns and priorities, asserting shareholder rights or supplementing or escalating direct engagement with companies. We consider such resolutions on a case-by-case basis and encourage boards to engage with serious, committed long-term shareholders like ourselves. When considering whether or not to support resolutions, we consider factors which help to ensure that the

proposal promotes the interests of long-term shareholders, in line with our fiduciary duty. These include what the company is already doing or has committed to do, the nature and motivations of the filers (if known) and what potential impacts – positive and negative – the proposal could have on the company if implemented. When boards interact in an active and engaged way with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions.

In our experience, shareholder proposals can facilitate a dialogue with issuers, and we welcome these opportunities, where appropriate, whether we vote in favour of the resolution itself or not. We expect boards to address the issues raised by shareholder proposals, which receive significant support, or where they are material to the company. In addition, we view any failure to implement a shareholder proposal that has received majority support as a clear indication that the board of directors is not fulfilling its obligations to the owners of the company.

When we vote in favour of a shareholder resolution and there is no management recommendation, this is classed as a vote against management in our disclosures. This is to ensure that we do not under-report conflicts, although in some instances it may not be voting against what management would have wanted.

We also initiate shareholder proposals in markets where it is relevant to do so and have done so in the past in Germany, the UK and the US, either as lead filer or as co-filer alongside other investors. Consistent with our intelligent voting approach, this typically forms part of a wider engagement with the company and is used as a tool for leverage in EOS' dialogue with management.

Examples from 2025 include:

- Over several years, we have raised concerns in engagement meetings with **The Walt Disney Company** about the high pay quantum and discussed an increase in the company's minimum stock ownership and holding requirements. In previous years we have voted against the say-on-pay agenda item due to ongoing concerns that the pay structure is not sufficiently long term in nature to align with long-term shareholders' interests. In 2025, we voted against the compensation committee chair due to these concerns. The resolution received 89% support.
- At Japanese supermarket chain **Blue Zone Holdings**<sup>89</sup>, we escalated concerns in 2024 about the lack of progress on gender diversity, which led to a meeting with the company's female director. Following this engagement, the company updated its diversity targets, developed a pipeline strategy, demonstrating meaningful progress. An additional female director was also appointed in the following AGM which indicated that diversity was considered in director nomination processes. In light of her active role in advancing these initiatives, we supported the long tenured female director by exception to our policy, despite her tenure reaching 10 years by the 2025 AGM. This exceeded our nine year independence guideline. This received 99% support.
- At British oil and gas producer **Shell**, we supported for a shareholder resolution requesting more disclosure on the consistency of the company's LNG (liquefied natural gas) strategy with its climate goals and long-term resilience. In our view, this could help Shell and its investors gain more insight into the potential risks to the company's LNG expansion strategy. The proposal was supported by just over 20% of shareholders.
- At Hong Kong-based insurer **AIA Group**, we voted against two long-tenured directors as overfamiliarity was potentially compromising their independence. These received 88% and 78% support respectively.
- At Australian oil and gas producer company **Woodside Energy**, we voted against the company's remuneration-related items. This was due to concerns about the low CEO shareholder requirements, the complete reliance on total shareholder return (TSR) as a long-term incentive criterion, and the material increase in the CEO's base salary. These proposals received 85% and 99% support respectively.
- The US electricity provider **Southern Company** has received a shareholder proposal at seven annual shareholder meetings in the last 12 years, asking to reduce its supermajority vote requirement, which has never received sufficient support. At the 2025 meeting, the company finally received sufficient investor support for its management proposal and will be aligning its vote requirements with the shareholder proposal. We had supported the shareholder proposal to adopt a simple majority vote, which received 45% support, as well as the management proposal to reduce the supermajority vote requirement, as this will enhance shareholder rights, which received 68% support.

### Conflicts of interest arising from voting

As detailed under our Stewardship Conflict of Interest Policy (which can be found under Section D of our Policy & Context Disclosure), there several areas where potential conflicts of interest may arise. There are limited occurrences of this, and those that are identified are logged in the conflict of interest register and escalated internally as appropriate. No actual conflicts of interest arising from voting occurred in 2025.

### Monitoring our shares and voting rights

As highlighted previously, EOS' approach is to focus engagement resource on the meetings of greatest interest and materiality to our investment teams and third-party stewardship clients. Each year we compile a list of the highest priority companies where we want to ensure that our engagers are manually reviewing each agenda item for any vote that comes up. These are known as watchlist companies and are comprised of our engagement programme firms, companies of particular interest/sensitivity or those where our investment teams or EOS third-party clients represent significant holdings (in absolute terms or as a percentage of the company's voting rights). The voting watchlist represents a majority of EOS' AUA by value. EOS uses ISS to identify the meetings for which we have voting rights. EOS ensures that these accounts are suitably set up for voting.



<sup>89</sup> The company recently renamed. Previously known as Yaoko.



### Rights and responsibilities in other asset classes

As investment managers, we use the rights granted to us by our real estate client mandates to improve the value of the assets in our portfolios in line with our fiduciary duty. The rights and responsibilities we hold vary between mandates and depend on the level of client involvement in the decision-making process. Our investment strategies reflect market conditions and consider material ESG factors. Our asset management activities seek to improve the assets – by improving their sustainability performances and through tenant engagement – and thereby deliver positive social and environmental outcomes, which benefit our clients and their end beneficiaries.

Our infrastructure team invests directly in assets, predominantly as a minority shareholder, with proportionate governance rights. Shareholder rights, including reserved matters and the right to Board representation, enable downside protection and strategic influence over value-impacting topics, in both cases including sustainability and ESG considerations. Our expectation is to have at least one Board member at each portfolio company. We also have representation at various Committees, including the Sustainability Committees at Cadent Gas, Eurostar, Viridor and Scandlines.

Due to the nature of the asset class and holding the position of co-investors, direct investments are very limited for our private equity team and our formal investor rights tend to be focused on information rights and minority protection rights. Lead GPs have significantly more rights than we typically do as a minority co-investor. They are able to make decisions that impact the company, such as deciding on company strategy. Whilst we do not have contracted expectations around how they use such rights; we select managers based on their previous experience and demonstrated capabilities in managing such rights appropriately.

For our fixed income products, the rights we hold vary between the type of assets we invest in and even between individual investments. We seek to achieve mutually beneficial outcomes while protecting our clients' interests, in line with our fiduciary duty.

For our credit strategies, in a distressed situation, value is impaired and will be redistributed among financial stakeholders. When we invest, we seek to understand the recovery risks associated with the impairment of assets. If a company is in distress, an organised group of bondholders can decide whether to enforce their rights or not, although this is very rare. We want the appropriate right to recovery of a failed business. In some cases, bond documentation is written so that there is a carveout or 'trap door', meaning that the assets that support the bond we are buying can be transferred outside of the restricted group. This would be a disincentive to invest, and we can communicate this to the bank or company. Under certain situations we would not invest, as we would not have what we deem to be appropriate rights under a distressed scenario.

Our real estate debt team does not habitually buy into deals that have already been structured. As a result, we have the opportunity to negotiate transaction documents ourselves. We seek to find mutually beneficial outcomes, while protecting the interests of our clients. Our approach to seeking amendments differs case-by-case, depending on the nature of the amendment. We aim to embody the values captured in the Federated Hermes Pledge in all of our dealings.

The relevant rights for real estate debt are the control over cash flows within the Borrower structure and enforcement rights. When there is a breach of covenants, we have the right to step in. We only use enforcement as a last resort – in the first instance, we seek to engage and agree an alternate approach with the party in breach. As we are often the sole lender, we are

able to hold these bilateral conversations directly with the recipient of the loan. We continue to manage our loan portfolio with the long-term interests of our clients in mind.

Meanwhile, our direct lending loan agreements are bespoke, and negotiated between ourselves and the borrower after we have conducted our due diligence. We construct the loan documentation to align it to the specific borrower and their behaviours, including issues identified in our sustainability due diligence. Each loan contract is different, and we may require the borrower to change certain behaviours (including in relation to E, S and G risks) as part of the conditions of the loan. While we are not able to initiate an amendment of the loan terms once the financing has been provided, key opportunities where we can seek to influence the company's behaviour after the contract has been agreed can arise when the borrower seeks our permission to alter the loan terms – for example, because the company wishes to make an acquisition. Outside of these amendment events, we will engage with management or the private equity shareholder to influence behaviours via the resources we have internally.

As each of our direct lending loan agreements is bespoke, our specific rights can vary. If a borrower defaults on a loan – for example, if an interest payment is missed or the borrower fails a covenant test – our direct lending team will enter into a negotiation with both the shareholder and the management team of the borrower. We will seek a positive outcome for all parties involved in the negotiation, although we will always act in our investors' interests in line with our fiduciary duty and applicable requirements. We have a right to take security over the shares and other assets of the borrower in such circumstances but will always seek to find other solutions before taking this action.

For credit and structured credit markets, the chance to influence such documentation comes at the time of primary issuance. If the documentation is unfavourable to the interests of creditors, this is a risk factor and we may engage with the company, as well as the originator of the assets and arranging bank for structured credit, to improve it. If we are unable to achieve these changes, they will become a factor in our investment decision and will influence how we choose to allocate our risk.

Within structured credit, an essential part of the due diligence process is to review the prospectus and transaction documents. These govern the noteholders' relationship to the special purpose vehicle (SPV), the assets within and the related counterparties. We pay particular attention to the ability of the SPV to pay interest and the principal on notes under multiple stress scenarios, which includes an assessment of the triggers and covenants in the deal and our enforcement rights over the assets in the collateral pool. We also ensure the transaction complies with all relevant regulation and any appropriate safeguards for future changes to regulations. Once the prospectus and transaction documents have been thoroughly reviewed, we work alongside the issuers, originators, sponsors and/or arranging banks to secure any amendments in the documentation that we feel are necessary to protect our position as a noteholder in the capital structure.

We seek access to information provided in all documentation through engagement with the company, as well as the originator of the assets and arranging bank for structured credit.

**The more information we have, the less uncertainty there is. This, in turn, may increase our willingness to take on more risk.**



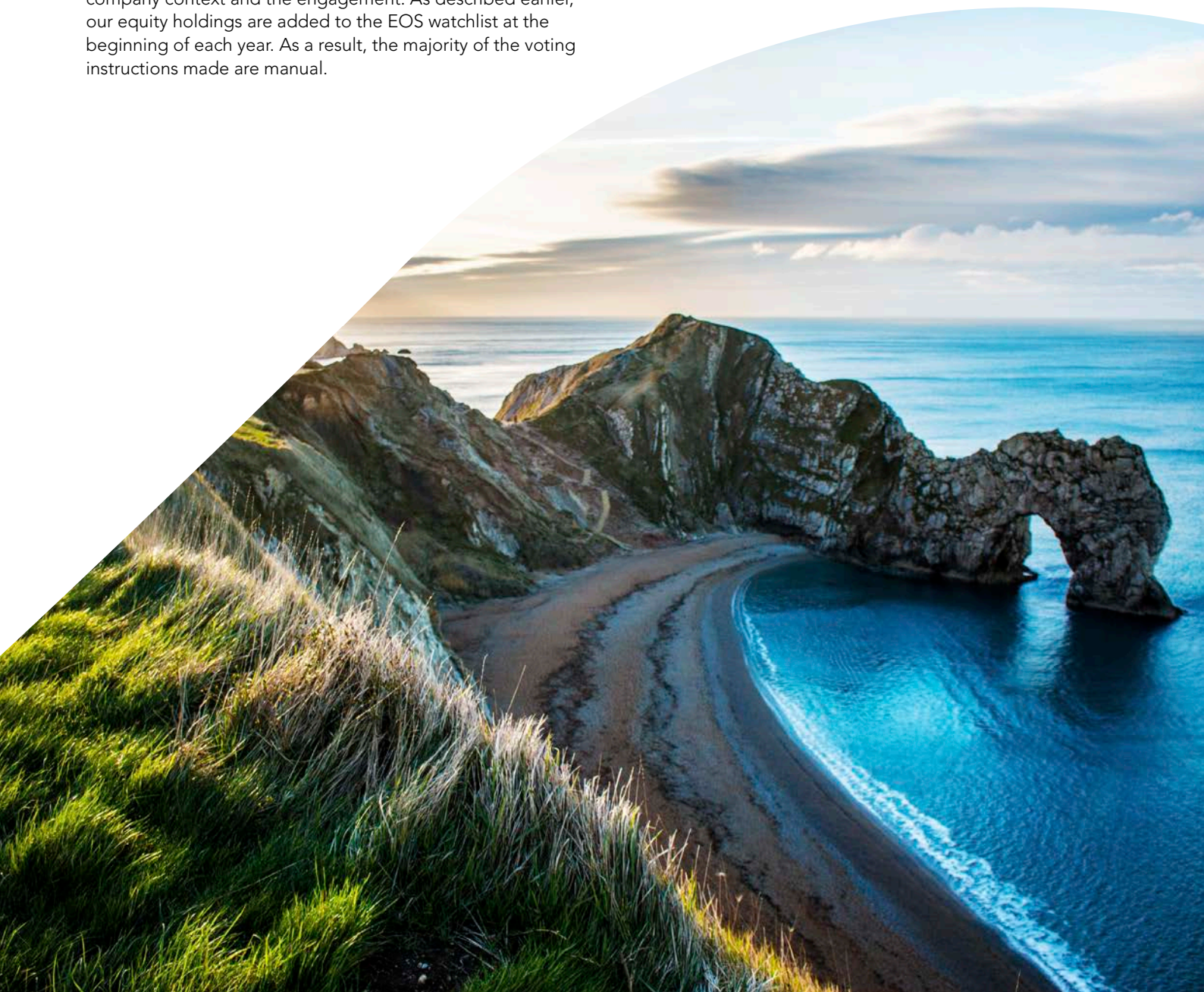
## Principle 6

Signatories monitor and hold to account stewardship service providers.

### How we use the services of proxy advisors

We use the services of ISS to provide research on all companies for which EOS implements our vote policy. EOS leverages and builds on ISS research and infrastructure (including the ISS ProxyExchange platform) and seeks to add value primarily by selectively highlighting the most important or difficult votes (based on the materiality of holdings and the nature of the issues under consideration), engaging with companies and applying our policy. The vote instructions that our investment teams and EOS third-party clients receive are, in the first instance, based on ISS' research using our voting guidelines. This is then overlaid with our intelligent voting approach. Engagers are deployed to add insight and value to a specific subset of these meetings – those on EOS' watchlist – by considering our voting guidelines in light of the specific company context and the engagement. As described earlier, our equity holdings are added to the EOS watchlist at the beginning of each year. As a result, the majority of the voting instructions made are manual.

ISS services are monitored by EOS through daily communication, ISS scheduled reports providing oversight of voting performance, regular service meetings, client voting account reconciliation and audit reviews conducted periodically by EOS on automatic voting instructions submitted by ISS across EOS client accounts.



## Appendix

### Alignment with the Japanese Stewardship Code (2025 revision)

This table maps Federated Hermes Limited's UK Stewardship Code submission (Policy & Context Disclosure and annual Activities & Outcomes Report, read together as a combined submission) to the principles of Japan's Stewardship Code (FSA).

<p><b>Principle 1:</b> Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities and publicly disclose it.</p>	<p><b>Policy &amp; Context Disclosure:</b> Introduction; Section A (Organisation, beliefs &amp; stewardship); Section C (Policies &amp; review)</p> <p><b>Activities &amp; Outcomes Report:</b> Introduction; Principle 1 (Integrate stewardship &amp; investment).</p>
<p><b>Principle 2:</b> Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.</p>	<p><b>Policy &amp; Context Disclosure:</b> Section C (Conflict of Interest policies review); Section D (Conflicts of Interest).</p>
<p><b>Principle 3:</b> Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards the sustainable growth of the companies.</p>	<p><b>Policy &amp; Context Disclosure:</b> Section A (Time horizons &amp; material factors); Section B (Resources &amp; oversight); Section C (Engagement Plan &amp; milestones).</p> <p><b>Activities &amp; Outcomes Report:</b> Principle 1 (Monitoring tools); Principle 3 (Engagement selection, objectives &amp; milestones).</p>
<p><b>Principle 4:</b> Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.</p>	<p><b>Policy &amp; Context Disclosure:</b> Section A (Stewardship approach/ EOS model); Section C (Engagement Policy &amp; Plan).</p> <p><b>Activities &amp; Outcomes Report:</b> Principle 2 (Systemic risk engagement examples/case studies); Principle 3 (Engagement methods).</p>
<p><b>Principle 5:</b> Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.</p>	<p><b>Policy &amp; Context Disclosure:</b> Section B (Proxy research/provider); Section C (Voting framework).</p> <p><b>Activities &amp; Outcomes Report:</b> Principle 2 (Voting as escalation in thematic sections); Principle 3 (Escalation incl. voting).</p>
<p><b>Principle 6:</b> Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.</p>	<p><b>Policy &amp; Context Disclosure:</b> Section E (Client dialogue &amp; feedback loop).</p> <p><b>Activities &amp; Outcomes Report:</b> Reporting throughout Principles 1–3 (case studies, statistics &amp; disclosures).</p>
<p><b>Principle 7:</b> To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.</p>	<p><b>Policy &amp; Context Disclosure:</b> Section B (Governance, people &amp; training).</p> <p><b>Activities &amp; Outcomes Report:</b> Principle 1 (Tools/integration support); Principle 3 (Board-level engagement skillset).</p>
<p><b>Principle 8:</b> Service providers for institutional investors should endeavour to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfil their stewardship responsibilities.</p>	<p><b>Policy &amp; Context Disclosure:</b> Introduction; Section B (Service providers &amp; oversight; systems/technology).</p> <p><b>Activities &amp; Outcomes Report:</b> Principle 1 (Third-party data/ scenario analysis/external advisers); Principle 3 (Proxy research where relevant), Principle 6 (Proxy advisers).</p>

**The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.**

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## Federated Hermes

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

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

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

## Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by five decades of experience
- **Private markets:** private equity, private credit, real estate and infrastructure
- **Stewardship:** corporate engagement, proxy voting and policy advocacy

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