UN Global Compact

Communication on Progress

August 2021

Federated Hermes International

www.hermes-investment.com
For professional investors only

Chief Executive Statement

7 August 2021

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. Since our 1983 inception, our purpose has always been to provide sustainable wealth creation: generating wealth through investments that enrich investors, society and the environment over the long term. We also strive to meet the expectations we have of others in everything we do. The Federated Hermes Pledge is an expression of these values.

Recent events have reinforced the crucial role of the investment industry. The coronavirus pandemic has shown us that to tackle a global crisis governments, investors and companies must work together for the public good. Our stewardship activities have been more important than ever; we have engaged with our investees to ensure they maintained a strong focus on their stakeholders as well as their operational and financial resilience – not only to the pandemic, but to future crises too. Throughout the last year we maintained an unwavering focus on long-term material issues which cannot be neglected even in the face of Covid-19, most notably climate change.

We recognise that we must continue to focus on opportunities to generate positive, sustainable outcomes for our clients and their beneficiaries, society and the environment. Just as we have seen businesses innovate to find new solutions and adapt to the changing needs of their employees and customers during the pandemic, we will support and challenge our investees to play their part in meeting the targets of the UN Sustainable Development Goals (SDGs).

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 fourth 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 and implementing the UN Global Compact.

Yours sincerely,

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

About the international business of Federated Hermes

The international business of Federated Hermes is majority owned by Federated Hermes, Inc. (previously named Federated Investors, Inc.). BT Pension Scheme retains a minority stake in the international business of Federated Hermes, alongside members of the international business of Federated Hermes' management.

Our new brand launched in February 2020, when Federated Investors, Inc. combined names with HFML and rebranded as Federated Hermes, Inc. ("Federated"), changing its New York Stock Exchange ticker symbol from FII to FHI. All activities previously carried out by HFML now form the international business of Federated Hermes.

This was a natural step in the development of Federated and HFML, which operates Hermes Investment Management Limited. Since Federated became the majority owner of HFML in 2018, we have been united by a shared commitment to client-centric responsible investment and long-term business growth. Our brand has evolved, but we still provide the same distinct investment propositions, deep integration of responsibility and industry-leading stewardship capabilities for which we are renowned.

This rebranding strengthened our position as a global leader in active, responsible investment.

Guided by the conviction that responsible investing is the best way to create long-term wealth for investors, we provide specialised capabilities across equity, fixed income and private markets, in addition to multi-asset and liquidity-management strategies. Through our world-leading stewardship services, we engage companies on strategic and material environmental, social and governance ("ESG") 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, consistent with client objectives and applicable requirements, to strive to contribute to positive outcomes in the wider world.

As of 31 March 2021, Federated Hermes had £453.3bn assets under management and £1.1tn assets under advice.

We always endeavour 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

We believe the purpose of investment is to create wealth sustainably over the long term.

That's why focusing on wealth creation at the expense of the planet and society – the very future for which investors are saving – is counterproductive. Our world faces multiple challenges, including climate change, inequality and navigating the ever-pervasive growth of artificial intelligence. Investment management has a key role in addressing those challenges and the industry must behave in a way that is consistent with solving the world's problems rather than compounding them. This will have notable positive financial implications for investors and society, guarding against significant risks to the long-term health of the economy. Successful sustainable wealth creation should provide investors with income to spend as they get older, an ability to buy goods and services and help to build a world in which investors are happy to live.

As an active investment manager, we have concluded that successfully making money over the long term is much more sustainable than doing so over the short term. We believe there are two mutually reinforcing strands of responsible investment management: responsible investment and responsible ownership. Together, these aim to generate sustainable wealth creation for the end beneficiary investor, encompassing investment returns and their social and environmental impact.

- As responsible investors, we embrace high-active-share investing. We take a holistic approach that integrates material ESG considerations and engagement insights into all of our investment products, something that offers our fund managers an additional vantage point with which to assess an asset's potential to deliver long-term sustainable wealth. We firmly believe that our ability to mitigate ESG risks and capture the investment opportunities arising from these considerations is essential to achieving consistent investment outperformance for our clients.
- As responsible owners of the assets we manage of behalf of our clients, we actively engage through dialogue with companies on ESG issues. We believe that this is essential to build a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.

We believe that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment.

In March 2021, we published our inaugural 2020 Stewardship Report. Stewardship is "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society" (UK Stewardship Code, 2020). In our 2020 Stewardship Report, we present our purpose, our responsible investment management approach as well as the outcomes of our stewardship activities and examine how the principles of the Stewardship Code are reflected in each of these areas. Through our transparency, we seek to continue to drive improved standards industry-wide. EOS at Federated Hermes (EOS) – our stewardship business – also reported separately as a service provider in their Stewardship Report 2020. This complements the extensive reporting EOS already provide on the progress of their engagement activities.

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.

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.

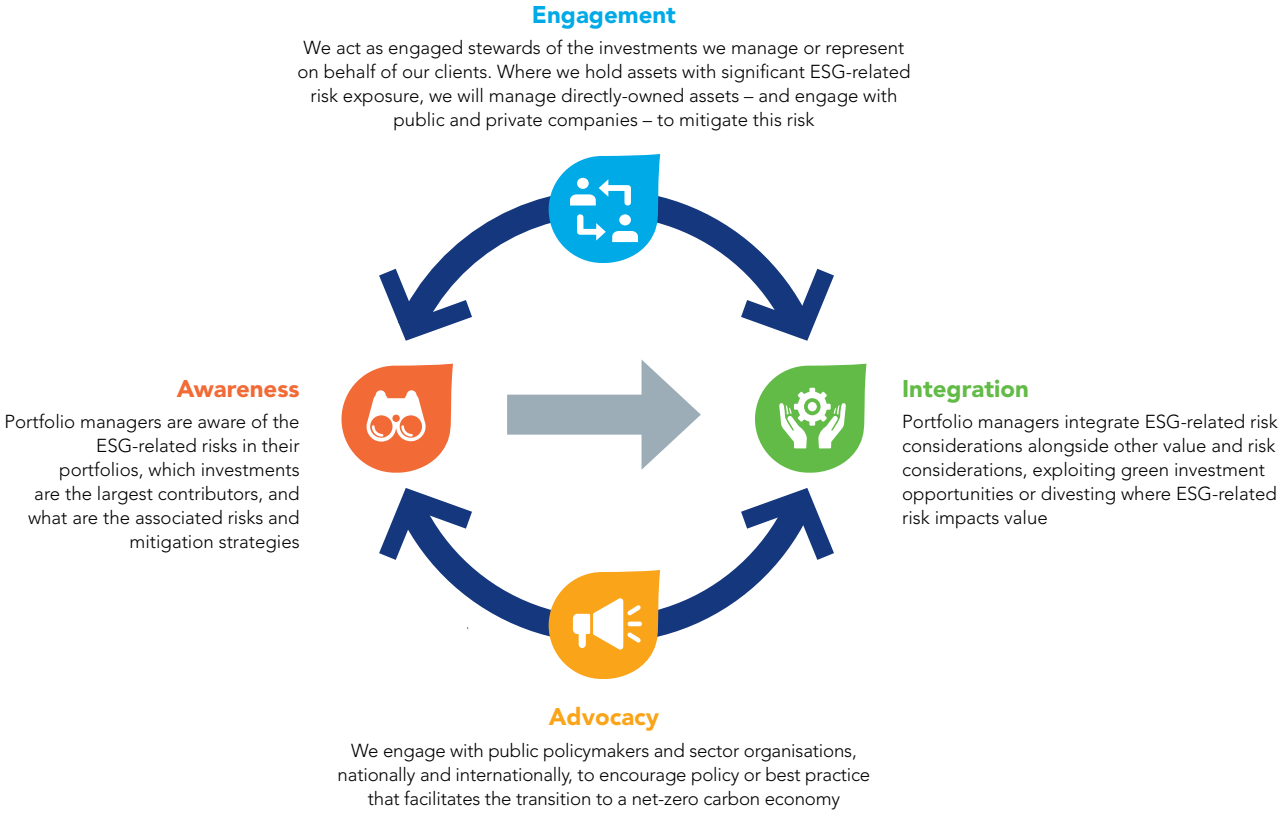
Creating wealth sustainably

From the recognition that it is more sustainable to create wealth over the long term cascades a series of decisions and actions that turns an investor into a responsible owner or steward of capital. We believe that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment. Responsible, active ownership helps create businesses that are much more resilient to exogenous shocks. These firms are more likely to survive over the long term, and by doing so create better outcomes for our investors and society. As the world continues to be affected by the coronavirus pandemic, investing responsibly matters more than ever.

ESG and Engagement Integration

We do not see the integration of ESG and engagement insights within investment decisions as a separate category of investing. Instead, we believe that all material ESG risks and opportunities should inform all investment decisions. That is why we integrate ESG considerations and engagement insights into our investment processes in all of our products, across all asset classes.

Figure 1: Creating wealth sustainably



Source: Federated Hermes, as at July 2021.

We consider all material investment factors, including those relating to material ESG issues. While the most pressing material risks are those that will crystallise in the short term, we are long-term investors that strive to deliver holistic returns for our end investors. This means that our definition of materiality is necessarily wider.

ESG issues will rarely be the sole or standalone driver behind any investment decision. Instead, material ESG factors are integrated into fundamental analysis and inform the teams' investment decision making. The presence of ESG risk does not necessarily preclude investment, but rather helps investment teams reach a more holistic view of the risk profile of a company or asset. Investment teams may also identify opportunities in companies that are improving their ESG practices, particularly given our strong engagement capabilities.

ESG issues are prioritised at the sector level and we look at material areas of concern for each of the sectors and insights from EOS. Relevant ESG issues – whether macroeconomic risks or those specific to that company – are then considered on a company-by-company basis, with implications for both inclusion and weighting in an investment portfolio, as well as engagement. The Responsibility Office works very closely with the investment teams to help identify material ESG issues that are specific to the investment manager's strategy.

All our investment activity is supported by our dedicated Investment Office and Responsibility Office. Regular meetings are held between the two offices and with the investment teams to ensure proper coordination and integration of ESG factors and engagement insights. However, it is the responsibility of our investment teams to effectively integrate ESG and engagement information into their investment processes and ultimately our portfolio managers have discretion on investment decisions. This ensures that ESG factors are fully integrated into investment analysis and decision making

Research and analysis by all of our investment teams includes an evaluation of performance on strategy, financials, risk and material ESG factors, and the intersections between these elements. The teams supplement fundamental financial analysis with information provided through a range of proprietary ESG and engagement tools, quantitative and qualitative analysis and the insights gleaned through engagement with investee companies and assets. Such engagement is carried out both by our investment teams and by EOS on their behalf.

For public markets, the firm's proprietary ESG tools include our ESG Dashboard, Carbon Tool, Portfolio Snapshot and Corporate Governance Tools. Through these tools, the teams have access to third-party ESG data as well as insights from engagement carried out by EOS.

The information we gather through stewardship enables us to develop a more comprehensive view of both the risk and opportunities a company is exposed to and to factor this into valuations and investment decisions.

In private markets, ESG data is often less readily available. As such, the teams are heavily reliant on their due-diligence process and have developed their own frameworks for assessing ESG risks within their investments. The private-debt teams consider ESG behaviours when carrying out credit analysis for each potential investment. ESG considerations are tabled at the Private Debt Investment Committee and are considered as part of the research presented for all new transactions. Material ESG issues will often form part of engagement with the company prior to investment and once invested.

Responsible Property Investment (RPI) is integrated into the investment strategy and working practices of all of our real-estate portfolios. A consideration of ESG principles is embedded into the property selection and investment process, including through initial screening and due diligence and as part of the investment decision. ESG and engagement information continue to be integrated into the development and monitoring of our real-estate assets after purchase.

Our approach to engagement

Our engagement is outcomes-driven and focused on ensuring that the companies and assets we invest in are creating wealth sustainably. Given the long-term time horizons of our strategies, to meet our clients' needs we are able to engage on particular issues over multiple years to encourage fundamental change within our investee companies. We believe that this approach delivers the best results for our clients and end beneficiaries.

Public markets: We have one of the largest dedicated stewardship resources of any fund manager in the world, in the form of our public markets engagement team, EOS. EOS offers a shared service model, engaging on behalf of both the international business of Federated Hermes and third-party clients. EOS provides a platform for like-minded investors to pool resources, creating a powerful force for positive change.

EOS represents £1.1tn of assets under advice (AuA) as of 31 March 2021 and in 2020 engaged with 1,245 companies worldwide covering 3,965 environmental, social, governance, strategy, risk and communication issues and objectives, and made voting recommendations for 11,759 company meetings. Our team engages in active stewardship on behalf of clients, making voting recommendations 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 Controversial Companies Report monitors EOS' 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 adopt a systematic approach to identifying companies for engagement. We select companies and tailor the intensity of engagement based on the size of our investment (and the investments of EOS stewardship clients), materiality of the risks and issues and feasibility of achieving change through engagement. We believe that this enables us to most effectively serve our clients' needs by focusing our efforts on where they are needed the most and can have the most impact.

EOS has established a detailed public markets engagement plan on a rolling three-year basis, with themes ranging from human and labour rights to pollution, waste and the circular economy. EOS focuses its stewardship on the issues that have the greatest potential for long-term positive outcomes for investors and their beneficiaries. We focus on the most material themes, with four priority areas being:

- climate change,
- human and labour rights,
- human capital management,
- and board effectiveness.

In addition, following the pandemic, we will focus on companies putting in place a business purpose and sustainable business model looking at corporate response to the pandemic in the near term and resilience to the next crisis in the longer term.

Figure 2: EOS Engagement themes for 2021-23

Source: Federated Hermes, as at February 2021.

Private markets: For our private-market strategies, engagements are prioritised according to the exposure of the portfolios.

For our Direct Lending and Real Estate Debt teams, the key is to identify both current and potential meaningful ESG risks before investing. Due to the difficulty of divesting and the capped upside, it is important to manage the downside ex-ante. Because of a lack of third-party data, the teams often use more qualitative information – often gained through dialogue with the borrower – as well as information contained in the due-diligence packs. The teams collaborate with EOS to ensure that their engagement is outcomes-focused and impactful. Should an ESG issue arise during the life of the investment, the team will seek to engage to rectify or improve the ESG issue.

Our real estate business is an industry leader in responsible asset management and has developed its own responsible property investment (RPI) principles. The Real Estate team has been monitoring the sustainability performance of its directly managed assets since 2006 and has annual targets which are monitored and reported against in our public responsibility report. The team has also created a range of dedicated tools and procedures that cover all aspects of our real-estate operations. These tools enable us to assess, monitor and manage social and environmental risks and opportunities in the real-estate portfolio, and therefore inform the objectives of our engagement.

Our Real Estate team has an extensive community and occupier engagement programme across our retail and office assets that focuses on governance, skills, safety, culture and wellbeing. We aim to positively impact the health and wellbeing of our occupiers and local communities by establishing a constructive dialogue through a range of activities carried out during the life cycle of real-estate assets. In 2020, we achieved world's first BREEAM In Use certificate for residential development at The Cargo building at Liverpool in addition to our ongoing programme of BREEAM in Use across our directly managed commercial estate, which has been running since 2017. We also achieved Fitwel certificates for three more developments in our portfolio. Our property managers have continued to engage with our tenants during the pandemic, and this ongoing engagement creates a relationship with the tenants that helps us achieve some of our wider sustainability goals.

Our 'impactful intent' approach aims to deepen our RPI practice by intentionally seeking a defined positive environmental or social outcome in a particular place or market as a core focus of our responsible investment strategy, in addition to strong risk-adjusted financial returns. At the heart of our 'placemaking' approach is our commitment to creating a 'meaningful city' – or a place that people want to live and work in, and which foster a sense of belonging among inhabitants.

Through our placemaking activities, we have created significant social and economic growth in a number of our real-estate construction projects. This has been achieved through generating construction jobs, apprenticeships and local supply-chain spending. As we expand our reporting to cover the eight social hubs identified for real-estate placemaking initiatives, we are developing a comparative framework which will enable us to clearly measure and analyse the positive impact that the investment on social infrastructure has on the local economy and social infrastructure.

Our policies

We have a number of policies relating to our responsible investment and ownership approach which are relevant across the Ten Principles of the UN Global Compact:

- Our Engagement Policy
- Our Global Voting Policy and Guidelines
- Our Sustainability Risks Policy
- Our statement on the Consideration of Principle Adverse Impacts

The latest versions of all these documents are available on our Policies and Disclosures page.

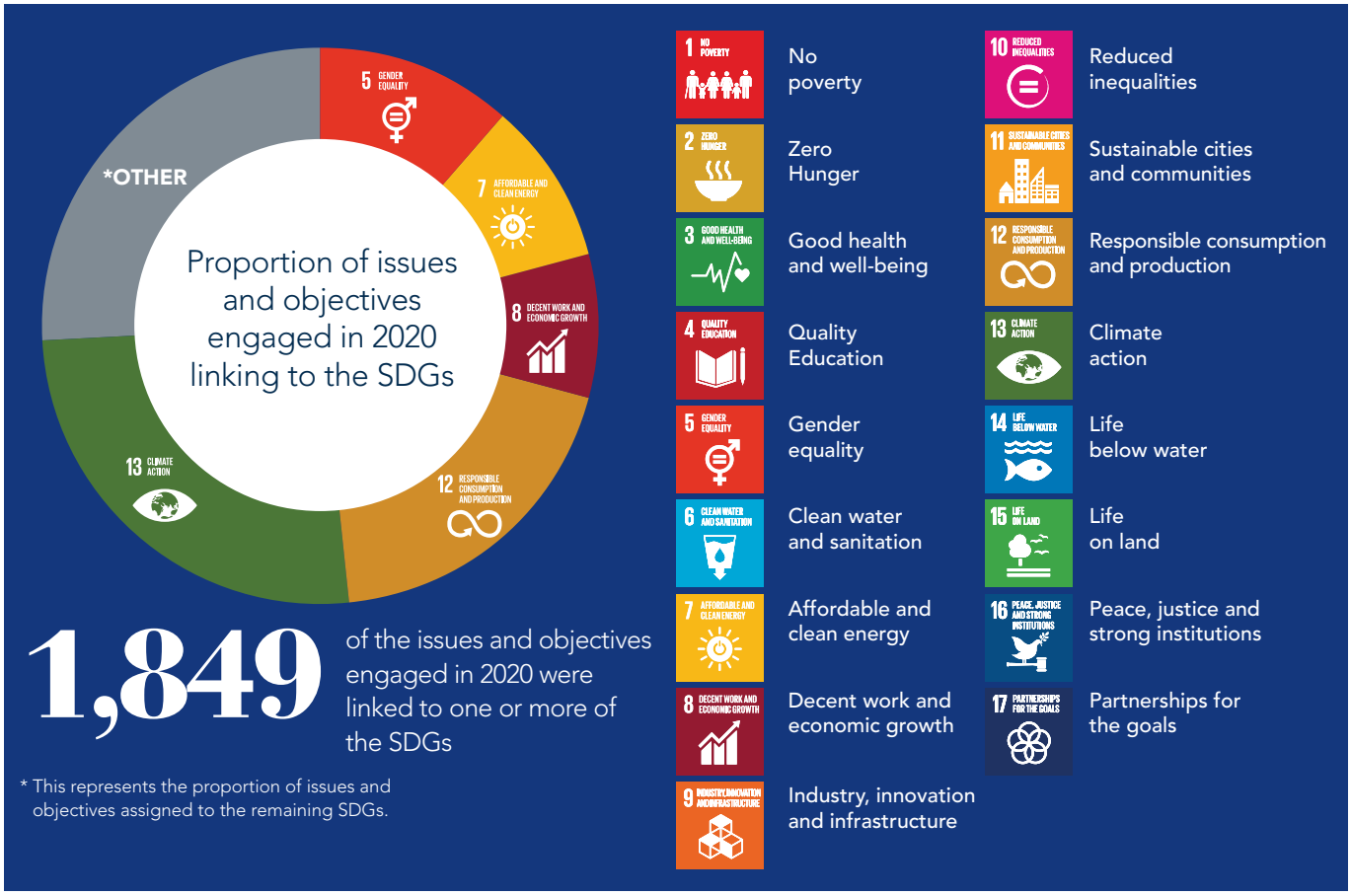
Investing to deliver on the Sustainable Development Goals (SDGs)

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. We seek to deliver sustainable outcomes through stewardship across all of our funds. Our stewardship is focused on providing both improved long-term financial returns on investment as well as fostering better, more sustainable outcomes for society and the environment in which to spend that future – what we call holistic returns.

Public markets

Our view is that the long-term success of businesses and the success of the SDGs are inextricably linked. We believe that all of our engagement work is aligned to the delivery of the SDGs either directly or indirectly, enhancing our response to systemic risks. The chart below illustrates the number of engagement objectives and issues on which EOS engaged during 2020, which we believe are directly linked to an SDG (noting that one objective may directly link to more than one SDG).

Figure 3: EOS 2020 engagement – alignment to the SDGs



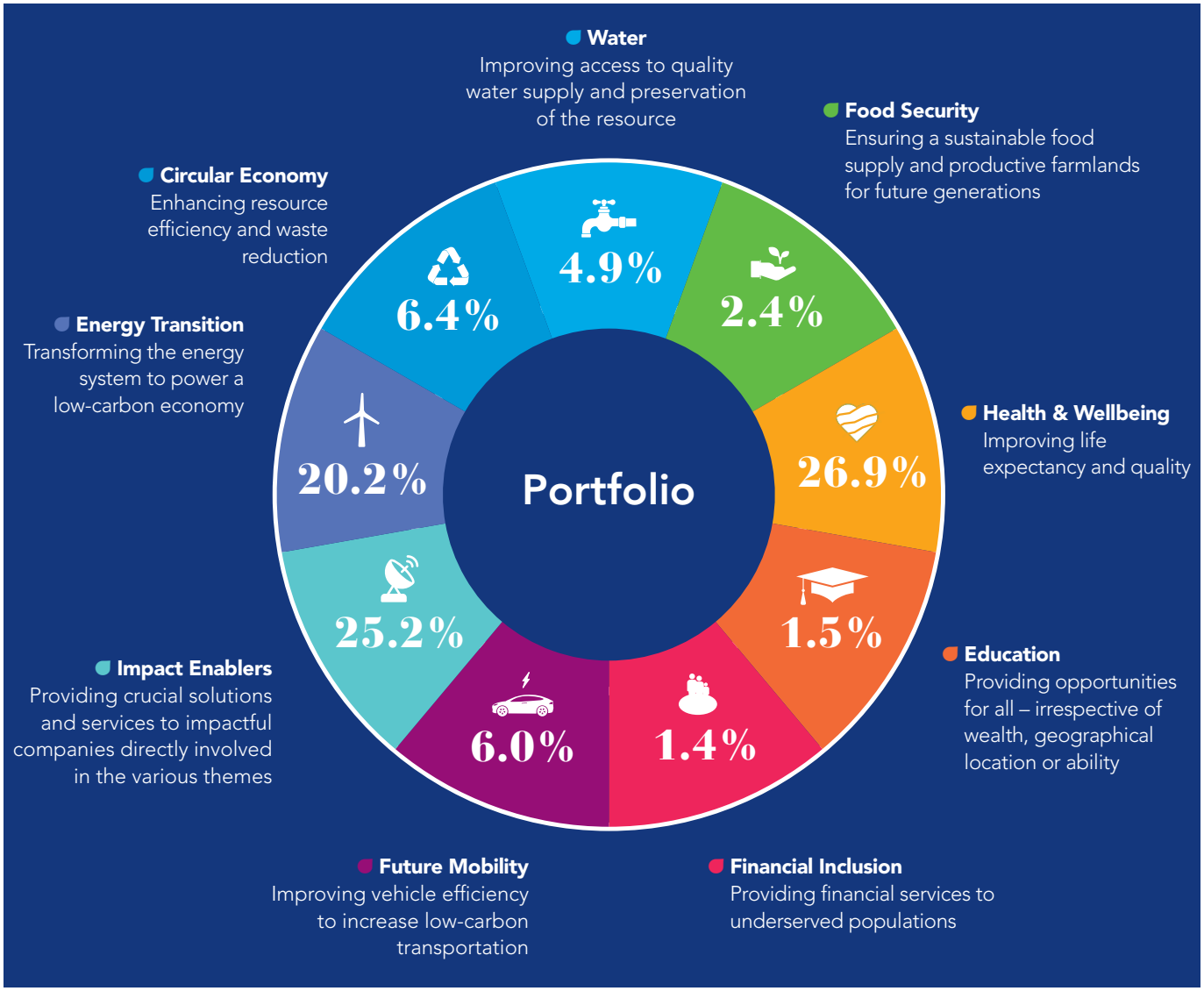
Source: Federated Hermes, as at March 2021

In recent years, we have established an impact franchise, spearheaded by our Impact Opportunities and SDG Engagement Equity strategies and followed by our SDG Engagement High Yield Credit strategy, with further products in the pipeline. All three of these impact strategies focus on investments that relate to the attainment of UN Sustainable Development Goals (SDGs).

Our SDG Engagement Equity Strategy and SDG Engagement High Yield Credit Strategy seek to achieve a meaningful social and/or environmental impact as well as a compelling return through investing in and engaging with companies to drive positive change in line with the relevant SDGs. The SDGs provide an ideal framework to identify ex-ante potential for creating positive societal and environmental change through engagement to create more impactful and profitable companies. Given the added focus on engagement for these strategies, we have dedicated engagers based in the relevant investment teams who focus solely on these strategies and work closely with EOS to ensure a consistent approach. All investments of those strategies are formally reviewed by the lead manager and lead engager, while the relevant analysts and team members also provide input every six months. These meetings investigate whether the original engagement thesis is still valid and also measure progress towards any specific objectives.

Our Impact Opportunities Strategy 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. We have identified nine key impact themes linked to the SDGs; Water, Health and Wellbeing, Financial Inclusion, Education, Energy Transition, Future Mobility, Food Security, Circular Economy and Impact Enablers. Each theme helps us to define, validate and report on positive corporate impacts. This enables us to focus on businesses whose positive impacts are aligned with the growth drivers of tomorrow – and therefore the interests of long-term investors. The chart below shows how our holdings fit into the nine impact themes that are aligned with the SDGs.

Figure 4: Impact Opportunities Strategy – Exposure by impact theme



Source: Federated Hermes, as at 31 December 2020. Note: as at 31 December 2020, 3.4% of our exposure was not directly related to any of our nine impact themes, while 1.8% was held as cash.

The rest of this Communication on Progress focuses mainly on the policies, goals and outcomes shared across our strategies, as well as our business operations. 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:

- SDG Engagement High Yield Credit: 2020 Annual Report;
- SDG Engagement Equity: 2020 Annual Report; and
- Impact Opportunities: Impact Report Q1 2021.

Private markets

As part of our active Responsible Property Investment (RPI) in Practice programme, we have been assessing what positive impact investment would mean for each step of our investment process. Our 'impactful intent' approach aims to deepen our RPI practice by intentionally seeking a defined positive environmental or social outcome in a particular place or market as a core focus of our responsible investment strategy, in addition to strong risk-adjusted financial returns. This involves using a purposeful framework to focus our real estate operations on three specific impactful investment themes. For each of these investment themes we are committing to activities with measurable environmental, economic and societal outcomes, which ultimately support specific SDG targets. Out impactful investment themes are:

- Meaningful placemaking that creates civic pride;
- Healthy, engaged and productive communities that drive desirable social and environmental outcomes; and
- Climate and resource efficiency and achieving a just transition to a low-carbon, circular economy in order to help prevent further adverse climate change and resource scarcity.

At the heart of our approach is our commitment to creating a 'meaningful city' – or a place that people want to live and work in, and which foster a sense of belonging among inhabitants. Because most of our investment is concentrated in densely populated urban areas, it is inevitable that the way we manage these developments will have a deep, long-lasting effect on the cities and the people that live in them. During 2020, three placemaking projects that deliver social value have been ongoing. However, due to the ongoing pandemic-related restrictions, it has not been possible to collate all the data on these projects.

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, all of which affect the creation and preservation of long-term value. All companies have a responsibility to respect human rights which can include decent work such as no forced labour, no child labour and payment of living wage; the safeguarding of indigenous communities and those living in high-risk environments (such as conflict zones); and the protection of basic human rights.

Human rights remain a priority for EOS. We seek to ensure increased vigilance in the protection of human and labour rights during and following the coronavirus pandemic, which is exacerbating inequalities, increasing the risks of unacceptable working conditions such as modern slavery and low pay and limiting access to fundamental needs such as food and medicine, including effective coronavirus vaccines. We further focus on digital rights, such as challenges to the right to data privacy and freedom of expression through the development of artificial intelligence. We also continue to promote corporate application of the "UN Guiding Principles (UNGPs) on Business and Human Rights at 10" – the next decade of implementation of the UNGPs.

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 2021 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 promote best practice for Sustainable Procurement and ask suppliers for evidence of their sustainable procurement practices covering the following core areas: environmental, social, diversity and inclusion, 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 ("PIDA") – 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. Employees and our supply chain can raise concerns around any suspicions of, or any circumstance that may give rise to an enhanced risk of, modern slavery or human trafficking. Employees may also report such matters directly to the Head of Strategic Risk and Compliance 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 and the update to the study in 2020, this is driven by the strength of their corporate governance and social metrics. Companies with good or improving social practices can potentially add up to 17bps each month to returns – up from 15bps in 2018. This follows the same pattern we previously observed for governance.[1]

The credit team, together with the Responsibility Office has also developed a proprietary ESG-risk pricing model after demonstrating a relationship between ESG factors and credit spreads.[2]

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

[2] https://www.hermes-investment.com/ukw/wp-content/uploads/2020/03/bd004922-pricing-esg-risk-in-sovereign-credit-part-ii.pdf

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 the internet; 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 and fair pay; 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 a range of reporting relating to our engagement on human rights and labour principles, Page 35 of our 2020 Annual Review provides an overview of our work over the past year.

In 2020 highlights include providing feedback to the Investor Alliance on the development of an Investor Toolkit for Human Rights. We joined a collaborative investor initiative called 'Find it, Fix It, Prevent It' focused on increasing the effectiveness of corporate action against modern slavery and engaged with companies as part of this group.

With increasing regulation, such as Australia's Modern Slavery Act – which came into force in 2020 – and the 10-year anniversary of the UNGPs on Business and Human Rights in 2021, there is increased scrutiny on companies to report how they respect human rights. Our engagement approach is apolitical, while distinguishing between those situations that contravene international law and those that do not. Last year we also evolved our methodology guiding our engagements in high-risk contexts, in response to client demand for more detailed guidance in this area.

We expect companies to properly manage impacts and share benefits with communities, and respect indigenous peoples' rights to free, prior and informed consent as outlined in international standards. In 2020 we encouraged Kimberley Clarke to respect the land and water use rights of local communities and indigenous peoples in its Human Rights Policy. We engaged with Kirby over a 2016 British Columbia oil spill that polluted indigenous fisheries and asked the company to reach a settlement with the Heiltsuk Nation that included an apology, an environmental impact assessment, and direct compensation. We also urged Procter & Gamble to consider indigenous peoples' rights in its efforts to eliminate deforestation from its supply chains. And we aligned our Canadian Corporate Governance Principles with the Truth and Reconciliation Commission of Canada's recommendations to the corporate sector.

Our Modern Slavery Statement 2021 features a focus on EOS' engagement on forced labour in supply chains following detailed and credible reports of alleged human rights abuses of ethnic minorities from the Xinjiang Uyghur Autonomous Region ("XUAR")

Responsible business

We have considered how our business operations may be affected by modern slavery issues. Where necessary, increased levels of due diligence are performed to ensure suppliers not only deliver a quality service, but also manage risks. Basic due diligence is performed on all suppliers through policies, tax facilitation questions, plus finance and compliance monitoring. We endeavour to use suppliers that have values aligned to our own.

As part of the basic due diligence checks, all suppliers are screened at onboarding and on an ongoing basis to identify any adverse information or sanctions that may suggest our suppliers are not acting in accordance with this code or are designated under Global Human Rights Sanctions regimes. Certain supplier arrangements that are deemed to be material outsourcers are subject to enhanced due diligence and on-going monitoring on a quarterly basis. This includes carrying out periodic onsite due diligence with our material and outsourcing suppliers. In 2018, we added modern slavery to the scope and suppliers are requested to provide Modern Slavery May 2021 2information on how they manage modern slavery risks within their own supply chains. In addition to performing due diligence on our suppliers, we also perform due diligence on other business relationships with investors and investees as part of our Know Your Customer checks to identify areas of higher modern slavery risk.

Measurement of outcomes

In 2020, EOS engaged on 3,965 issues and objectives. 17% of the objectives and issues we engaged during the year were on a social or ethical theme. Of this, 28% related to human rights. 154 out of 304 social engagement objectives were moved forward at least one milestone during the year. Further information is available in the EOS 2020 Annual Review.

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 our 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 have also articulated a set of behaviours innate to our culture that contribute to the success of the business. In 2020, we updated our behaviour framework to more explicitly set out the behaviours that are the visible manifestations of our Pledge. Every employee has a responsibility to act in a way that upholds our core behaviours through their day-to-day activities. All individuals are rated in equal measure on their behaviours and on their technical performance as part of the performance management process, to encourage a focus on meeting the needs of our clients and beneficiaries and supporting our commitments to society and to the environment. Individuals will be highly rated if they perform successfully while embodying our behaviours as conveyed in the Pledge. Where relevant to specific roles, ESG objectives are embedded into this process.

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.

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 deliver the best holistic returns for our clients and wider society. 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 worked hard to build a professional, progressive and diverse work force, to not only reflect the society we live in, but also because it leads to better business outcomes.

While we have made progress, we acknowledge this has not been matched in the representation, particularly, of the black community. We know the proportion of black colleagues in our London office is around four percent, significantly below the proportion of black people overall in the English capital. This is just one small indicator of the current inequalities both in our workforce and wider society. We are committed to addressing racial inequality, and have developed a set of commitments and measures, as we put energy and focus into widening opportunities for, and building representation from, ethnic minority groups.

- We have set a goal to at least double the actual number of permanent black employees in our workforce by the end of 2022, and with the most senior levels of management to be held accountable to deliver on these metrics.
- We are launching our own Investment Trainee Programme for school leavers in the UK, where we are headquartered, which will give places for up to ten trainees each year from socially disadvantaged backgrounds, with a particular emphasis on encouraging applications from under-represented ethnic minority groups. They will, initially, spend a year with us with the aim of transitioning them onto a formal apprentice programme after that time. An initial pilot programme for four trainees launched in January 2021.
- With the help of a specialist consultancy, we are working with colleagues from ethnic minorities to build a better and deeper understanding of challenges they face in the workplace. This will inform our work to create an environment that promotes and supports all ethnic groups and addresses any current shortcomings.
- We will also undertake a facilitated inclusion change programme, involving learning and development for leaders and managers, to enhance their race fluency and address bias and prejudice, whether conscious or unconscious, in the workplace. The programme will also include training and coaching for our black colleagues to equip them with the skills to navigate specific race and ethnicity-related challenges.
- Our line managers and HR team are working with external specialists to undertake a review, and then revised application of, people-related 'employment lifecycle' practices and procedures, particularly in support of progression and retention of talent within the business.
- Finally, we will review our own supply chain to ensure we are working with appropriately diverse organisations and we will ramp up our engagement efforts with, and support for, companies in building fully diverse organisations.

As reported in our Gender Pay Report, and in line with our Women in Finance Charter commitments, we measure the proportion of male and female staff, and have 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.

All statutory requirements of minimum pay are met across our offices. 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 employees in our London offices 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, Mental Health 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 QESG Dashboard through which information on metrics such as employee turnover, health and safety performance and fatalities are provided. This information is available for both current and prospective investee companies. 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, the 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. Our teams also have access to controversy data flagged by external data providers to monitor any developing labour issues within companies. 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

In public markets, 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 the internet; 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 continue to work with key stakeholders such as the Organisation for Economic Co-operation and Development Responsible Minerals Initiative and Better Cobalt on the responsible sourcing of cobalt. We work with the Find It, Fix It, Prevent It investor collaboration to tackle modern slavery. We support the adoption of guidance on how companies can implement higher wages aligned to their commitments to pay a living wage to supply chain workers and promote best practices in the use of technology to improve supply chain transparency and to provide data on working conditions. We liaise with the Global Network Initiative on how we can integrate the Principles on Freedom of Expression and Privacy into our engagements with ICT companies.

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 and ethnicity pay gap and achieve appropriate representation at all levels of an organisation; 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; a policy that permits freedom of association of workers in trade unions and protects labour rights recognised by the International Labour Organization; commitment to provide sufficient paid sick leave; 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.

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. In January 2020, we completed the acquisition of MEPC Limited, a UK commercial real-estate developer and asset manager, from BTPS, a longstanding client and our former majority owner. By adding further expertise in specialist asset management and development management, we have greatly enhanced our real-estate proposition – and particularly our ability to deliver urban-regeneration schemes, which not only provide the opportunity for attractive long-term financial returns but positively impact the environment, communities and local economies in which they are located. MEPC Limited is wholly owned by HFML and operates in accordance with HFML's policies.

We include specific references to the Modern Slavery Act in all of our property management agreements, which have recently been updated and cover the whole of our managed portfolio, and in our Asset and Development Management Agreements. In all new lease agreements we endeavour to include a requirement to comply with the Modern Slavery Act.

Across our construction and appointment documents with professional consultants in the portfolio we also endeavour to make specific reference to the Modern Slavery Act, requiring compliance with all relevant legislation. Where this has not already been done, we are working on adding these clauses.

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. 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.

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. Over the last year, to support our employees during the Covid-19 pandemic, we continued to provide and promote our Employee Assistance Programme and Mental Health Pathway (as part of our employee benefits scheme). Our Facilities team carried out remote desktop assessments to ensure employees had the right set up and equipment at home. In 2020 we launched a Winter Wellness Programme to support our employees' physical and mental health during the pandemic. This included Mental Health Awareness training for all line managers and the promotion of our internal Mental Health First Aiders. As we begin to plan for a return to the office in summer 2021 we will be launching a Hybrid Wellbeing Programme following a similar approach to provide continued support to all our employees.

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

Attract:

- **Investment trainee programme** – We designed a two-year trainee programme in partnership with Investment20/20 to encourage more diversity and junior talent into the investment industry.
- **Women in Finance Charter targets** – We are fully committed to supporting the Women in Finance Charter and its objective of attaining gender balance across all levels of financial services (See below for details on progress against targets).

Retain:

- **Employee engagement** – We conducted an employee pulse survey to measure our progress against our 2019 employee engagement survey and understand our strengths and areas for development.
- **Diversity data** – We launched a self-service data campaign to allow all employees to record their demographic information via our HR system so we can better understand our workforce composition and have a clearer picture of intersectionality.
- **Behaviour framework** – We re-designed our performance and behaviour framework to link more closely to our Pledge and inclusive behaviours and provide more clarity around progression.
- **Unity workstreams** – Our internal diversity & inclusion group, Unity, have recruited new members and set up specific workstreams focussing on gender, wellbeing, ethnicity, LGBT and families. They have hosted various webinars, drop-in sessions and podcasts to provide support to our employees.

Develop and Promote:

- **Mindfulness training** – We re-launched weekly mindfulness sessions for all staff to provide greater support throughout the COVID-19 lockdown and introduced 'mindfulness for children' to provide support to families during a challenging time.
- **Respect training** – We rolled out positive communications training to all staff to improve our working culture through increasing awareness and understanding of different personality and working styles.
- **4 Habits training** – We partnered with Soulmates Academy to launch relationship building training to give employees the tools to improve and enhance their working and personal relationships.
- **Talent builder training** – We launched performance management training for line managers and individuals to focus on career building skills and development to harness our existing talent.

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

For public markets, in 2020, EOS engaged on 3,965 issues and objectives. 17% of the objectives and issues we engaged during the year were on a social theme. Of this, 22% related to diversity, 22% to human capital management and 7% to labour rights. 154 out of 304 social engagement objectives were moved forward at least one milestone during the year. Further information is available in the EOS 2020 Annual Review.

In private markets, through our real estate placemaking activities, we have created significant social and economic growth in a number of our real-estate construction projects. This has been achieved through generating construction jobs, apprenticeships and local supply-chain spending. As we expand our reporting to cover the eight social hubs identified for real-estate placemaking initiatives, we are developing a comparative framework which will enable us to clearly measure and analyse the positive impact that the investment on social infrastructure has on the local economy and social infrastructure.

We did not publish any of these reports in 2020, as the measures put in place during the Covid-19 pandemic have prevented us from measuring the impact of these developments. As a result, work is still ongoing to produce the next three reports for our developments in Paradise (Birmingham), Milton Park (Oxfordshire) and Sky Park (Glasgow). Our most recent socioeconomic report was published in 2019 and covers NOMA in Manchester. The report provides an example of the style of reports we produce and the impacts we have had. It sets out quantified social and economic impacts, showing that the estimated construction investment of approximately £150m at the time of the report had supported approximately 2,250 construction workers over eight years, with 60% of the jobs filled by Greater Manchester residents. Over 1,000 construction workers received on-the-job training and over 80 apprentices were involved in the redevelopment. Around 70% of construction spend was with Greater Manchester based contractors. More information on the social value and economic benefits generated through our placemaking activities are available in our Better Buildings Partnership case study.

As a business, as reported in our Gender Pay Report in March 2021, the international business of Federated Hermes' mean pay gap remains at 26.5%, with a mean bonus gap of 64.4%. Our analysis has shown that our pay and bonus gaps are largely driven by the following factors:

- 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 (70%), 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.

In relation to our Women in Finance Charter targets, having achieved our 2020 targets which we set in 2016, we are now aiming for our 2021 targets as detailed below.

Population	2021 Target	2020	2019	2018	2017	2016
Firm-wide	45%	44%	42%	40%	39%	34%
Board	35%	31%	31%	31%	29%	37%
Senior management	35%	33%	31%	28%	23%	24%

Having spoken to staff across the business and listened to their feedback on what is important to them, over the next year; and with our new Head of Inclusion who joined in Q1 of 2021 and working in close collaboration with the Inclusion Committee, Unity and with the full support of the Executive, we plan on focusing on the following actions and initiatives:

- Implementing new Women In Finance Charter targets. Our Inclusion Committee have approved 50% across all 3 groups by 2025, and this was supported by our Board and ExCo;
- Completing our work with an external specialist consultancy in racial equality and leveraging best practice outcomes across all under-represented groups in our business;
- Investing in technology to further advance our Agile Working practices to support post-pandemic changes in working patterns; and
- Driving forward with our talent pipeline and mid-career mentoring programmes to strengthen internal progression and succession planning opportunities.

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 2020 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.

We are signatories of the Net Zero Asset Managers Initiative, the Net Zero Asset Managers initiative. The initiative represents a commitment from all signatories to work with their clients to reach a goal of net zero greenhouse gas emissions by 2050 or sooner, in line with wider global efforts to limit warming to 1.5 degrees Celsius. The initiative was launched in December 2020 and now represents close to half of the entire global asset management sector in terms of total funds managed, representing 128 investors and around $43 trillion in assets (as at 6 July 2021). Our commitment covers all of our assets and, as such, much work was undertaken beforehand to ensure that it is fully aligned with our legal obligations to our clients. We will be setting interim targets as part of our broader climate strategy, which we will be announcing in the coming months, and we will also report annually on progress as part of our existing climate-related financial disclosures.

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 2020 Climate-Related Financial Disclosures Report.

Our approach has four key 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.

Our approach to assessing impact and managing risk covers our public equities and credit; direct lending and real estate assets. At its core our strategy is based on our belief that we can create positive feedback loops between investment and stewardship to reduce the climate risks and maximise the opportunities for the companies and assets in which we invest.

Engagement is a crucial element of our approach to managing climate change and climate is a specific engagement focus in EOS' public-markets engagement programme. 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 has integrated climate risk management throughout its investment decision-making and asset-management processes. A responsible property investment (RPI) acquisition checklist is used when acquiring new assets, which covers specific ESG issues like climate change, with a particular focus on flood risk and mitigation.

Our Real Estate team's responsible property development and refurbishment guidance also sets out a series of guidelines and principles for our project and development managers to follow. This ensures a consistent, start-to-finish approach to sustainable refurbishment and development, making use of key RIBA Stages.[3] The approach also follows BREEAM principles,[4] which adopt sustainable methods of construction to deliver an operationally efficient and sustainable building or refurbishment.

In 2019, we joined the Better Building Partnership Climate Change Commitment (along with 22 other signatories) with the aim to achieve net-zero emissions across our real estate portfolios by 2050. As part of this commitment, on behalf of our clients, we have set our proposed pathway to achieving net-zero emissions by 2035 across the managed assets included within our £6.1bn UK real-estate portfolio. We aim to deliver on this aspiration in four specific areas: decarbonisation; energy efficiency; stakeholder engagement and utilising credible, permanent carbon-removal methodologies for residual carbon utilising schemes. We have developed this pathway using the UK Green Building Council's Advancing Net Zero Framework and aligning the 2035 target with our clients' stated objectives and targets.

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, working with property consultant JLL to set and deliver our operational environmental goals and improve our sustainability, 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

In listed markets, our integrated approach to managing climate risk and opportunities is based on our belief that we can create positive feedback loops between investment and stewardship. This should help reduce climate-related risks and maximise the opportunities for the companies and assets in which we invest. The primary means through which we monitor and measure the climate-change exposure of our investment portfolios is through our proprietary carbon tool, which measures a fund's carbon footprint relative to its benchmark and calculates its carbon intensity. As well as providing a carbon heatmap, the tool enables portfolio managers to stress-test the resilience of our portfolios to a range of carbon prices, identify whether high-emitting companies in the portfolio are being engaged with or whether engagement needs to be initiated, and understand the progress on any climate or wider environmental engagements already underway. The information also helps increase our investment team's awareness of carbon-related risks, which can lead to updated valuations and potentially change investment decisions. More detail on how we use this tool is available in our 2020 Climate-Related Financial Disclosures Report.

We also use other external tools, such as the 2 Degrees Investing Initiative's Paris Agreement Capital Transition Assessment (PACTA) tool.

Responsible ownership

Engagement is a crucial element of our climate change management approach.

In public markets, 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 31 companies and supporting another 35. The initiative, which is scheduled to last five years and hit its halfway mark last year, has had some notable

[3] The Royal Institute of British Architects (RIBA) Stages or Plan of Works provide a framework for architects to use on projects with their clients, bringing greater clarity to the different stages of a project.

[4] Building Research Establishment Environment Assessment Method (BREEAM) is the world's leading sustainability assessment method for master planning projects, infrastructure and buildings. It recognises and reflects the value in higher performing assets across the built environment lifecycle, from new construction to in-use and refurbishment.

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 the last year include: BP, CRH, Hon Hai, Rolls-Royce, Siemens Energy and Total. In the run up to COP26, to be held in the UK in November 2021, we can expect further shifts as the pressure builds to bring national policies into line with Paris Agreement pledges. Net-zero benchmarking will also give investors even better data to use when comparing companies, and help to increase the level of ambition. In 2021 we continue to look closely at how the energy transition is accounted for in company financial reports and accounts, as well as focusing on nature-based solutions, the just transition, and mitigating physical climate risks through adaptation.

Environmental engagement by EOS also covers natural resource stewardship, and the long-term outcomes it seeks include: the protection and restoration of biodiversity, including the ambition to have a net-positive impact on biodiversity, and the long-term rehabilitation of landforms, such as tropical rainforests; sustainable food systems, including supply and demand that supports a growing global population with a healthy diet within planetary boundaries; and access to clean water for all.

Near-term corporate objectives include: assessment of impacts and dependencies on biodiversity and ecosystem services; the ambition to have a net-positive impact on biodiversity, including throughout the supply chain; strategies to eliminate contributions to deforestation and source high impact feedstocks (for example palm oil, soy, beef) sustainably; a long-term sustainable food strategy and supporting targets, including diversification from animal to plant-based protein and a plan to address AMR; 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 have signed up to the Finance for Biodiversity Pledge, through which we collaborate and share knowledge with financial sector peers on halting and reversing biodiversity loss. We continue engagement and collaboration with the FAIRR network on sustainable use of antibiotics within animal farming and protein diversification. We have also signed up to the Investor Action on AMR initiative. We continue to participate in a range of collaborative investor initiatives that are focused on tackling deforestation.

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

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

Through public policy and best practice we seek to improve investor engagement on this theme by: promoting investor expectations for plastics and packaging in the chemicals, consumer goods and retail sectors and fast fashion in the apparel sector; encouraging sign up to the Ellen MacArthur Foundation New Plastics Economy Global Commitment; continuing to be an active member of the PRI plastics working group; 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. Adaptation measures are also embedded in the design and construction of the building. The team monitors the 10 UN Global Compact Principles and also the mandatory completion of both initial and final responsible-property-development action plans.

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. In order to further our net-zero alignment aspirations, we have signed up to pioneer a number of industry projects in 2020. These include the Better Buildings Partnership Design for Performance initiative, which focuses on carbon reduction in operations, and the London Energy Transformation Initiative, which supports the development of net-zero aligned assets.

Looking beyond investment and stewardship, we also believe that policymakers have a key role to play in determining the investment risks and opportunities created by climate change. In 2020, we carried out extensive advocacy work on climate-related issues. This aimed to promote positive change relating to the rules governing both financial markets and the real economy.

We continue to be active members of – among others – the IIGCC, Climate Action 100+, the Asia Investor Group on Climate Change, the Better Buildings Partnership, CDP, Ceres and the UK-China Green Finance Task Force. We also took on a number of new external roles related to climate change in 2020, including the Committee on Climate Change Net Zero Finance Advisory Group, Financing the Just Transition Alliance, the Investors Policy Dialogue on Deforestation in Brazil, CDP's Science Based Targets Campaign and the Japan Climate Initiative. In addition, we became co-chairs of the new Investment Association's Climate Change Working Group, which aims to shape the UK investment industry's response to this systemic risk.

We responded to a range of consultations in the past year, supporting increased disclosure throughout the investment chain as well as improved standards in the real economy. We were also involved in developing the IIGCC Net Zero Investment Framework, which was launched for industry consultation in August 2020.

In addition, we are members of the FCA-PRA Climate Financial Risk Forum (CFRF). Our CEO chairs the Disclosures Working Group (DWG) of the CFRF, which in June 2020 published practical guidance for how financial institutions can disclose climate-related financial risk. We continue to chair the DWG during phase two of the CFRF, which will be publishing further guidance for the industry in late 2021. Finally, we founded and now chair the UK chapter of the Partnership for Carbon Accounting Financials (PCAF). The PCAF was launched in September 2020 and our involvement demonstrates our continued commitment to driving innovation in sustainable investment at an international level. PCAF is an industry-led group to standardise carbon accounting in the financial sector, enabling firms to measure the level of financed emissions and to work collaboratively in enacting genuine change. The working group will be observed by Mark Carney's COP26 unit and will collaborate with both the UK Government and the Bank of England.

Responsible business

The system we use to measure and manage our impact is ISO14001: an internationally accepted standard demonstrating an organisation's commitment to continual improvement of their environmental management system. The ISO 14001 accreditation in our main offices reflects the deliberate steps we took to improve the environmental impact when we fitted them out. We offset our corporate travel emissions and emissions from our office energy usage by partnering with Trees for Cities.

Measurement of outcomes

We published a range of metrics in our 2020 Climate-Related Financial Disclosures Report relating to our investments across public and private markets, including the carbon footprint and weighted average carbon intensity (WACI) of our equity and credit portfolios. The analysis includes scope 1, 2 and 3 emissions. Despite being backward looking data, this provides a good proxy for assessing the exposure of our assets to carbon risk.

For our Real Estate portfolio, we discussed changes in absolute carbon emissions across all properties in our landlord-controlled standing portfolio, the annual change in CO_2 emissions on a like-for-like basis between 2019 and 2020, adjusted for heating degree days and the change in carbon intensity for shopping centres and offices between 2006 and 2020. Our Responsible Property Investment Report publicly discloses environmental and social outcomes for our Real Estate funds.

For public markets, in 2020, EOS engaged on 3,965 issues and objectives. 24% 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 31 companies as part of the Climate Action 100+, the collaborative engagement initiative representing $54tn 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. 302 out of 508 environmental engagement objectives were moved forward at least one milestone during the year. Further information is available in the EOS 2020 Annual Review.

As a business, under our Environmental Management System (EMS) working group, we had four key environmental management goals in 2020:

- Retain our ISO14001 EMS standard.
- Reduce our operational electricity consumption per full time employee (FTE) for our occupied space at 150 Cheapside by 2% in 2020 compared to 2019.
- Ensure as much waste as possible is reused or recycled, and reduce total waste produced by our activities.
- Continue to monitor business travel across all departments and modes of transport and develop a travel policy to reduce emissions.

We are proud to say that we have retained our ISO14001 standard, which we first achieved in 2010. This is a recognition of the rigour of our on-site environmental management programme. We have also exceeded the targets we set for ourselves on reducing electricity consumption, waste production and recycling. Our energy consumption (kWh) per full time employee fell by 12% in 2020 from 2019 levels, with a 65% reduction in total waste and 71% of waste recycled. Travel emissions also fell dramatically, with an 83% reduction from 2019 levels. While pleased we are also not complacent. We understand much of this progress has been due to staff working from home and travel restrictions and that on travel in particular it is important to 'bank' the behaviour changes catalysed in 2020. This will be a focus for 2021 and 2022.

As well as measuring its GHG emissions, the international business of Federated Hermes offsets its operational carbon emissions by working with Trees for Cities. For every tonne of greenhouse gas emissions that the business generates from its day-to-day operations and its business travel, verified carbon offsets are generated by planting trees. In the period October 2020 to March 2021, Trees for Cities will plant >6100 trees to offset the 2,287 tonnes of CO_2e the firm emitted in 2019. We have signed a further 3-year contract with Trees for Cities and will plant further trees in 2021-22 to offset the estimated 938 tonnes of CO_2e generated in 2020.

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 2019
- 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)
- 5th Money Laundering Directive 2020
- 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 (2020 Revision)
- Cayman Islands Anti Money Laundering Regulations (2020 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
- Tax evasion and avoidance
- 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 Portfolio snapshot tool through which information on any controversies are provided. The Dashboard also includes the information from EOS' quarterly screening tool which identifies companies that violate or are at risk of violating commonly accepted international norms and standards, including the UN Global Compact Principles in its scoring of the company. Our investment teams have access to controversy and breaches of UN Global Compact Principles flagged by external data providers.

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

In public markets, through engagement, EOS seeks: corporate decision-making taken through an ethical lens, with development and maintenance of the highest ethical standards and an end to corporate bribery and corruption and other non-compliance; 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.

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.

SAI GLOBAL
ISO 14001
Environmental