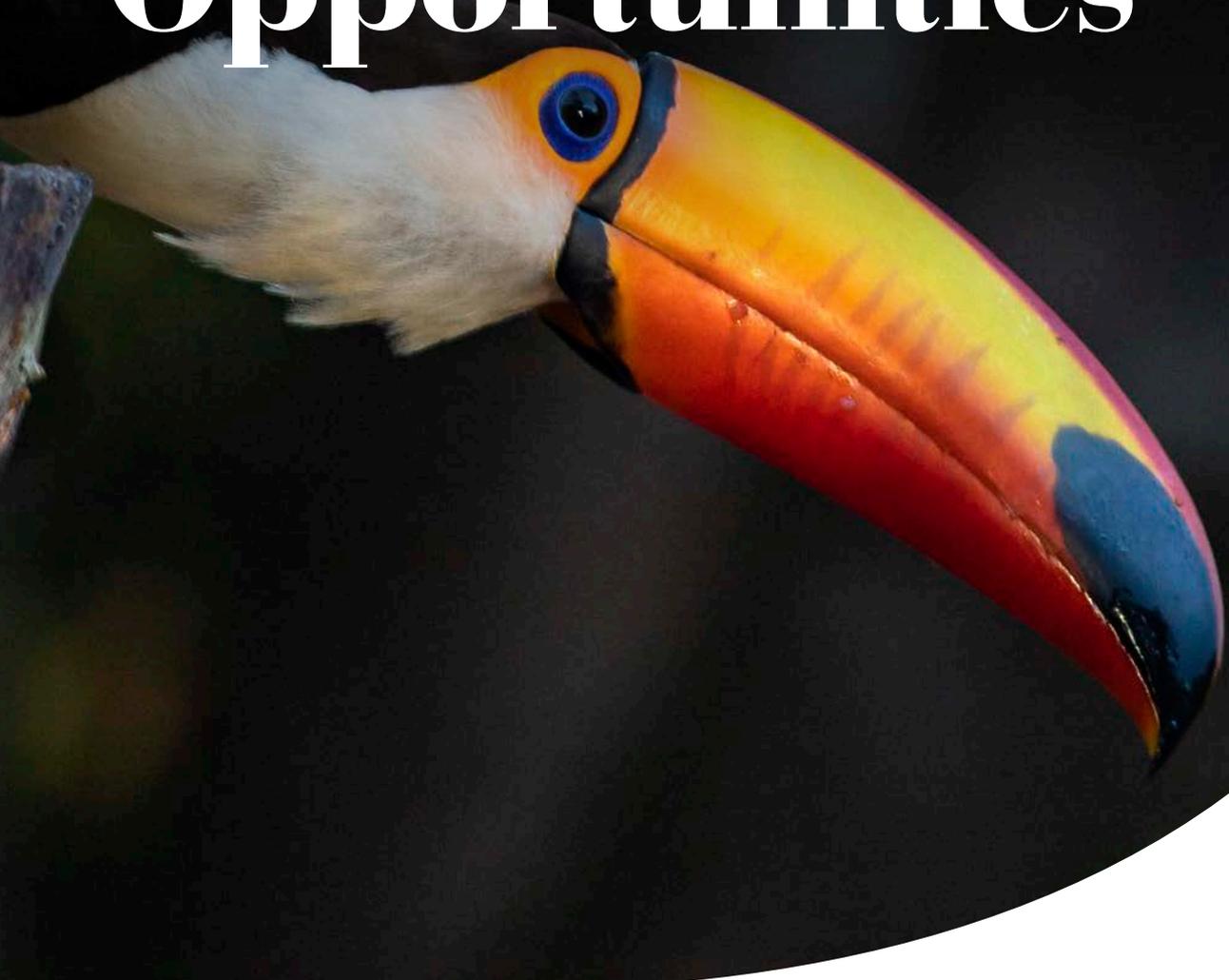


# Federated Hermes Impact Opportunities



**Quarterly Impact Report**  
Q4 2020

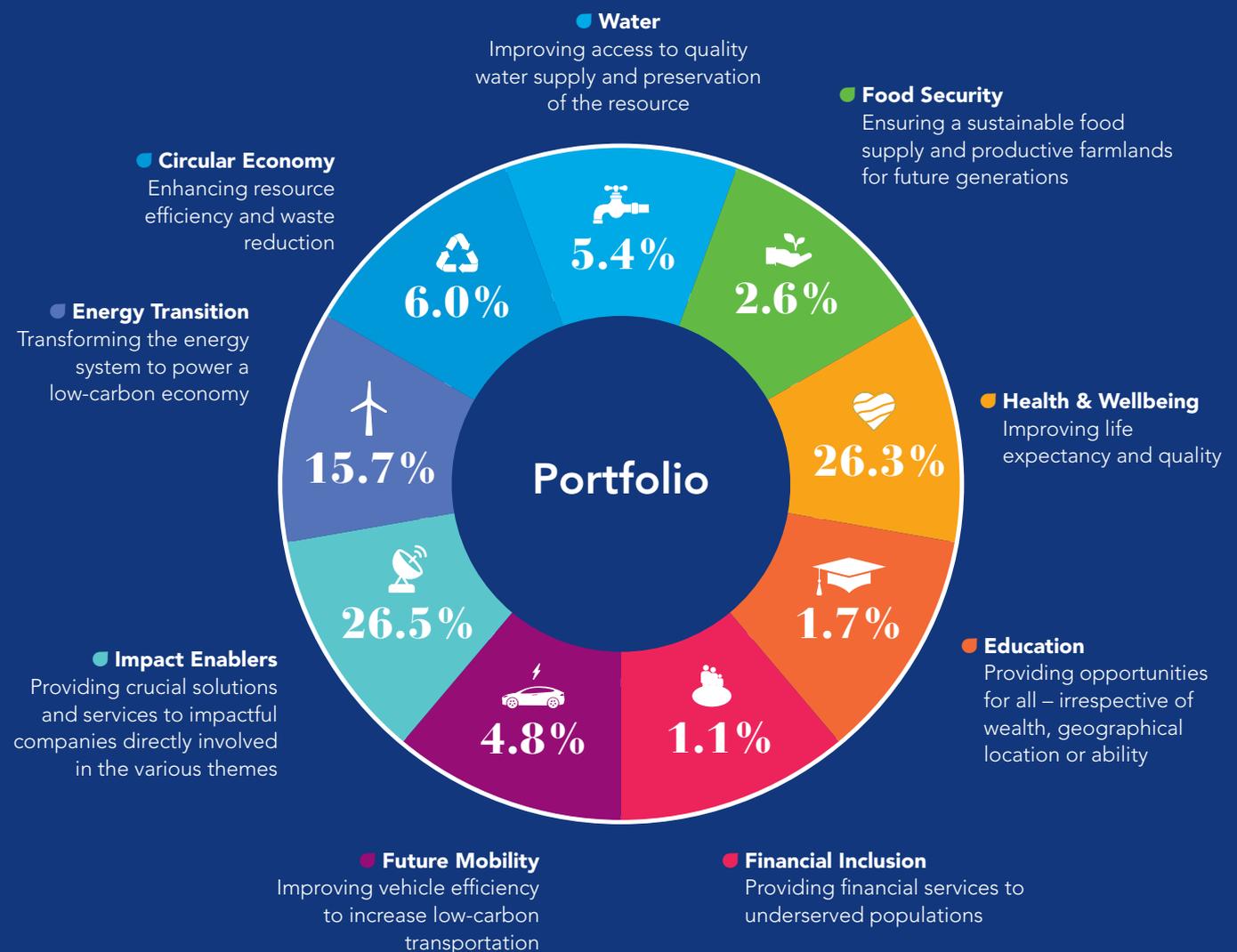
**Federated  
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**International**

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Federated 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 theme

A thematic approach: our holdings fit into one or more of nine impact themes that are aligned with the SDGs.



Source: Federated Hermes, as at 30 September 2020. Note: as at 30 September 2020, 5.8% of our exposure was not directly related to any of our nine impact themes, while 4.0% was held as cash.

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## THEMATIC FOCUS: BIODIVERSITY

Nature is critical for human existence, but it is under increasing stress – because of us. Human activity, such as consumption, eating habits and energy needs, has altered almost 75% of the earth's surface. Forests are declining at an alarming rate owing to agricultural expansion and climate change, while almost 1m animal and plant species are threatened with extinction<sup>1</sup>. According to the WWF's Living Planet Report 2020, global wildlife populations fell by 68%, on average, between 1970 and 2016, with some Australian populations plummeting by up to 97%.

It is estimated that damage to our ecosystems and the associated loss of biodiversity could cost the global economy \$10tn by 2050<sup>2</sup>. For many, the coronavirus has acted as a wake-up call: we cannot continue our current relationship with nature. Now more than ever, investors must take action to consider the impact of their investments.

### What is biodiversity?

Biodiversity is the variety of life found on earth from all sources, including terrestrial, marine, and other aquatic ecosystems and the ecological complexes.

The main causes of biodiversity loss are deforestation, unsustainable agriculture and the illegal wildlife trade – and they are also contributing to the emergence of zoonotic diseases, such as Covid-19. Such is the impact of human activity on nature, scientists believe we are now entering a new geological epoch, the Anthropocene<sup>3</sup>.

Insects are the basis of the food chain for other species.

**75%**

of the world's food crops rely partially on insect pollination.

There is a decline in insect populations due to the overuse of insecticides and pesticides, which threatens global food production.



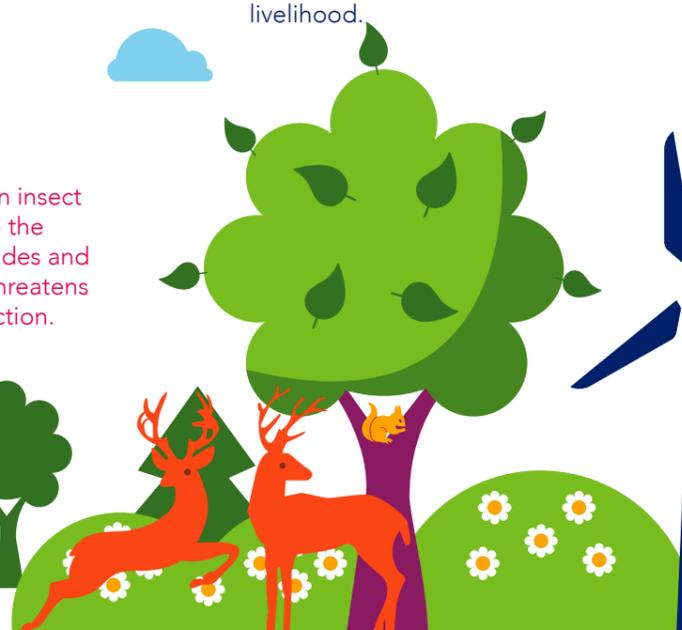
Wildlife and the ecosystems – that is, all the plants and animals that live in a particular habitat – are vital to human life.



Healthy forests help to stabilise our climate, clean the air, and guarantee water supply.

About **1.6bn**

people depend on forests for their livelihood.



**1m**

wildlife species and one in five plant species are threatened with extinction. According to WWF, populations of mammals, birds and fish have declined an average **68%** since 1970.



Deforestation decreases carbon absorption, destroys habitats and puts ecosystems at risk. Each year,

**10m hectares**

of forest are destroyed.



Communities of different animal species perform vital functions within ecosystems. For example, animals can provide natural pest control.



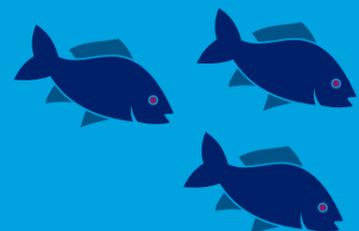
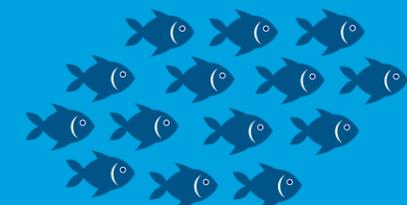
The increased exploitation of wildlife, habitat conversion and land use bring humans into ever-greater contact with wildlife, which increases the risk of zoonotic diseases. About **60%** of emerging infectious diseases come from animals.



Soil organisms are essential for the supply of nutrients to plants as they help to break down organic matter.

Almost **30%**

of land on earth has been degraded with soils of low biodiversity, reducing food production and intensifying climate change.



Almost

**200m**

people depend on coral reefs: they help protect from storm surges and waves.

More than

**60%**

of the world's coral reefs are under threat, due to overfishing and destructive fishing.

It is estimated that there are

**5.25tn**

plastic particles in the world's oceans, weighing

**260,000 tons.**



Source: United Nations, WWF, as at November 2020.

<sup>1</sup> Source: 2019 Global Assessment Report on Biodiversity and Ecosystem Service.

<sup>2</sup> Source: Global Futures report from the World Wild Fund for Nature (WWF).

<sup>3</sup> "Living Planet Report 2020," published by the WWF in September 2020.

## Investing to limit biodiversity loss

Several of our impact themes seek to reduce our impact on nature and therefore help to conserve biodiversity, particularly through the reduction in material and water usage and greenhouse gas emissions. These themes are also inextricably linked to the prevention of climate change. They include:



### Energy transition

Renewable energy helps to reduce the depletion of non-renewable resources – and it reduces air pollution and cuts carbon dioxide emissions too. Within this theme, our portfolio holdings include a US-based specialty finance firm (see case study on page 6), a Spanish wind turbine manufacturer (see case study on Page 7), and a Danish wind power group.



### Future mobility

Intuitive, cleaner and connected vehicles can help to reduce pollution and the consumption of fossil fuels. Exposure in our portfolio includes a German car parts supplier and a Belgian battery-materials manufacturer.



### Water

Freshwater ecosystems are among the most degraded and threatened ecosystems at the global scale. Two of our holdings provide products and services that help to preserve our water ecosystem, such as helping to reduce water usage by implementing more water-efficient processes.



### Circular economy

Reusing and recycling helps to lessen our usage of new materials and reduce waste. These practices can also lower pollution by decreasing energy, electricity, and water consumption and the need for landfills. Our exposure ranges from a pallets and container maker to a world leader in reverse vending.



### Impact enablers

Providing solutions that help to improve processes (e.g. software and technology), can reduce material usage, cut pollution and enable sustainable production. We hold an engineering simulation software company and a speciality chemical services company in our portfolio.

## Stewards of our planet

At the international business of Federated Hermes, we are members of industry organisations and committees that focus on biodiversity, including the Investors Policy Dialogue on Deforestation in Brazil, the Global Investor Coalition on Climate Change, the PRI Palm Oil Advisory Committee, the PRI Investor Working Group on Sustainable Palm Oil, amongst others.

For many years, EOS at Federated Hermes (EOS), our stewardship team, has engaged with companies on biodiversity-related issues, such as eliminating deforestation and ensuring sustainable water use. Alongside our colleagues at EOS, we engage with our portfolio companies to encourage them to do more to conserve our environment and help restore habitats.

Several of our impact themes seek to help conserve nature and biodiversity.



## CASE STUDY

## US-based specialty finance firm



**It is the first US public company solely dedicated to investments in climate change solutions.**

**Impact theme:** Energy Transition

**Primary SDG target 7.3:** By 2030, double the global rate of improvement in energy efficiency.

About \$75tn is expected to be invested in global energy and renewable energy over the next three decades, according to the International Renewable Energy Agency. Such investments will help drive a faster rate of decarbonisation and, in turn, preserve and restore nature.

One of our holdings, a US-based specialty finance firm, is uniquely positioned in this regard: it provides investors with attractive long-term cash flows generated by clean energy assets. Through every investment, the company aims to help reduce carbon emissions and have other tangible environmental benefits, such as reducing water usage. Using proprietary tools<sup>4</sup>, the company has also certified the climate impact of each of its investments since its IPO in 2013.

### Fuelling the transition to a low-carbon future

The group's portfolio, which focuses on three main areas – behind-the-meter technology (such as energy efficiency, distributed solar and energy storage), grid-connected assets (such as utility-scale solar and wind projects), and sustainable infrastructure (such as stormwater remediation) – totalled \$2.2bn as of 30 September 2020<sup>5</sup>. Despite the backdrop of the global coronavirus pandemic and its economic consequences, it continues to perform and generate historically strong earnings. The portfolio yields 7.7%, with an average investment of \$11m across 208 companies – and, in the last seven years, the company has generated annual returns of 28%, compared to 13%

for the S&P 500<sup>6</sup>. Indeed, the company is well-positioned as climate change solutions are likely to be crucial in the world's recovery from the ongoing pandemic.

It seeks to make \$1bn-worth of climate-positive investments each year. In the first nine months of 2020, the company closed \$1.1bn-worth of transactions – up from \$810m in the same period last year<sup>7</sup>.

In July, the group also announced a partnership with the largest independent power producer and energy efficiency services provider in the world to invest approximately \$540m in a 2.3GW portfolio of wind and solar projects in the US<sup>8</sup>. The agreement significantly grows and diversifies its balance sheet portfolio by technology, geography and power market.

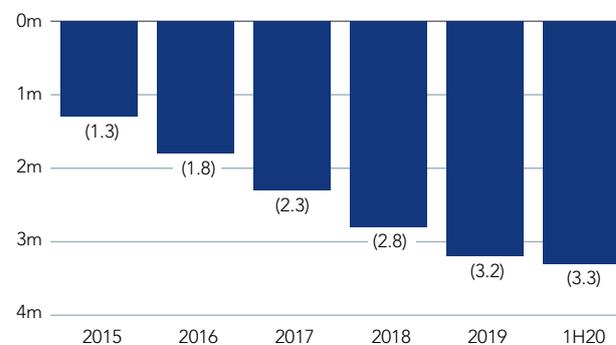
### Improving our climate future

Today, the challenge of protecting the environment in an era of a rapidly escalating climate crisis and the coronavirus is immense, but the debt and equity financing the company provides is directly fuelling the transition to a low-carbon economy, enabling decarbonisation, and thereby addressing biodiversity loss.

So far, its investments have had a significant societal and environmental impact. The cumulative metric tons of carbon dioxide emissions avoided through the group's investment since 2013 hit 3.2m in 2019<sup>9</sup>. What's more, the CO<sub>2</sub> reductions from the group's investments in 2019 were equivalent to taking 83,000 cars off the road<sup>10</sup>.

**The company is well-positioned as climate change solutions are likely to be crucial in the world's recovery from the coronavirus pandemic.**

**Figure 1.** Powering ahead: cumulative metric tons of CO<sub>2</sub> avoided annually



Source: the US-based specialty finance firm, as at August 2020.

<sup>4</sup> CarbonCount measures the expected CO<sub>2</sub> emission reduction per \$1,000 of investment and WaterCount estimates the expected water consumption reduction per \$1,000 of investment.

<sup>5, 6, 7, 9, 10</sup> "Source: the US-based specialty finance firm, as at November 2020.

<sup>8</sup> "Source: the US-based specialty finance firm, as at in July 2020.



**The company is the largest offshore wind turbine manufacturer in the world. It therefore plays a pivotal role in providing clean, efficient power that will shape the world's global energy transition.**

**Impact theme:** Energy Transition

**Primary SDG target 7.2** By 2030, increase substantially the share of renewable energy in the global energy mix.

Climate change and pollution are primary drivers of biodiversity loss – and according to an assessment by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, there is a strong interrelationship between climate change, the loss of biodiversity and human wellbeing. As the world's largest offshore wind turbine manufacturer, one of our portfolio holdings, a Spanish wind turbine manufacturer, is at the forefront of the climate change and biodiversity agenda.

### Towards a cleaner future

The growth of the wind-energy industry continues to accelerate, supported by the cost-competitiveness of renewable energy technology, with installations poised to rise nearly six-fold over the next decade. This growth has been bolstered by political commitments to decarbonise economies. In October, the European Parliament voted to raise the European Union's emissions reduction target for 2030 from 40% to 60%, while an increasing number of countries and companies have committed to achieving net zero emissions by 2050. According to the International Energy Agency, such an objective will require wind installations to rise from 60 gigawatt (GW) to 280GW by 2030.

<sup>11, 12</sup> "Source: the Spanish wind turbine manufacturer, as at May 2020.

<sup>13</sup> "Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy," published by the World Economic Forum in January 2020.

The coronavirus pandemic has further highlighted the need to design sustainable economic models, and governments are now making sustainability a key part of their plans to build back better. Such fiscal recovery plans should translate to more renewable investment – and against this backdrop, we believe that the Spanish wind turbine manufacturer is well positioned to retain its market leadership position in offshore wind over the mid-term. Offshore projects generally have a lead time of four years, which gives the company greater certainty about both its revenue growth and market share.

### Winds of change

In May, the company launched a new offshore Direct Drive wind turbine. With an unprecedented 14-megawatt capacity, it is the largest and most efficient offshore turbine globally. In addition, the new Direct Drive wind turbine uses advanced technologies; it is light weight; and its 39,000m<sup>2</sup> swept area (that's equivalent to 5.5 standard football pitches) allows it to provide an increase of more than 25% in annual energy production compared to the 11.0-200 DD offshore wind turbine<sup>11</sup>. Indeed, just one of these turbines can provide enough energy to power about 18,000 average European households each year, while 30 of them could cover the annual electricity consumption of Bilbao, Spain<sup>12</sup>.

**30** of the company's new Direct Drive wind turbines could cover the annual electricity consumption of Bilbao, Spain.



### Working with nature

Over half of the world's GDP is moderately or highly dependent on nature<sup>13</sup>, but we continue to undermine the entire natural infrastructure on which our world depends. If a timely transition to a lower-carbon future is to be achieved, substantial investments in clean-energy infrastructure will clearly be needed.

The company is embracing the transition to a low-carbon future – and, as a leader in the renewable energy industry, it is helping address the dual crisis of climate change and unprecedented biodiversity loss.

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## International

### 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 to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

### Our investment and stewardship capabilities:

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

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