

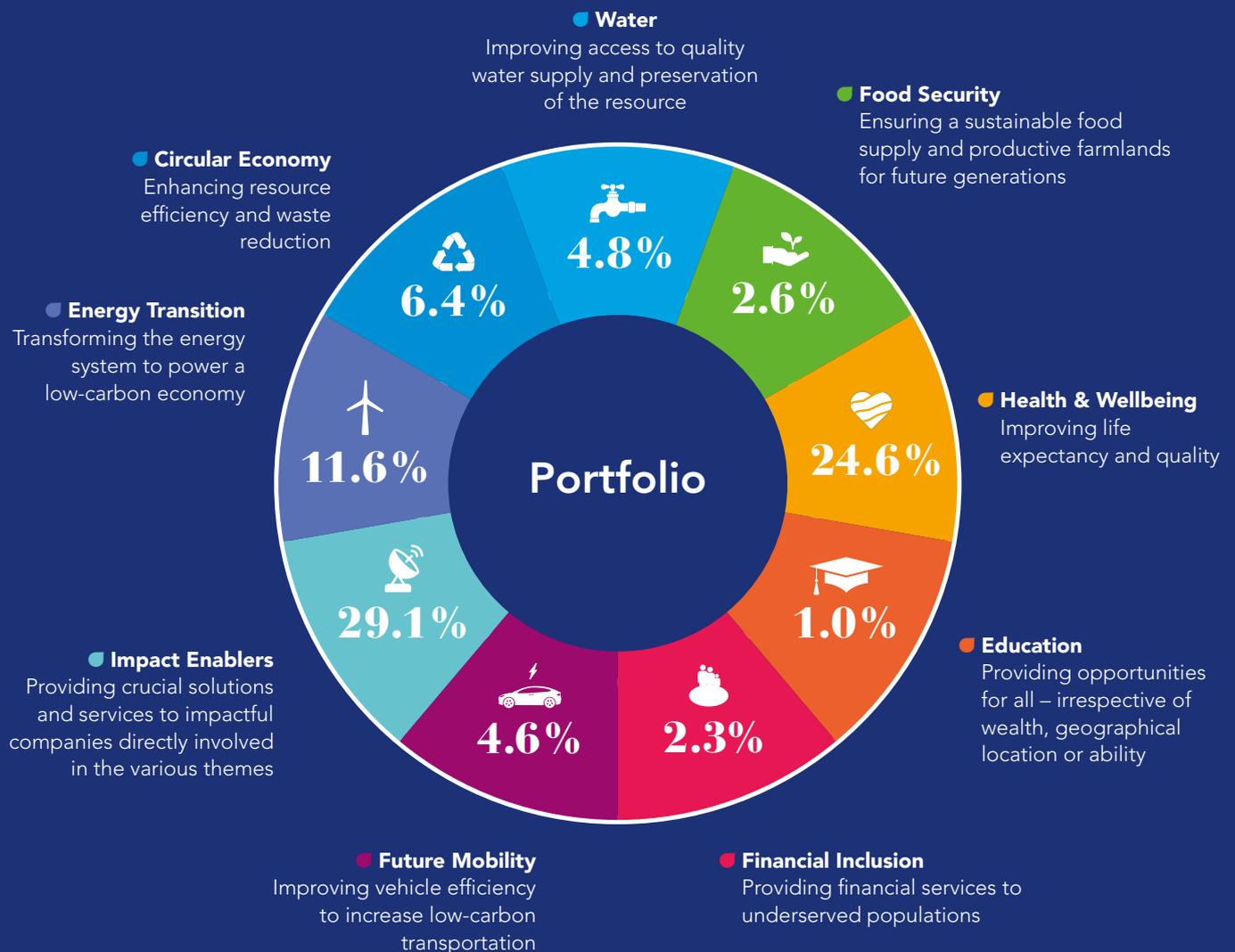
Hermes Impact Opportunities Strategy

Quarterly Impact Report
Q1 2020

**Federated
Hermes** 
International

Hermes Impact Opportunities is a high-conviction global equity strategy with a bold objective. It aims to generate long-term outperformance by investing in companies succeeding in their core purpose: to generate value by creating positive and sustainable change that addresses the underserved needs of society and the environment. In this way, it focuses on tomorrow's leading companies, today.

Exposure by impact theme¹



Source: Federated Hermes as at 31 March 2020.

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¹ As at 31 March 2020, 8% of our exposure was not directly related to any of our nine impact themes.

Resilience in the face of crisis

Resilience and sustainability are important factors in building long-term investment portfolios. The current coronavirus pandemic has revealed fragility across health systems, economies and asset markets.

Despite the ongoing virus-related volatility, our Strategy has demonstrated relative resilience in the first quarter of 2020: it outperformed the benchmark index by 2.4% net of fees in March and by 4.2% year-to-date². That's because the impact themes in which we invest are driven by long-term cyclical growth factors – and within these themes, we target companies that provide solutions to society's underserved needs, and thereby have strong growth potential.

In Q1, stocks within our Health and Well-being theme that manufacture essential products have been particularly supportive. In terms of sub-sectors within this theme, the strongest relative returns were impact enablers, followed by pharmaceuticals and medical devices companies.

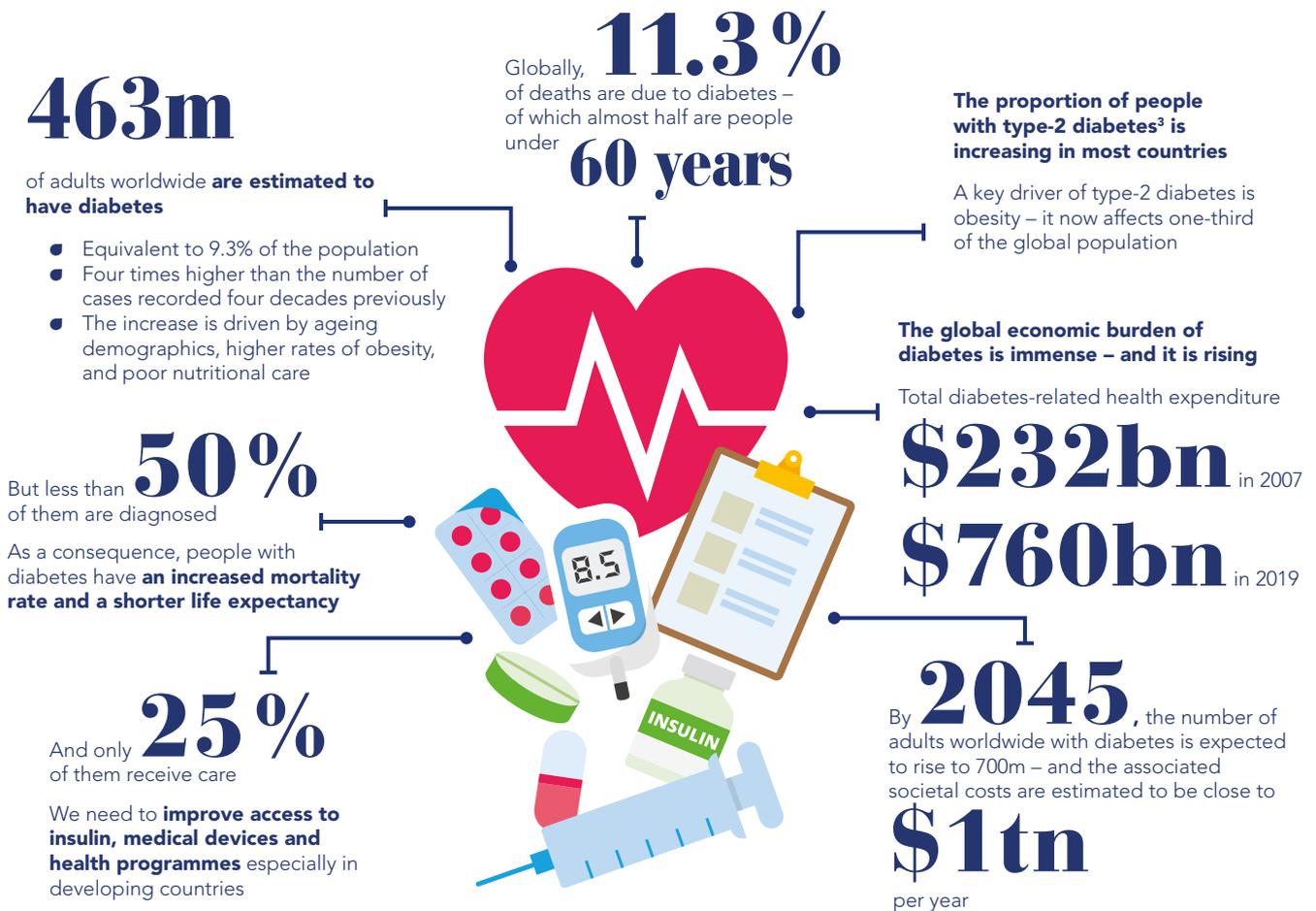
Cumulative returns (%)

	Strategy	Benchmark	Relative
March 2020	11.97	-14.39	2.42
Q1 2020	-18.21	-22.44	4.20
Since Inception	1.29	-11.88	13.17

Past performance is not a reliable indicator of future results. Source: Federated Hermes, as at 31 March 2020. Performance shown is in US dollars net of fees. Relative returns are calculated arithmetically. Benchmark is the MSCI All Country World IMI index. Inception date is 31 December 2017. The information on this slide is based on a representative portfolio of the composite and is supplemental to the GIPS® compliant data located at the back of this report.

THEMATIC FOCUS: HEALTH AND WELL-BEING

Diabetes: a growing epidemic



Source: International Diabetes Federation, Financial Times, as at March 2020.

² Source: Federated Hermes, as at 31 March 2020. Figures are in USD, net of fees.

³ Diabetes is a disease in which the body is unable to regulate blood sugar. People with type-2 diabetes can no longer produce insulin because of issues such as excessive body weight and insufficient exercise. Type-1 diabetes patients cannot produce insulin in the pancreas due to an auto-immune disease.



Danish multinational pharmaceutical company

SDG target 2.2: By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under five years of age

SDG target 3.4: By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being

SDG target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all

Theory of Change

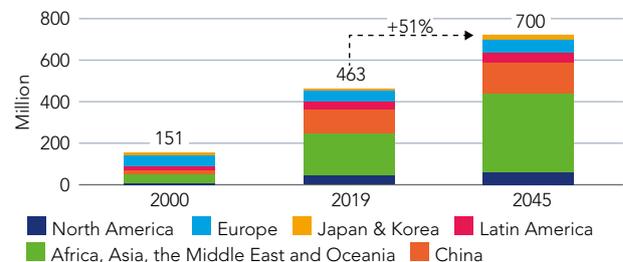
This Danish company is a global leader in treatment of diabetes with a market share of 29% and customer reach of 30m. As well as accounting for nearly half of the world's insulin supply, it also provides products for other serious chronic diseases such as obesity and rare blood and endocrine disorders.

Diabetes is one of the world's four major non-communicable diseases – and according to the International Diabetes Federation, the number of adults worldwide with diabetes is expected to increase by 51% by 2045 as a result of rising incomes in developing countries. Meanwhile, poor diet has been associated with almost 20% of all diabetes-related deaths over the last decade⁴. Herein one of our current holdings, a Danish multinational pharmaceutical company, plays an integral role: it provides solutions to growing unmet medical needs, including diabetes and obesity. In doing so, it contributes towards meeting SDG target 3.8 of ensuring universal healthcare coverage by 2030.

As the most innovative company in the pharmaceuticals segments, it provides products for all types of diabetes treatment needs including its new generation of glucagon-like peptide (GLP-1) products. GLP-1 drugs have better efficacy in managing blood glucose levels and lead to lower cardiovascular and severe hypoglycaemia risks. As such, the treatment has the potential to improve

health outcomes with lower comorbidities, and weight loss benefits could help tackle obesity by helping reset the metabolism to a lower basal rate. Last year, the company secured regulatory approval for Rybelsus, the world's first and only GLP-1 medicine in a tablet.

Figure 1. The number of people with diabetes is expected to increase 51% by 2045



Source: International Diabetes Federation, the Danish pharmaceuticals company, as at 2019.

In 2019,

Patients reached with the company's products increased by

3% to 30m

Diabetes sales increased by

4%

Obesity sales increased by

42%

Value market share

leadership expanded to

29%

Source: company annual report, as at February 2020.

Obesity: responding to a societal challenge

Arguably, the best solution to the diabetes problem however is to go to the primary root: obesity. Today, around 650m adults live with obesity but only 15m use anti-obesity medication and few medications exist to treat the disease. The company is developing a portfolio of treatments to address this underserved need. Last year, its obesity sales – which included its weight-management drug Saxenda – increased by 42%⁵.

Supporting the SDGs

To advance disease prevention through education, the company partnered with UNICEF last year to develop interventions that can help prevent childhood obesity worldwide. In doing so, it is contributing to both the prevention and treatment of obesity and diabetes, which in turn will lead to better health outcomes.

What's more, the company demonstrates its commitment to providing universal health coverage to all (SDG target 3.8) through its 'Access to Insulin Commitment, whereby it guarantees to provide low-priced human insulin to governments in the poorest parts of the world. Through this programme, an estimated 2.9m were treated with insulin in 2019.

⁴ "Global disease burden reveals deaths from diabetes increasing," published by Healio in September 2017.

⁵ Source: the Danish multinational pharmaceutical company, as at February 2020.



US-based medical devices company



SDG target 3.4: By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being

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Theory of Change

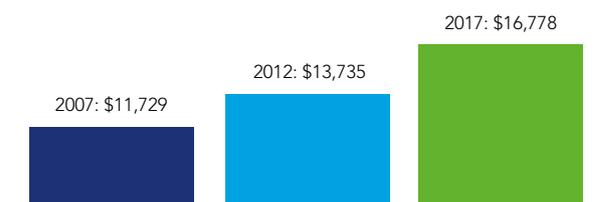
This US-based medical devices company is leading the way in changing the standard of care for glucose monitoring in diabetes through its continuous glucose monitoring (CGM) devices. These devices can help patients better manage the disease and reduce the costs associated with it. It is the only pure play company in this fast-growing sector and currently holds about 70% market share of the insulin intensive segment in the US.

Diabetes has the potential to cause numerous debilitating health complications, often resulting from poor management of the condition. Traditionally, finger sticks have been used to manage diabetes, a painful process that does not provide a precise reading and results in non-optimal insulin dosage. However, CGM systems provide patients with a less invasive and painful way to manage the disease, resulting in better monitoring outcomes. This is an area in which a US-based medical devices company, a recent addition to our portfolio, plays an important role.

Through its CGM products, the company helps to deliver positive impact by reducing cost burden to the health system and simplifying disease management, which in turn improves a patient's quality of life. For example, according to the American Diabetes Association, the cost of diabetes per patient (including comorbidities such as kidney disease and retinopathy) stood at \$16,778 in the US in 2017⁶. In a separate study of mostly type-2 non-intensive patients, which compared a sample wearing the company's G-6 CGM to a sample using finger sticks, the total annualised cost saving was \$5,000 per patient⁷.

Figure 2. The cost burden of diabetes

US annual healthcare costs per person with diabetes



Source: US medical devices company, Centers for Disease Control and Prevention, as at July 2017.

Innovation solutions to unmet needs

In 2018, the company's G6 CGM became the first device permitted by the US Food and Drug Administration to be used as part of an integrated system with other compatible medical devices. As a result, it has established partnerships with insulin delivery device manufacturers and insulin producers, helping to drive adoption and awareness.

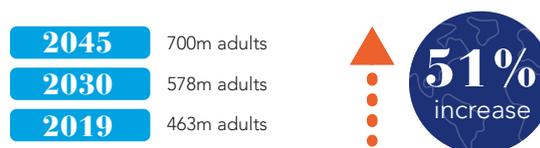
The company continues to innovate, with its latest G7 model expected to be released in 2021. The release will mark the next major inflection point in CGM technology: it will be the smallest device to date; have a longer life with a 14-day sensor, factory calibration (i.e. no finger sticks) and a fully disposable design. The G7 model should be more affordable, which in turn should broaden its appeal and make it the standard of care for diabetes management.

Future growth

Today, the company is the market leader in the US, with a market share estimated at 70% in insulin-intensive diabetes. It is tapping the non-intensive segment of the market which could benefit from intermittent monitoring and/or screening. This consists of a market opportunity of 27m type-2, 4m gestational and 14m hospital patients, while an additional 84m pre-diabetes patients could benefit from screening.

The global opportunity is significantly larger: 463m adults suffer from diabetes worldwide, and this is expected to more than double by 2045. What's more, three in every four people suffering from diabetes live in developing countries. The growth potential is both secular and scalable as new markets represent five times the total addressable market relative to the company's core markets.

Figure 3. The number of adults with diabetes worldwide is set to double by 2045



Source: International Diabetes Federation, as at 2019.

These scalable market opportunities are reflected in the company's financials: its revenue increased to \$1.47bn in 2019, up 42% year-on-year and 20 times higher its level in 2011 (when it stood at \$76m). It also posted a 37% compound annual growth rate since 2015. We expect the company will continue its strong growth trajectory, thereby offering investors attractive impact and financial returns.

⁶ Note: this data is published every five years. This study included only 24.7m diagnosed patients.

⁷ This excludes the cost of the device.

GIPS® Composite

Composite: **Hermes Impact Opportunities Equity Composite**

Creation date: **06 February 2018**

Inception date: **01 January 2018**

All information is quoted in USD

Year	Gross of Fees Return	Net of Fees Return	Benchmark Return	Std. Dev. 3 Years Composite	Std. Dev. 3 Years Benchmark	No of Portfolios	Composite Dispersion	USD Total Composite Assets (Million)	% Total Firm Assets
2019	30.2	29.2	26.4	–	–	<5	–	276	0.7
2018	-3.4	-4.1	-10.1	–	–	<5	–	182	0.6

Hermes Fund Managers Limited claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Hermes Fund Managers Limited has been independently verified for the periods 1 January 1998 through 31 December 2018. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation.

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The composite includes all discretionary portfolios following the Hermes Impact Opportunities Equity strategy run by the Hermes Impact Opportunities team and has an inception date of 1 January 2018. The objective of the strategy is to achieve long term capital appreciation by investing in companies which

will benefit from meeting the world's environmental and social challenges. The benchmark is the MSCI All Country World IMI Net, which is designed to measure the equity market performance of developed and emerging markets countries and covers all investable capitalisation securities. The return is calculated on a total return basis net of withholding tax (Luxembourg rates). Performance returns shown in USD. The composite base currency is USD.

The management fee schedule for this strategy is 0.75% per annum.

The standard fees are shown in Part 2A of its Form ADV. For historical fees, please contact Hermes. Net results reflect the above-mentioned fee schedules, actual results may vary for each individual portfolio.

Composite descriptions, along with additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Where appropriate, composite dispersion is calculated as the asset weighted standard deviation of the annual returns of the constituent portfolios. If a composite consists of less than five portfolios for the full year then no measure of dispersion is shown. The three year annualised standard deviation measures the variability of the composite and benchmark returns over the preceding 36 month period. Standard deviation measures are not shown where there are less than 36 monthly observations available. Standard deviation measures are not required for periods prior to 2011.

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Allocations: The allocation distribution and actual percentages may vary from time-to-time. The types of investments presented in the allocation chart will not always have the same comparable risks and returns. The actual performance of the portfolio will depend on the Portfolio Manager’s ability to identify and access appropriate investments, and balance assets to maximize return while minimizing its risk. The actual investments in the portfolio may or may not be the same or in the same proportion as those shown in this document.

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