UN Global Compact

Communication on Progress

August 2020

Federated Hermes
International

www.hermes-investment.com
For professional investors only

Chief Executive Statement

7 August 2020

The international business of Federated Hermes has been adhering to and promoting with investee companies the spirit and objectives of the UN Global Compact for many years. With our mission of delivering outcomes beyond performance, it is at the heart of what we stand for as an investment and stewardship services firm.

Since first engaging for stronger UK corporate governance in 1983, to becoming a founding signatory of the Principles for Responsible Investment in 2006, to spearheading the global 2017 Climate Action 100+ initiative now involving more than 450 investors with more than $40 trillion in assets, we have been at the vanguard of a movement that is now redefining the practice of investing. Responsibility starts at home – with our behaviours, people and culture – and so, as a business, we must strive to meet the expectations that we have of others. The Federated Hermes Pledge places responsibility, integrity and client focus at the heart of everything our people do.

As the world continues its fight against the coronavirus pandemic, investing responsibly matters more than ever. Indeed, we believe that it is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment.

We are pleased to submit this report in confirmation of our support of the Ten Principles of the United Nations Global Compact after becoming a signatory in 2017. Our third Communication on Progress lays out our work in the last 12 months in each area of the Global Compact – Human Rights, Labour, Environment and Anti-Corruption – and the outcomes we have seen. We would encourage other organisations to commit to collective action to advance the principles by signing up to the UN Global Compact.

Yours sincerely,

Saker Nusseibeh, CBE
CEO, The international business of Federated Hermes

About the international business of Federated Hermes

Hermes Investment Management and Federated Investors rebranded as Federated Hermes in February 2020. This was a natural step in the development of the two companies. Since Federated became the majority owner of Hermes in 2018, we have been united by a shared commitment to client-centric responsible investment and long-term business growth. All activities previously carried out by Hermes Investment Management now form the international business of Federated Hermes. BT Pension Scheme retains a minority stake in the international business of Federated Hermes, alongside members of the international business of Federated Hermes' management.

Federated Hermes is a global leader in active, responsible investment. We are guided by the conviction that responsible investing is the best way to create long-term wealth. We provide specialised capabilities across equity, fixed income and private markets, in addition to multi-asset strategies and proven liquidity-management solutions. Through our world-leading stewardship services, we engage companies on strategic and sustainability concerns to promote investors' long-term performance and fiduciary interests. Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns, and, where possible, to contribute to positive outcomes in the wider world. As of 31 March 2020, Federated Hermes had £488bn assets under management and £858bn assets under advice.

We always strive to meet our legal and regulatory responsibilities, conducting our business with the highest standards of integrity and honesty, and we expect all employees to maintain the same standards. We consider any failure to achieve these standards as a serious matter.

This Communication on Progress is made on behalf of the international business of Federated Hermes, including EOS at Federated Hermes ('EOS'), as a Participant of the UN Global Compact.

Sustainable wealth creation

At the international business of Federated Hermes, while our primary purpose is to help beneficiaries retire better by providing world-class active investment management and stewardship services, we believe that our role goes further.

We believe that we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial and consider the impact our decisions have on society, the environment and the wider world. In doing so, we invest our clients' capital to create wealth sustainably – aiming to deliver sustainable long-term growth, while at the same time helping to build a better society for all.

As an active investor, we believe we have an important role to play in engaging companies to encourage responsible business practices. As a result, we frequently engage companies on a range of issues from accelerating the transition to a net-zero carbon economy to good corporate governance and the protection of human rights in their workforces, supply chains and the communities in which they operate.

It follows then that we are keenly aware of the need to lead by example and act as a responsible firm ourselves. This is a far wider concept than just shareholder engagement. We operate by the Federated Hermes Code of Business Conduct and Ethics, which requires all business to be conducted in accordance with the highest legal and ethical standards and all staff to adhere to the highest ethical standards at all times in the conduct of their professional and personal affairs.

The Federated Hermes Pledge underpins our firm-wide commitment to always put clients first, and to act responsibly and transparently. It makes clear our commitments, obligations and responsibilities as an organisation and as individuals. At the international business of Federated Hermes, the Pledge, which is voluntary, has been signed by 99% of employees to date.

> I pledge to fulfil, to the best of my ability and judgment and in accordance with my role, this covenant:
>
> - I will act ethically, responsibly and with integrity.
> - I will put the interests of our clients first, consistent with our fiduciary responsibilities.
> - I will encourage responsible behaviour in the firms in which we invest and on which we engage.
> - I will act with consideration for our community and the environment both now and in the future. I will encourage others to do the same.
> - I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society.
> - I will treat my clients, my colleagues and all other stakeholders with dignity and respect and as I would wish to be treated.
> - I will deal with our regulators in an open, cooperative and timely way.
> - I will communicate clearly and honestly with all parties inside and outside our firm.
> - I will manage conflicts of interest fairly between all parties.

We recently published our inaugural Responsibility Report – an annual publication that provides clear information about our responsible business practices, our approach to responsible investing and our firm-wide advocacy activities. Our Responsibility Office acts as a hub of expertise and support to assist every employee in our business to work towards our mission of delivering holistic returns:

- It holds each department accountable for ensuring that we act as a responsible firm and keeps the interests of clients and their beneficiaries at the centre of what we do.
- It works with the Investment Office to ensure that our investment and engagement teams integrate stewardship and ESG factors into their activities.
- It develops and leads the implementation of our advocacy positions.

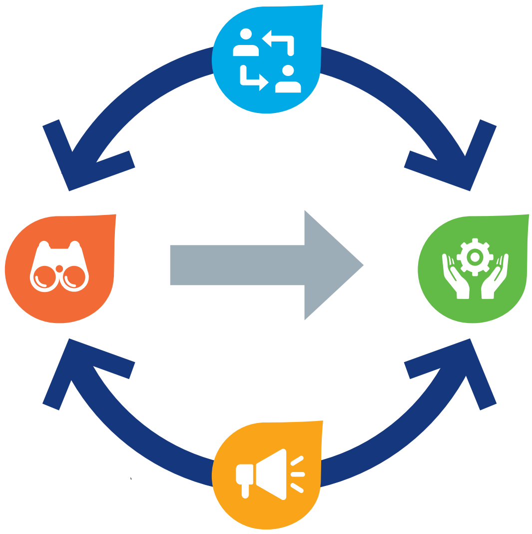
Responsible investment in practice

At the international business of Federated Hermes, we believe there are two mutually reinforcing strands of responsible investment management: responsible investment and responsible ownership. Within these strands, we aim to generate sustainable wealth creation for the end beneficiary – the investor – by striving to deliver both robust investment returns and positive social and environmental impact.

Creating wealth sustainably

Engagement

We act as engaged stewards of the investments we manage or represent on behalf of our clients. Where we hold assets with significant ESG-related risk exposure, we will manage directly-owned assets – and engage with public and private companies – to mitigate this risk



Awareness

Portfolio managers are aware of the ESG-related risks in their portfolios, which investments are the largest contributors, and what are the associated risks and mitigation strategies

Integration

Portfolio managers integrate ESG-related risk considerations alongside other value and risk considerations, exploiting green investment opportunities or divesting where ESG-related risk impacts value

Advocacy

We engage with public policymakers and sector organisations, nationally and internationally, to encourage policy or best practice that facilitates the transition to a net-zero carbon economy

We have been actively engaging with companies for over 20 years, building a compelling story for responsible ownership. Our engagement team, EOS, is a leading stewardship service provider. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on ESG issues. We believe this is essential to build a global financial system that strives to deliver improved long-term returns for investors, as well as better, more sustainable outcomes for society.

EOS represents £858bn of assets under advice (AuA) as of 31 March 2020 and in 2019 engaged with 1,043 companies worldwide covering 2,854 environmental, social, governance, strategy, risk and communication issues and objectives, and made voting recommendations at over 10,584 company meetings. Our team engages in active stewardship on behalf of clients, voting at annual general meetings and other shareholder gatherings to achieve our clients' responsible ownership aims and fulfil their fiduciary duty to be active owners. Our quarterly screening tool monitors our clients' portfolios to identify companies that violate or are at risk of violating commonly accepted international norms and standards, including: UN Global Compact Principles, Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, as well as relevant involvement in controversial weapons. This enables our clients to see where there may be risks in their portfolio, and review company responses to these based on our engagement insights where possible. This information is typically used by third-party clients as an input into their exclusion processes.

We dedicate resources to supporting the integration of ESG and engagement information in the investment decisions made by our public- and private-markets teams. This includes using proprietary tools that combine our own analytical ESG data and engagement insights with research from external providers. The feedback loop from our engagements with corporate boards and management teams is a hallmark of our investment approach. Beyond the extensive meetings that investment teams have with management each year, it is further enabled by regular interactions between our fund managers and engagers, and especially by the company meetings they jointly attend. The international business of Federated Hermes generally favours engagement over exclusion, as we believe that having a seat at the table gives us greater power to influence than exclusion and divestment does. For our public-markets teams, ESG and engagement data is considered in the context of the investment philosophy of each strategy. Given the typically long holding periods and concentrated nature of private-market investments, both ESG data and engagement activities are strongly integrated throughout our real estate, infrastructure and direct lending investment processes. This includes data and engagement relating to human rights, labour, environmental and governance issues.

Investing in the Sustainable Development Goals (SDGs)

Believing that good outcomes drive good business, we perceive sustainability and long-term profitability to be interconnected. As such, we aim to have a positive impact on – and through – the companies in which we invest. We aim to help them to create wealth more sustainably as a consequence of our engagement.

Delivering sustainable outcomes through stewardship is an objective for each and every investment product we manage. In addition, in recent years, we launched three impact strategies focused on investments connected to the SDGs. The first, Impact Opportunities (launched in late 2017), is a high-conviction strategy aiming to invest globally in companies that are generating sustainable wealth through products and services that directly meet the underserved needs addressed by the UN SDGs. By focusing on companies exposed to these sources of enduring demand, the strategy seeks the growth leaders of tomorrow. The second, SDG Engagement Equity (also launched in late 2017), targets smaller companies across the globe with the potential – through engagement – to make a meaningful contribution towards the attainment of the SDGs, via actions through their supply chain, their direct operations or indeed their products and services, with the end result being a more sustainably successful business. In September 2019, we launched SDG Engagement High Yield Credit, which aims to outperform the global high-yield market through high-conviction investment in companies with strong fundamentals that also demonstrate the potential, through engagement, to create positive change.

By respectively seeking present-day impact, and working with companies to deliver positive change tomorrow, these distinct capabilities show that sustainable investing remains core to our identity, purpose and growth strategy. Our company engagement goes hand-in-hand with our advocacy work, as we seek to positively influence at the individual company level and the markets in which they operate.

Our SDG Engagement Equity strategy targets both traditional financial performance goals as well as aiming for positive social and environmental change by engaging with companies to help deliver the SDGs. Our SDG-driven engagement focuses on the full spectrum of a company's operations and strategy, providing opportunities to create meaningful and lasting societal impacts. It is only through engagement that investors can really understand a company's impact and more pertinently catalyse or bring about positive change. As in 2018, we engaged last year with companies on issues relevant to all 17 SDGs having identified approximately 40% of the 169 targets as being relevant to an investor-company dialogue. Yet some themes were more common than others. As all companies consume resources and employ people, it is perhaps no surprise that the SDGs relating to resource efficiency and decent work were particularly prominent and will likely remain so. The relative share of our activity in relation to each SDG, progress in engagement and ESG characteristics of the portfolio in 2019 are set out in the SDG Engagement Equity Annual Report with case studies throughout – and expanded through additional quarterly company commentary notes – explaining how our engagements with individual companies are creating change in support of specific SDGs.

The SDG Engagement High Yield Credit strategy also seeks to achieve a meaningful social and/or environmental impact as well as a compelling return by investing in high-yield bonds and engaging with their issuers to drive positive change in line with relevant SDGs.

This is a high conviction strategy that invests in high-yield companies that demonstrate a willingness and ability to create positive change in society and/or environment whilst improving their credit profiles.

The strategy uses the SDGs as a framework for engagement. Our engagements seek positive change that strengthens the long-term performance of companies, sustaining both impact and corporate profitability. We believe that bondholder engagement supports the long-term viability and investment performance of businesses while also benefiting society and the environment. The global high-yield market offers great opportunities to identify companies with the willingness and ability to change their operations, products or services in order to generate additional benefits for society and the environment. Some high-yield issuers are yet to focus on creating positive change, enabling us to play an important role in their efforts to become impactful while also delivering attractive returns to investors. By investing and engaging to create change, we seek tomorrow's impact leaders rather than focus on those of today.

Our Impact Opportunities strategy 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. We have created our own SDG taxonomy, the addressable targets identified which feed into our nine impact themes: Water, Health and Wellbeing, Financial Inclusion, Education, Energy Transition, Future Mobility, Food Security, Circular Economy and Impact Enablers. At their inception, the 17 SDGs were designed to appeal to the broadest audience possible rather than being a framework for sustainable investment. The Federated Hermes SDG Taxonomy therefore seeks to prove clear links between the 169 targets within the SDGs and potential investments in a logical and transparent way. It is a living body of research, enabling us to highlight clear opportunities today and adapt our findings as new information comes to light. It identifies investment opportunities directly connected to the underlying targets of Goals 1 to 15.

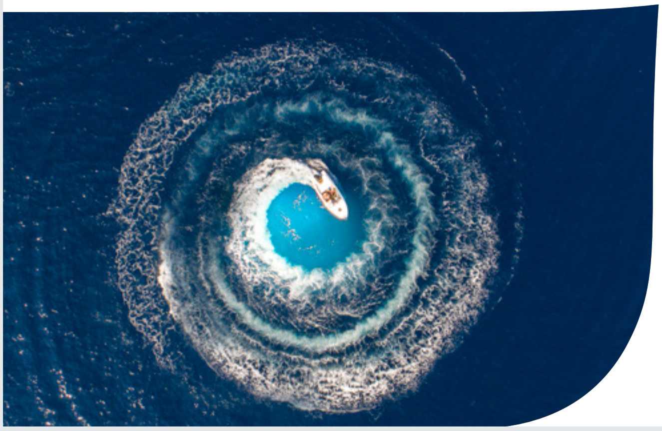
Delivering positive impact: the SDG Taxonomy

Believing the SDGs can be a powerful way of identifying impactful companies, in 2019 we created the SDG Taxonomy – a living research project that clearly demonstrates clear connections between the underlying targets of the SDGs and investment opportunities.

An example of how the taxonomy works

SDG Goal	SDG Target	Directly investable	Product or service solution	Theory of Change		Impact risk
				Issue	Contribution	
14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development.	**14.1:** By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.	Yes	Waste collection and recycling.	As much as 40% of the world oceans are heavily affected by human activities, including pollution, depleted fisheries, and loss of coastal habitats, while over 3bn people depend on marine and coastal biodiversity for their livelihoods. Marine pollution, such as plastic packaging in oceans or fertiliser leaching into rivers, has a negative impact on marine ecosystems, potentially reducing biodiversity.	Recycling allows for a closed-loop system where less resources are required from the environment, thus limiting environmental degradation. If managed sustainably, scarce natural resources can benefit current and future generations. While the OECD recycling average is only 25%, countries such as Germany or Taiwan are able to achieve the highest recycling rates of above 55%.	**Efficiency risks:** some recycling processes have a high environmental impact, especially when factoring in energy needs, which may be less attractive than using virgin materials in some cases. **Execution risks:** disposal of non-recyclable materials needs to be handled carefully in order to not generate pollution. **Stakeholder participation risks:** working conditions of staff and contractors may be problematic, especially in terms of health and safety.
SDG: one of the UN's 17 sustainable development goals (SDGs).	**SDG target:** an example of the 169 specific targets as outlined by the UN.	**Directly investable:** yes or no.	**Product or service solution:** goods and services that could help achieve this particular SDG target.	**Theory of Change:** describes in further detail the relevant issues, as well as the potential for related investments to contribute positively.		**Impact risks:** outlines the unintended or unexpected actual or potential negative consequences of investment in the target area.

Source: Federated Hermes, as at April 2020.



For example, the SDG Taxonomy identifies SDG target 14.1 (as detailed above) as directly investable through public equities. Our Impact Opportunities portfolio has exposure to Tomra – a company that provides sensor-based solutions which help increase recycling rates – and so, it is strongly linked to target 14.1.

To explore the SDG Taxonomy, use the following link: www.hermes-investment.com/ukw/sdg-taxonomy

This SDG Taxonomy ensures that the investment ideas of our Impact Opportunities strategy have full traceability back to the underlying SDGs After this, impact must be assessed on an idiosyncratic basis. We have developed an impact assessment framework that centres on five key dimensions: nature, intentionality, additionality, balance and improvement to ensure that a company contributes substantively to one or more of the SDGs, beyond a broad thematic alignment. Our Impact Opportunities 2018 Annual Impact Report provides more detailed information about how we identify investment and impact opportunities, our thematic and geographic exposures and a number of case studies including links to specific SDGs.

The rest of this Communication on Progress focuses mainly on the policies, goals and outcomes shared across our strategies. However, by nature of their focus on the SDGs, the three strategies listed above have additional activities and outcomes relevant to all of the UN Global Compact Principles. More information is available in the respective reporting of each strategy.

In private markets, our Real Estate team has developed an impactful investing approach, seeking ways to increase our impact through responsible property investment. By investing for outperformance while aligning our strategy to the needs of society as it changes, rather than managing pure-play impact-investment products, we seek to deepen the practice of responsible investment. This means using a purposeful framework to focus our real-estate operations around impact themes, and within these targeting activities with measurable environmental, economic and societal impacts. Our Real Estate impact themes are intended to support the delivery of the SDGs.

We focus on positive placemaking by embedding social value and reducing our environmental impact through initiatives which support the delivery of relevant SDGs though improvements and efficiencies in our real estate portfolio.

Our decision to create an impactful intent framework was inspired by our previous efforts to develop common definitions and guidelines that describe 'impact' for real-estate investors. Using the SDGs as a reference point, we developed the framework as a way to further improve our approach to sustainable investment.

This initial impact framework has now been translated into constructive action points for the investment strategies within the real-estate offering focusing on three main themes:

- Meaningful placemaking;
- Climate and resource efficiency; and,
- Health and wellbeing.

After defining these three areas, we initiated a screening process to identify socioeconomic and environmental-impact targets for the portfolio. This process shed light on regional needs and local environments, which enabled us to set specific, measurable targets for each fund or mandate.

At the heart of our approach is our commitment to creating the 'meaningful city' – or places 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.

HUMAN RIGHTS PRINCIPLES

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2	make sure that they are not complicit in human rights abuses.

Assessment, Policy and Goals

Responsible investment

As an active investor, we are defined by our commitment to deliver holistic returns for clients and their beneficiaries. We consider the social and environmental impact of the investments we make alongside the returns they may deliver. This is why we developed our Responsible Ownership Principles. These principles include expectations around corporate governance, relationships with stakeholders, workers and human rights. Companies are expected to ensure that they respect the human rights of those affected by their operations and their value chains. They should develop plans to identify and manage these human-rights risks, in order to encourage positive human-rights outcomes and minimise adverse ones. At the very least, companies should not only obey the law but also respect the human rights of those affected by their activities and be open about and prepared to discuss the impact of their activities.

Responsible ownership

Human and labour rights underpin a company's wider corporate culture, business ethics and enterprise risk management, which affect a company's reputation and the ability to create and preserve value over the long term. Changes in regulations and government policies, such as the UK Modern Slavery Act and the Dutch Child Labour Due Diligence Law have set new minimum levels of obligation for companies to identify and report how they manage these risks.

In addition, the UN Guiding Principles on Business and Human Rights set out international guidelines covering the identification of salient human rights in company operations and supply chains and the range of actions to consider in order to respect and, where necessary remedy, human rights abuses.

Human rights remain a priority for EOS. The UN Guiding Principles on Business and Human Rights provide a global standard for addressing the risk of adverse human-rights practices linked to business activity and offer a framework for our engagement with companies in this area. The ability and commitment to respect and remedy human rights issues reflect the strength of a company's culture and risk management. For many companies, human-rights issues reside less in their own operations and more in their supply chain, or potentially in the use of their products.

The stewardship outcomes we seek in relation to human rights include respect for all human rights linked to a company's operations, products and supply chains, including through the provision of affordable essential goods and services to help reduce poverty.

Responsible business

At the international business of Federated Hermes, we are committed to running our business responsibly. Part of this means doing our best to encourage high standards in our supply chain and business. Our Modern Slavery Statement 2020 sets out our objective of ensuring that there is no modern slavery or human trafficking in any of our business dealings. It also describes the processes we have put in place to help us achieve this objective, including our Supplier Code of Conduct and supplier due diligence checks.

Our procurement processes apply across all offices of the international business of Federated Hermes. We have a Supplier Code of Conduct, available on our website, which we ask all new suppliers to sign. We expect new suppliers with more than £36m in turnover to supply us with their Modern Slavery statements. We promote best practice for Sustainable Procurement and ask suppliers for evidence of their sustainable procurement practices covering the following core areas: environmental, social, economic and governance.

We encourage open communication, in keeping with the Federated Hermes Pledge, and regard integrity as a central part of our beliefs. We encourage employees to bring any concerns to the attention of their immediate supervisor or manager. To that effect, we have a Whistleblowing policy in accordance with the Public Interest Disclosure Act 1998 – also referred to as 'The Whistleblowers' Act' in the UK and the Whistleblower program in the US – which stipulates that employees are legally protected from dismissal or unfavourable treatment by their employers as a result of raising concerns. Examples of the type of concern which could be raised are internal fraud or breach of regulatory obligations (e.g. market abuse). Employees may also report such matters directly to the Strategic Risk and Compliance Director or the Chairman of the international business of Federated Hermes. However, we recognise the difficulty in reporting through internal channels and that employees may prefer to remain anonymous. To that effect, we also provide several secure, anonymous reporting routes via a hotline and online reporting.

Implementation

Responsible investment

Research from our own Global Equities team demonstrates that companies with good or improving ESG characteristics (those in the top decile) on average outperform companies with negative characteristics (those in the lowest decile). According to our research published in 2018, this is driven by the strength of their corporate governance and, for the first time since our investigation began in 2014, social metrics. Companies with poor or worsening social practices have consistently underperformed their peers by 15bps a month since December 2008. This follows the same pattern we previously observed for governance.[1]

Responsible ownership

The long-term outcomes EOS seeks in human rights engagements include: no company causing or contributing to human or labour rights abuses whether in their own operations or supply chain and effective remedy is provided in case of any harms; access for all people to basic human needs such as affordable nutritious food and healthcare; and full respect for the human rights of all indigenous people including those living in high risk zones such as occupied territories. Near-term corporate objectives include: the development of a business model aligned to the elimination of human and labour rights abuses including modern slavery; development of food product formulations that can support a balanced diet; and the adoption of human rights policies and procedures in line with UN Guiding Principles on Business and Human Rights.

We have published multiple case studies relating to our engagement on human rights and labour principles, including a focus on human rights in the supply chain in our EOS Public Engagement Report, published in July 2019.

We are members of the Investor Alliance for Human Rights' Advisory Group to develop an investor toolkit for human rights, published in May 2020, which provides practical guidance for institutional investors in applying the UN Guiding Principles throughout their risk management systems to assess and address risks to people involved with their business, with a primary focus on investment activities. In 2019, EOS responded to the UK Home Office's consultation on transparency in supply chains, which proposed changes to the Modern Slavery Act. We met with Home Office policy officers to express our support for the development of a government-endorsed central repository for Modern Slavery statements, to facilitate investor engagement on this issue and hold companies to account. We signed the Find It Fix It Prevent It Modern Slavery Investor Statement, which calls on UK-listed companies to: increase their efforts to identify human trafficking, forced labour and modern slavery in their supply chains; review, assess and disclose the effectiveness of their attempts to address these issues; and support the provision of remedy to victims of modern slavery within their supply chain. This statement marked the launch of a three-year initiative to co-ordinate investor engagement with companies on modern slavery in their supply chains.

Responsible business

We have considered how our business operations may be affected by modern slavery issues. In 2019, we introduced increased levels of due diligence to ensure we select suppliers who can work with us to deliver a higher quality of service to our clients and who are aligned with our values.

The basic due-diligence checks on all suppliers request information on the organisation's policies, tax facilitation, basic finance and compliance checks and ask suppliers to adhere to our Supplier Code of Conduct. As part of the basic due-diligence checks, all suppliers are screened by our Compliance team as part of the onboarding process against the various sanctions lists using Thomson Reuters Global Screening Tool. In addition to screening against sanctions, suppliers are also screened against law enforcement, regulatory enforcement, politically exposed persons and adverse media. Suppliers' details are saved on our system for ongoing screening, which is repeated periodically throughout our relationship with them. We ask all suppliers to complete a tax facilitation questionnaire, and additional checks are conducted on all suppliers based in the UK that have bank accounts in another country, as part of our financial crime prevention procedures.

The next level up includes an additional questionnaire to give us clarity on subjects like risk management. We have an additional third tier of enhanced due diligence targeting all levels of information security, which covers our critical and outsourcing suppliers. Our Compliance, Information Security, Finance and Legal teams work together to manage these checks. As part of the enhanced due diligence checks, we undertake enhanced oversight of certain service providers that are deemed to be material outsourcings. This includes carrying out regular onsite due diligence visits to our material and outsourcing suppliers. In 2018, we added modern slavery to the scope of issues to be examined as part of such due diligence visits, including asking suppliers what steps they take to identify areas of their business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps taken to assess and manage that risk.

Measurement of outcmes

In 2019, EOS engaged on 2,854 issues and objectives. 21% of the objectives and issues we engaged during the year were on a social or ethical theme. Of this, 28% related to human rights. 128 out of 243 social engagement objectives were moved forward at least one milestone during the year. Further information is available in the EOS 2019 Annual Review.

[1] https://www.hermes-investment.com/uki/insight/equities/esg-investing-a-social-uprising/

LABOUR PRINCIPLES

Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	the elimination of all forms of forced and compulsory labour;
Principle 5	the effective abolition of child labour; and
Principle 6	the elimination of discrimination in respect of employment and occupation.

This section should be read in combination with our reporting above on the Human Rights Principles, covering our efforts to eliminate forced, compulsory and child labour.

Assessment, Policy and Goals

Responsible investment

As an active investor we are defined by our commitment to deliver holistic returns, which is why we have established our Responsible Ownership Principles. These principles include expectations around relationships with stakeholders and, in particular, workers. The principles state that 'The workforce is a company's most valuable asset and therefore a critical stakeholder. Companies must develop human capital management strategies and objectives that ensure that everyone in their workforce is treated with dignity and respect and should help each person develop their potential. Companies should use their influence on their suppliers to encourage and, where possible, ensure similar outcomes. Such human capital strategies will help companies to deliver greater value for their shareholders and for the people that work for them.'

Responsible ownership

Social issues are one of the core engagement themes of EOS which include: conduct, culture and ethics; human capital management; and human and labour rights. Human and labour rights underpin a company's wider corporate culture, business ethics and enterprise risk management, which affect a company's reputation and the ability to create and preserve value over the long term. Changes in regulations and government policies, such as the UK Modern Slavery Act and the Dutch Child Labour Due Diligence Law have set new minimum levels of obligation for companies to identify and report how they manage these risks.

In addition, the UN Guiding Principles on Business and Human Rights set out international guidelines covering the identification of salient human rights in company operations and supply chains and the range of actions to consider in order to respect and, where necessary remedy, human rights abuses.

We seek human capital and labour rights in our stewardship, improving human capital and safeguarding labour rights to achieve a healthy, skilled and productive workforce inclusive of the full diversity of wider society.

Social issues are the primary engagement focus of the SDG Engagement Equity strategy. This is borne out of a recognition that the primary tool at a company's disposal is employment, and the provision of decent work is the most direct way that companies can lift people of poverty and support their economic, physical and mental wellbeing. The strategy focus on both **who** companies are employing, for example the opportunity to target employment towards those most in need, and **how** companies employ, encompassing among other things the provision of a living wage to ensure workers are afforded a dignified life, and the employer's investment in their employee's broader wellbeing and skills development.

Responsible business

We are also committed to upholding the UNGC Labour Principles as a business and an employer. An overview of employee rights, responsibilities, policies and benefits is available to all employees in our Employee Handbook. This includes a formal grievance procedure, available to all employees, should problems arise during the course of employment which cannot be resolved on an informal basis.

We recognise that diversity in the workforce is one of our greatest assets and that an inclusive culture allows us to continue to grow as a strong and innovative organisation, delivering excellence for our clients. We are committed to treating everyone with whom we work fairly, and with dignity and respect, as well as providing an environment which is free from harassment and discrimination, as is reinforced in our Equal Opportunities policy. This includes all our employees and staff (present, future and past) together with all of our other stakeholders, clients and service providers.

We have an articulated set of behaviours innate to our culture that contribute to the success of the business. Our fiduciary heritage and expertise in responsible investment ensure that our clients' interests come first and that we support positive change in the wider world. The way we behave and perform internally creates the environment that we need to ensure we maintain our commitments to clients, to each other and to the wider world. Our Behaviour Framework sets out the behaviours that are the visible manifestations of our Pledge and that influence every aspect of daily life at the international business of Federated Hermes. Employee end-of-year performance ratings are based on the extent to which they have demonstrated these behaviours as well as the extent to which they have met their performance objectives.

In addition, it is the responsibility of every leader and manager at the international business of Federated Hermes to create an environment where all of our people can give their best, feel valued and be able to build upon their knowledge and skills. We offer a number of management-development programmes in order to train and upskill managers in managing performance and behaviour.

As reported in our Gender Pay Report, and in line with our Women in Finance Charter commitments, we have measured the proportion of male and female staff, and set ourselves gender-diversity targets. In order to set stretching and realistic targets we took a balanced view of our ability to move towards gender parity, taking into consideration the rate of natural turnover in the business, future hiring needs and the availability of a diverse talent pool in certain sectors of the industry. We will continue the positive work we have accomplished to date, including widening access to the profession, with the ultimate ambition of achieving gender parity across the whole business.

Since 2012, the international business of Federated Hermes has been accredited as a Living Wage employer, affirming its commitment to provide all employees and on-site contracted staff in the UK with compensation and benefits at or above the London Living Wage. As an accredited employer, we ensure that all UK employees are paid at a minimum the London Living Wage which is an hourly rate, set independently every year. As part of our accreditation as a London Living Wage employer, we also contractually require our service providers who have staff working onsite in the London office to pay the London Living Wage or more. This ensures that all employees and contractors can meet the costs of living in London.

It is the policy of the international business of Federated Hermes to take all reasonable practical steps to ensure health, safety and welfare at work for all its employees in accordance with general statutory obligations. This includes training First Aiders and Fire Marshalls on each floor. Health-and-safety training is undertaken as part of the employee-induction programme.

As described in the human rights section above, if an employee were to have a concern related to labour, the whistleblowing policy would enable them to raise their concerns or seek advice.

Implementation

Responsible investment

All our public-markets investment teams have access to our ESG Dashboard and ESG Portfolio Monitor through which information on metrics such as employee turnover, health and safety performance and fatalities are provided. This Dashboard also includes the information from EOS' quarterly screening tool described above that identifies companies that violate or are at risk of violating commonly accepted international norms and standards, including the UN Global Compact Principles. Investment teams supplement this information with company-specific research utilising a range of sources to understand a company's approach towards its workforce and any potential impact on, for example, productivity.

In managing real-estate assets, we believe that good human capital management, including the provision of fair living wages, robust health and safety practices and investment in training and development programmes, is the foundation of a stable and productive workforce and the maintenance of businesses' social licences to operate. As described at the beginning of this report, our Real Estate team has developed an impactful investing approach, seeking ways to increase our impact as outlined in our Responsible Property Investment Report. Our impact themes are intended to support the delivery of the SDGs. As part of our urban regeneration theme, we consider skills development and job growth. Labour and skills has been identified as one of three potential impact themes to be further developed in the future. Our Real Estate team has an extensive risk and safety programme which identifies improvements required and measures outcomes to ensure labour protection and occupier safety on all of our sites.

We included specific references to the Modern Slavery Act in all of our property management agreements, covering the whole of our managed portfolio, when we renewed them in early 2018. Since September 2016, we have also included a clause specifically relating to the Modern Slavery Act in almost all new lease agreements that we have entered into. All of our construction documents, including project team appointments and construction agreements, also now contain specific mention of the Modern Slavery Act, requiring compliance with all relevant legislation.

Responsible ownership

We engage on critical human rights and labour issues including eradicating forced labour and child labour in supply chains, promoting access to medicine and nutrition, and protecting the rights of indigenous people. The long-term outcomes EOS seeks in such engagements include: no company causing or contributing to human or labour rights abuses whether in their own operations or supply chain and effective remedy is provided in case of any harms; access for all people to basic human needs such as affordable nutritious food and healthcare; and full respect for the human rights of all indigenous people including those living in high risk zones such as occupied territories. Near-term corporate objectives include: the development of a business model aligned to the elimination of human and labour rights abuses including modern slavery; development of food product formulations that can support a balanced diet; and the adoption of human rights policies and procedures in line with UN Guiding Principles on Business and Human Rights.

Through public policy and best practice we are supporting the development of a definition and publication of a living wage across different geographies/supply chains; helping promote best practices in responsible raw materials sourcing across exposed supply chains such as consumer goods and electronics, including in cobalt supply chains via the Organisation for Economic Co-operation and Development and the Responsible Business Alliance; and contributing to the development of the Investor Alliance for Human Rights' Toolkit on the Investor Responsibility to Respect Human Rights.

Our Modern Slavery Statement 2020 includes a case study of our engagement with Kuala Lumpur Kepong Berhad (KLK). EOS began engaging with KLK on this topic in February of 2012. KLK has strengthened its labour standards and disclosure, following allegations of deforestation and poor labour standards in 2012 and 2013. We have published additional case studies relating to human and labour rights engagement. These include a case study of our engagement with Fast Retailing – which has made significant improvements in managing human rights risks in its supply chain and on other sustainability risks following investor engagement – and another of our engagement with G4S – which has come a long way to achieve this since EOS began engaging with the company in 2009 on health and safety management, with significant improvements to its health and safety standards and performance.

The long-term outcomes we seek in relation to human capital management are: equal representation and inclusion throughout the organisation across all dimensions of diversity; fair wages and benefits paid so all employees can afford a decent standard of living; and zero serious work injuries. Near-term corporate objectives include: a strategy and action plan to close the gender pay gap; the implementation of a minimum real living wage across operations and the supply chain or evidence of an equivalent total reward package similarly valued by employees; and development and implementation of a human capital management strategy for the promotion of best-practice physical and mental wellbeing in the workplace. We support government-backed initiatives to increase the diversity of executive management, such as via the local chapter of the 30% Club, with a focus on developing markets. We will also support stakeholder collaboration to define useful standards, through active contribution to initiatives such as the Workforce Disclosure Initiative and the US Human Capital Management Coalition.

Responsible business

As an employer, the international business of Federated Hermes offers a range of benefits to support the wellbeing of its employees, including private medical insurance cover, health assessments, an employee assistance programme, financial wellbeing seminars and a Cycle to Work scheme.

2019 was an exciting year for our diversity and inclusion agenda. We formally launched our Inclusion Strategy at the end of 2018, and in 2019 we began work on several of the actions outlined in our three-year plan. As part of our plan, we have established an Inclusion Committee consisting of senior role models across the business who are advocates for the Inclusion Strategy and driving change. In addition, we are delighted to have already made progress against our Women in Finance Charter targets, bringing our firm-wide figure up to 42%, and are therefore currently on track to achieve our targets by 2021. This can be attributed to attracting female talent at our senior management levels.

In addition to our ongoing and business as usual work supporting diversity in all forms, over the past year we have made progress in the following areas:

- Employee engagement – conducted inclusion focus groups and an employee engagement survey to understand our strengths and areas for development.
- Inclusive leadership training – piloted inclusive leadership training for all Executive Directors followed by a further rollout to all line managers.
- Policy review – the Hermes Fund Managers Limited Board reviewed and approved improvements to the Family Friendly Policy which will be rolled out in 2020, in order to enhance the international business of Federated Hermes' ability to be an employer of first choice.
- Agile working – relaunched our flexible working policy as agile working to promote a greater agile working culture throughout the firm.
- Inclusive recruitment – developed an inclusive recruitment programme which focuses on steps hiring managers can take to minimise bias in the recruitment process. In addition, we refreshed our recruitment preferred supplier list to ensure we are working with agencies that value diversity and inclusion.

Our mission is to continue to foster, develop and promote a culture of inclusion which celebrates all forms of diversity, enables our employees to maximise their potential, and encourages innovation and creativity, to ensure we are an employer of choice, support our wider responsibility aims, and seek to deliver the best holistic returns for our clients and wider society. We are committed to treating everyone fairly and with dignity and respect. This includes all our employees (past, present and future) together with all other stakeholders, clients and service providers.

Unity, our employee network, promotes an inclusive culture and has continued to lead initiatives across a range of issues, including Wellness Week and Federated Hermes Pride week, demonstrating support of inclusion and diversity in the workplace.

Measurement of outcomes

Through our development activities we have created significant social and economic growth in a number of our Real Estate construction projects. This has been achieved through creating construction jobs, apprenticeships, local supply chain spend. For example, in 2019 with completion of Wellington Place in Leeds, we enabled 100 apprenticeships with a lifetime earnings uplift of £6.1m and 300 Leeds residents were employed during construction through our development activities. This includes £150m-worth of construction spending and £30m of spending on local subcontractors.

As we expand our reporting to cover the eight social hubs identified for real estate placemaking initiatives, we are developing a comparative framework which will enable us to clearly measure and analyse the positive impact the investment on social infrastructure has on the local economy and social infrastructure. We have already commissioned several reports to measure the social and economic outcomes of these placemaking initiatives, including for Wellington Place, Leeds.

In 2019, EOS engaged on 2,854 issues and objectives. 21% of the objectives and issues we engaged during the year were on a social theme. Of this, 21% related to diversity, 25% to human capital management and 8% to labour rights. 128 out of 243 social engagement objectives were moved forward at least one milestone during the year. Further information is available in the EOS 2019 Annual Review.

As reported in our Gender Pay Report in March 2020, the international business of Federated Hermes' pay gap remains at 27%. Our analysis has shown that our pay and bonus gaps are largely driven by the following factors:

- Long Term Incentive Plan (LTIP) – after Federated Investors, Inc. acquired of a majority stake in Hermes effective 1 July 2018 (and prior to their rebrand to Federated Hermes, Inc), both the Long-Term Incentive Plan (LTIP) and the Bonus Deferral Plan vested earlier than their due date as per the scheme rules. This led to a one-off payment in 2018 included in our gender pay figures. These would otherwise have been paid equally over the remaining years under the plan. If we remove the effect of LTIP pay-outs from our figures, our mean bonus gap drops from 68.4% to 62.7%.
- Under-representation of women in senior roles – we know and can see evidence from our pay quartiles that we have more men in our senior and therefore more highly paid roles. While this is an industry-wide issue, it shows we need to do more to attract and develop our female talent into more senior roles.
- The effect of part-time working – the regulations require bonus (but not pay) calculations to be based on the actual hours worked, without taking into account pro-rating for part-time working. A greater percentage of our part-time workforce are women (74%), and while we absolutely welcome part-time and all forms of flexible working through our agile working policy, we know this means we need to do more to encourage men to take advantage of the policy and promote a family-friendly and flexible culture for all.

Over the next year, we plan to focus on the following actions and initiatives, driven from the feedback obtained through our employee engagement survey:

- Performance and remuneration processes – examining our performance and remuneration processes for unconscious bias and identifying improvements which promote a more inclusive process.
- Talent pipelines and development – creating talent pipelines which focus on the development and support we offer our people.
- Data collection – developing more extensive and robust data-collection processes so that we can analyse data across the employee lifecycle and set measurable objectives.
- Recruitment training and targeted recruitment schemes – educating hiring managers on how to make our recruitment processes more inclusive and expand our access to diverse talent.
- Respect training – launching respect training and making available to all staff to improve our working culture through increasing awareness and understanding of different personality styles and employees' wellbeing.

ENVIRONMENTAL PRINCIPLES

Principle 7	Businesses should support a precautionary approach to environmental challenges;
Principle 8	undertake initiatives to promote greater environmental responsibility; and
Principle 9	encourage the development and diffusion of environmentally friendly technologies.

Assessment, Policy and Goals

We have published our strategy for managing carbon and climate risk on an annual basis since 2015, most recently in our 2019 Climate-Related Financial Disclosures Report.

While the responsibility for implementing our approach resides with all personnel, we have a number of structures and teams in place to ensure that we effectively discharge our responsibilities, including those around climate change risks and opportunities.

We have a well-established governance structure that is led by the Board. Among the responsibilities residing with the Board is the formulation of our corporate strategy, namely, to be the world's leading provider of long-term holistic returns for savers, thus creating value for all stakeholders in the financial system. Progress on ESG and engagement integration, including climate-related impacts, is communicated to, and discussed by, the Board and executive committee on a regular basis through updates from the Head of Policy & Advocacy.

The Climate Change Working Group, chaired by our Head of Policy and Advocacy, supports the business by developing a detailed understanding on how to integrate further climate risk and opportunity into management processes though climate management frameworks, and by furthering our analysis of carbon and climate risks by monitoring and reporting implications.

Responsible investment and ownership

We have a formal approach to climate-related risk and opportunities management, which integrates assessing and managing our exposure to climate-related risks and access opportunities from the transition to a low-carbon economy. The integration of this approach is shared by the investment teams and across the firm with the support of the Responsibility Office and the dedicated Climate Change Working Group.

We assess climate risks on how they will affect us in the short (zero to two years), medium (two to five years) and long term (five years and beyond). More detail is available on the risks we have identified in our 2019 Climate-Related Financial Disclosures Report.

The climate-related risk and opportunities management activities we are implementing cover our public equities, credit, and private real-estate assets. Our approach has four elements:

- **Awareness:** portfolio managers are aware of the climate-related risks in their portfolios, which investments are the largest contributors, and what are the associated risks and mitigation strategies.
- **Integration:** portfolio managers integrate climate-related risk considerations alongside other value and risk considerations, exploiting green investment opportunities or divesting when climate-related risk, alongside other factors, impacts value.
- **Engagement:** we act as engaged stewards of the investments we manage or represent on behalf of our clients. Where we hold assets with significant climate-related risk exposure, we will manage directly owned assets, and engage with public and private companies, to mitigate the climate-related risk.
- **Advocacy:** We engage with public policymakers and sector organisations, nationally and internationally, to encourage policy or best practice that facilitates the transition to a low-carbon economy.

Over the last four years, we have reviewed and refined our approach and continued to implement it across our investment and stewardship activities, taking account of the specific challenges faced by each investment strategy and different asset classes and learning from our experiences and industry best practice. We are now in the process of designing and implementing a strengthened climate strategy for 2020. As we deepen our understanding, we aim to further integrate climate change into our risk management systems, including through developing and integrating scenario analysis into our existing processes and assessing our alignment to the Paris Agreement.

In our engagement, EOS seeks for all companies to have a business model consistent with net-zero emissions and an effective transition plan to achieve this by 2050. This includes building a circular economy with effective governance and management of natural resources and biodiversity, reducing water stress, sustainable food systems and managing harmful pollution and waste, whether from operations or supply chains.

Our Real Estate team's responsible property development and refurbishment guidance sets out a series of guidelines and principles for our project and development managers to follow to ensure a consistency of approach to sustainable refurbishment and development. It takes a start to finish approach, utilising key RIBA Stages and following BREEAM principles, which adopts sustainable methods of construction with the ultimate aim of delivering an operationally efficient and sustainable building or refurbishment. Monitoring of key sustainability deliverables is undertaken and mandatory completion of both Initial and Final Responsible Property Development Action Plans is expected and monitored.

Responsible business

We have a written environmental policy to demonstrate commitment as a business to conducting our operations in an environmentally responsible manner and to govern internal operations. Our Environmental Management System group meet quarterly to discuss how to reduce the environmental footprint of our office.

We promote best practice for sustainable procurement and ask suppliers for evidence of their sustainable procurement practices covering the following core areas: environmental, social, economic and governance.

Implementation

Responsible investment

We have enhanced our proprietary ESG Dashboard to include more indicators on climate risks and opportunities in companies, using third-party data from Trucost and Sustainalytics as well as engagement insights from EOS.

In listed markets, one element of the climate risk management process is our internal proprietary "Carbon Tool", launched in 2018 to help portfolio managers and engagers alike easily access information on carbon risk in our portfolios, and the carbon risk of the individual companies in the portfolios themselves. It is able to calculate some of the potential financial impacts of climate change, such as the profit at risk in an investment fund under different carbon pricing and policy scenarios. Importantly, this helps identify companies that are priorities for engagement and their progress against objectives. More detail on how we use this tool is available in our 2019 Climate-Related Financial Disclosures Report.

We also use external tools including the 2 Degrees Investing Initiative's PACTA tool, the Transition Pathway Initiative Benchmarks, the Principles for Responsible Investment (PRI) scenario analysis tool, and the Science Based Targets Assessments.

Responsible ownership

Engagement is a crucial element of our climate change management approach. Climate is a specific engagement focus in EOS' engagement programme. Engagement enables us to raise risks and controversies with company boards and demand action to address them. It also helps us to learn more about how companies are developing strategy and business plans to seize the opportunities as well as manage the risks that come from a changing climate and public policy and market responses to it. As described above, we use our carbon tool to identify companies with which we should initiate or intensify carbon-focused engagement, and to gauge the level of carbon risk within portfolios and the progress we have achieved through engagement.

EOS has also taken an active role on the Climate 100+ initiative. Climate Action 100+ is a major global investor initiative, launched in 2017, that aims to help limit global warming to less than 2°C by engaging with more than 100 of the world's biggest greenhouse gas (GHG) emitters. These systemically important emitters account for two thirds of global industrial emissions every year. The initiative engages with a further 60 or so companies that have a significant opportunity to drive the clean energy transition. EOS is leading or co-leading the engagement on 27 companies. The initiative, which is scheduled to last five years, has had some notable success. Significant progress has been seen across a range of industries, many of which are among the most challenging to decarbonise. Examples of focus companies making substantial net zero commitments over just the past seven months alone include: Heidelberg Cement, Duke Energy, Nestle, Daimler, VW, Thyssenkrupp, ArcelorMittal, BHP Billiton, Centrica and Saint-Gobain. However, despite these examples of first-wave leadership, analysis shows a significant step change is still required from the majority of focus companies in addressing climate change as a strategic business risk. Further action is needed to drive the necessary changes at these companies.

The role of policymakers is key in determining the investment risks and opportunities created by climate change. We engage with public policy makers and sector organisations, nationally or internationally, to promote policy or best practice. We are active members of, among others, the Institutional Investors Group on Climate Change, Climate Action 100+ and the Carbon Disclosure Project. We contributed to the Green Finance Strategy (through our work on the Green Finance Taskforce), which has stated that disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) will become mandatory for asset owners and large listed companies in 2022.

We have continued to engage extensively over the past year with public policy makers and sector organisations on this issue. The international business of Federated Hermes was among the signatories of a letter in 2019 to Theresa May, then Prime Minister, calling for a 2050 net-zero carbon target, which the UK has now adopted as a policy, with cross-party support. We have also been instrumental in creating a positive coalition of industry players supporting the development of EU rules on ESG and climate-related investor disclosure and a strengthened UK Stewardship Code 2020. We have been active supporters both in the press and behind the scenes. We are members of the FCA-PRA Climate Financial Risk Forum, which was set up "to build capacity and share best practice across financial regulators and industry to advance financial sector responses to the financial risks from climate change". Our CEO, Saker Nusseibeh, chairs the Disclosures Working Group, which was tasked with producing practical guidance for financial institutions on disclosing climate-related financial risk. The guidance, published in June 2020, builds on the recommendations of the TCFD, as well as regulatory developments and other current good practice.

Environmental engagement by EOS also covers natural resource stewardship, and the long-term outcomes it seeks include: no net loss and the long-term rehabilitation of all land forms such as tropical forests; sustainable food systems, including supply and demand that supports a growing global population with a healthy diet; and access to clean water for all.

Near-term corporate objectives include: encouraging companies to set strategies for high impact feedstock such as soy or palm oil from sustainable sources; development ofa long-term sustainable food sourcing strategy including diversification from animal to plant based protein to meet shifting consumer preferences; and ambitious strategies to manage water use, especially in water stressed areas to maintain operational resilience and a social licence to operate.

Through public policy and best practice we continue to support the evolution of the CDP water initiative in its move towards more streamlined and sector-relevant water reporting. We will continue engagement collaboration with the FAIRR network on sustainable use of antibiotics within animal farming and protein diversification. We will support and help develop robust and trustworthy sustainable agriculture-related accreditation standards such as the Roundtable on Sustainable Palm Oil and Fair Trade.

Pollution, waste and circular economy is another engagement focus of EOS and the long-term outcomes it seeks include: the prevention of contamination of the environment by harmful substances; the establishment of fully circular business models which capture all materials, leading to zero waste; and the avoidance of all industrial disasters such as oil spills, nuclear accidents and dam failures.

Near-term corporate objectives include: development and implementation of best-practice strategies for harmful substance management or catastrophic spills; development of closed-loop strategies to reduce net consumption of materials through smart product design and innovation; and the use of substitute materials that can be easily recycled or reused and have lower environmental impacts.

Through public policy and best practice we seek to improve investor engagement on plastics by: consolidating investor expectations for each of the plastics and packaging manufacturers, consumer goods and retail sectors; encouraging sign up to the Ellen MacArthur Foundation New Plastics Economy Global Commitment; and encouraging mining companies to follow best-practice tailings management and other pollution controls of the International Council on Mining and Metals.

In private markets, we actively manage real-estate assets and engage to improve environmental performance and occupier wellbeing. We have integrated climate factors into our active asset management and sustainable development and refurbishment activities since 2008. We have an increased focus on placemaking where we see an opportunity to bring together climate and environment risk with the other drivers of future performance. We take a disciplined approach to measuring factors such as energy and water consumption, and we have specific tools to reduce those inputs.

For example, in 2016, the international business of Federated Hermes and managing agent Jones Lang LaSalle (JLL) engaged sustainability consultants, Carbon Credentials (now Carbon Intelligence), to implement an energy-efficient and tenant-friendly programme across our portfolio. The so-called Collaborative Asset Performance Programme (CAPP) aimed to optimise technology while engaging with stakeholders to cut energy use and improve the comfort levels of building occupants.

In 2018, we broadened those goals to integrate both the industry standard BREEAM In-Use green-building certification and the RESET air-quality certification to form a process dubbed CAPP+. The project team applied the CAPP+ process to our Great George Street property, a prominent and long-established office building in the heart of Westminster. To date, the integrated CAPP+ programme and BMS optimisation has led to lower internal CO_2 levels and a significant improvement in energy performance. In seven other properties, which we identified as energy intensive, we have cut emissions by 44% since 2014 through measures such as upgrading lighting to LEDs, engaging with tenants and adjusting plant times.

In 2019, along with 22 other early signatories, we joined the Better Building Partnership Climate Change Commitment to achieve net zero across real estate portfolios by 2050. Through this commitment we are looking to define and publish our Net Zero Pathway in 2020. We continue to develop and implement initiatives across our real-estate portfolio designed to reduce carbon emissions and improve efficiencies in our built environment portfolio, utilising new technology and best practice gleaned from our active engagement in peer-group benchmarking. We continue to review and update internal procedures to help inform design, operations and management to align with our net-zero pathway works.

As the health and wellbeing of occupiers becomes an increasingly important consideration, we are ensuring that the portfolio is wellbeing resilient. This will ensure that our assets promote wellbeing, improve productivity and provide inclusive spaces to ensure occupier satisfaction and investment security in spaces

Responsible business

We hold the ISO 14001 accreditation in our offices which reflects the deliberate steps we took to improve the environmental impact when we fitted them out. We offset our corporate travel and other carbon emissions by partnering with Trees for Cities.

Measurement of outcomes

We have now undertaken GHG footprinting for 88% of our assets under management, as at the end of 2019. We use data from various sources in order to understand the company's exposure to risks arising from climate change. The range of metrics and targets have been selected on the basis of what is most appropriate to our business and to the asset classes we manage.

We track the carbon footprint and weighted average carbon intensity (WACI) of our equity and credit portfolios and these are shown in our 2019 Climate-Related Financial Disclosures Report. In addition, we compare our equity WACI with the MSCI world index. The analysis includes scope 1 and 2 emissions. Despite being backward looking data, this provides a good proxy for assessing the exposure of our assets to carbon risk. We use the market capitalisation ownership and enterprise value method for calculating the carbon footprint of our equity and credit assets under management.

Our Responsible Property Investment Report publicly discloses environmental and social outcomes for our Real Estate funds. For example, in 2006 we set a target to reduce the carbon emissions from our Real Estate portfolio by 40% by 2020. By the end of 2019 we had achieved but also beat this target by 25.45%, despite there being an expansion of the portfolio from 105 to 175 buildings. This is the second consecutive year we have demonstrated reductions beyond the targets set for 2020. Information on progress against such targets can be found in our Responsible Property Investment report.

EOS engages extensively on environmental issues. In 2019, EOS engaged on 2,854 issues and objectives. 31% of the objectives and issues we engaged during the year were on an environmental theme. Climate change continued to be a major focus, leading or co-leading engagement at 27 companies as part of the Climate Action 100+, the collaborative engagement initiative representing $40tn of assets, which targets the top 100 systemically important emitters. We also continued work on reducing pollution and encouraging waste management and circular-economy practices. 195 out of 361 environmental engagement objectives were moved forward at least one milestone during the year. Further information is available in the EOS 2019 Annual Review.

We have measured our operational electricity use and carbon emissions since 2010. More recently, we have started to measure our travel emissions, starting with flights and, in 2018, adding rail travel emissions. This year is the first year we are reporting on both our operational and travel emissions. While we saw an 8% fall in building electricity and carbon emissions between 2018 and 2019, we saw travel emissions almost quadruple. This substantive growth between 2018 to 2019 is due to the additional transatlantic travel necessitated by Federated Investors (now Federated Hermes, Inc.) acquiring a majority stake in Hermes Investment Management (now the international business of Federated Hermes). As the integration of the two firms' operations matures, we would expect our travel emissions to fall again. However, clearly action needs to be taken to reduce these emissions. In 2020, we plan to introduce a new travel policy aiming to reverse this trend.

For every tonne of GHG emissions that we generate from our day-to-day operations and our business travel, we purchase verified carbon offset from Trees for Cities, which guarantees an equivalent amount of GHG emissions are reduced in the atmosphere. In 2018, our offsets of 834.5 tonnes of CO_2e were generated by planting 2,229 trees in order to ensure that 557 trees, the amount required to offset the specified quantity of CO_2e, are in a healthy condition after 100 years. The planting took place over three sites and the trees, as well as offsetting carbon emissions, provide important environmental benefits including increased biodiversity, improved resilience to changes in climate, flood alleviation and mitigation of air pollution. We have also achieved ISO 14001 accreditation in our offices.

ANTI-CORRUPTION PRINCIPLES

Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Assessment, Policy and Goals

Responsible investment

We believe that effectively combating bribery and corruption are essential for the long-term sustainability of companies and as an active investor we are defined by our commitment to deliver holistic returns, which is why we have established our Responsible Ownership Principles. This document highlights our expectations from companies on their culture, values and behaviour where we look to our investee companies to nourish a strong ethical culture and ensure employees are acting cohesively in line with the company values.

Responsible ownership

Social issues are one of the core engagement themes of EOS which include: conduct, culture and ethics; human capital management; and human and labour rights. We expect companies to put their customers first and treat their key stakeholders fairly and with respect, to pay tax commensurate with the value added in each jurisdiction and to operate without bribery or corruption. Through our public-policy work we encourage the enactment of strong anti-bribery and corruption legislation.

Responsible business

The international business of Federated Hermes has controls in place to prevent bribery, corruption, tax evasion and fraud. This is managed by our Compliance team. Our Strategic Risk and Compliance Director sits on our Executive Committee. We also have a Risk and Compliance Committee, currently comprising four Non-Executive Directors and one employee of our parent company Federated Hermes, Inc.

The international business of Federated Hermes has a zero-tolerance approach to corruption. We have in place a financial-crime policy and procedures that provide an effective control framework within which we comply with applicable legislation and regulatory requirements, including but not limited to:

- The Money Laundering Regulations 2017
- Terrorist Act 2000 (as amended by the Anti-Terrorism, Crime and Security Act 2001, the Terrorism Act 2006 and the Terrorism Act 2000 and Proceeds of Crime Act 2002 (Amendment) Regulations 2007)
- Proceeds of Crime Act 2002 (as amended by the Crime and Courts Act 2013 and the Serious Crime Act 2015)
- 4th Money Laundering Directive 2017
- Financial Services and Markets Act 2000
- The Bribery Act 2010
- Joint Money Laundering Steering Group Guidance Notes
- Financial Conduct Authority Handbook
- The United States Patriot Act and Bank Secrecy Act
- Criminal Finances Act 2017
- Cayman Islands Proceeds of Crime Law (2017 Revision)
- Cayman Islands Anti Money Laundering Regulations (2018 Revision)

In addition to policies on conflicts of interest and outside business interests, the international business of Federated Hermes has established a financial-crime framework which identifies, mitigates and manages the risks that we face whereby the international business of Federated Hermes' products and services might be involved in or used to facilitate financial crime. Our Financial Crime Policy covers a wide range of topics, including:

- Anti-money laundering and counter terrorist financing
- Anti-bribery and corruption
- Fraud
- Financial sanctions
- Suspicious activity reporting
- Breaches of the financial crime policy
- Financial crime training

Implementation

Responsible investment

All our public-markets investment teams have access to our ESG Dashboard and ESG Portfolio Monitor through which information on any controversies are provided. This Dashboard also includes the information from EOS' quarterly screening tool describes above that identifies companies that violate or are at risk of violating commonly accepted international norms and standards, including the UN Global Compact Principles. Our teams also have access to our newly launched Corporate Governance Tool, which assesses a company along several significant governance characteristics and flags those areas where the company falls short of our governance expectations for companies. Rather than providing yet another score, the tool helps our fund managers to focus their own, fundamental governance research on those areas where companies have a discrepancy compared to our governance expectations. Good governance practices are generally an indication of a well-managed company which enforces ethical behaviour.

Investment teams supplement this information with company-specific research utilising a range of sources to understand a company's approach towards its workforce and any potential impact on, for example, productivity.

Responsible ownership

Through engagement, EOS seeks: corporate decision-making taken through an ethical lens, with an end to corporate bribery and corruption; the ethical use of data; and fair tax paid, putting an end to tax arbitrage and aggressive tax avoidance. Through its public policy and best-practice work, we support the development of market best practices recommended by reputable corporate ethics organisations such as the Institute of Business Ethics and anti-bribery and corruption organisations such as Transparency International.

Near-term corporate objectives which EOS seeks include: a public statement and board responsibility to aspire to the highest ethical standards; disclosure of principles for the effective management of artificial intelligence, together with a clear action plan to implement policies on data ethics, security and privacy issues; and a policy commitment to pay tax in each country in line with the spirit and intention of the law.

Responsible business

The international business of Federated Hermes will take appropriate action (including seeking prosecution and notifying relevant regulators) against any person in employment who is involved or assists in committing a financial crime.

Checks are carried out for each client in accordance with their risk rating. The international business of Federated Hermes' clients are screened via the Refinitiv Global Screening Tool, which checks against the following:

- Law enforcement
- Regulatory enforcement
- Sanctions
- Politically exposed persons
- Adverse media

No monies can be accepted until the client due-diligence checks have been completed.

All new staff members must undergo initial compliance training within two weeks of joining the firm. Training covers the content of the Financial Crime Policy and employees are also required to read the policy upon joining the firm. Existing employees of the international business of Federated Hermes, including senior management, are required to complete compliance training on an on-going basis. Additional training may be provided depending on the risk associated with specific roles.

As described in the human rights section above, the international business of Federated Hermes encourages open communication, in keeping with the Federated Hermes Pledge, and regards integrity as a central part of its beliefs. We encourage employees to bring any concerns to the attention of their immediate supervisor or manager. If an employee were to have a concern related to corruption, the whistleblowing policy would enable them to raise their concerns or seek advice.

Measurement of outcomes

The international business of Federated Hermes' Financial Crime program is subject to independent review by the internal audit function. The results of the review are presented to senior management for review and appropriate action is taken. The previous Internal Audit of Compliance was conducted in November and December of 2017, and the report was distributed in December 2017. The next Internal Audit of Compliance is currently underway. The Compliance Monitoring team also review our Financial Crime Program as part of their risk-based monitoring plan. In addition, Compliance provide a report on the Financial Crime Program to senior management on a periodic basis. On an annual basis, our Money Laundering Reporting Officer provides a report to the Board and senior management to demonstrate that the international business of Federated Hermes has established and maintains effective systems and controls for compliance with applicable financial crime requirements and standards under the regulatory system, and to counter the risk that the international business of Federated Hermes might potentially be used to further financial crime.

Federated Hermes

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

For more information, visit **www.hermes-investment.com** or connect with us on social media:

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. Past performance is not a reliable indicator of future results.