CLIMATE TRANSPARENCY REPORT 2020

Federated Hermes, Inc. (formerly Federated Investors, Inc.)

PRI Principles for Responsible Investment

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-1876D3BA-FF13-4D37-B1F9-D81B4200796D/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as "private". Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the PRI website and on the Data Portal.

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	✓	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	-	Public				
SG 13.1	✓	Public				
SG 13.2	-	Public				
SG 13.4 CC	-					
SG 13.5 CC	-					
SG 13.6 CC	-					
SG 13.7 CC	-					
SG 13.8 CC	-					
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.6 CC	-	Private				
SG 14.7 CC	-	Private				
SG 14.8 CC	✓	Private				
SG 14.9 CC	✓	Private				
SG 15.1	✓	Public				
SG 15.2	✓	Public				
SG 15.3	✓	Public				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation

Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	Federated Hermes, Inc. (formerly Federated Investors, Inc.)
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US$ > 50 billion AUM
Main Asset Class	Multi-Asset
Signed PRI Initiative	2017
Region	North America
Country	United States
Disclosure of Voluntary Indicators	92% from 38 Voluntary indicators

Federated Hermes, Inc. (formerly Federated Investors, Inc.)

Reported Information

Public version

Strategy and Governance

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.

SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 01.6 CC	Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.

◉ Yes

	Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.

Transition to a lower-carbon economy can threaten investee companies by disrupting existing business models and assumptions about the markets in which they compete. Although transition risk is usually framed as a long-term risk, we are also keenly aware that transitions can happen abruptly in response to unforeseen events.

Accordingly, we assess climate risks on how they will affect us and our portfolio companies in the short, medium and long-term. In the near term, regulatory risks and mandatory legislation are the biggest risks, while longer-term the risk of stranded assets increases and the physical impact of climate change are likely to impact many different types of assets.

We have identified the key transition risks and opportunities around these dimensions: technology; policy and legal; reputation; and market expansion or contraction. Physical risks are evidenced by more immediate or event-driven risks from wildfires and more extreme weather events such as powerful storms, floods and droughts. Longer-term shifts in climate patterns may result in rising sea level or chronic heat waves. All investment teams are "climate-related risk aware", i.e. they are aware of the risks -- transition and physical -- and that those risks vary by sector, e.g. insurance companies are impacted by climate risk very differently than agricultural companies.

Each team must assess climate risks differently in relation to its strategy's investment thesis. Investment teams are working to deepen their understanding of climate-related risks and improve their process for assessing their impact on portfolio holdings through application of the ESG resources available to them. Investment teams have access to best-in-class proprietary and third- party resources that are key inputs into the fundamental research process. These include proprietary ESG data, ESG research, and portfolio-level dashboard tools to help identify climate and carbon-related exposures. All teams have access to our proprietary Carbon Footprint Tool which measures scope 1, 2, and 3 emissions to identify climate-related carbon risk in a portfolio by identifying those outlier companies versus industry peers and relevant industry benchmarks. It also sheds light to what extent our stewardship team is engaging with high-emitting companies to reduce their carbon footprint. Our stewardship team, EOS at Federated Hermes, regularly engages with companies on climate-related risks to their enterprises and those insights are shared with investment teams.

To accelerate investment teams' capacity to factor climate-related risks into their strategies, the Director of Responsible Investing and the Head of ESG Integration work closely with each investment team to identify the climate issues most relevant to their sector, industry and portfolio companies, and assess how these data are appropriately integrated within the fundamental research process. Investment teams are benefiting from the added lens of ESG research and data for understanding the long-term externalities and risks faced by portfolio companies related to climate change.

○ No

SG 01.7 CC	Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

◉ Yes

	Describe the associated timescales linked to these risks and opportunities.

Although transition risk is usually framed as a long-term risk, the timing of climate-related financial impacts can vary by type of risk, therefore we view them across different timeframes.

Short-term (0-2 years) - Risks that could cause impacts in 0-2 years from now; legal and regulatory risks:

- Regulatory changes and mandatory legislation affecting license to operate or management practices in certain sectors or geographies.

Medium term (2-5 years) - Risks that could cause impacts in 2-5 years from now; legal and market transformation risks:

- Regulatory changes and mandatory legislation affecting license to operate in certain sectors or geographies;
- Market-led changes, emerging new opportunities, obsolescence of certain products and services affecting certain sectors;
- Risk of stranded assets.

Long term (5+ years) - Risks that could cause impacts in 5 years and beyond; legal, market transformation risks and extreme weather events:

- Obsolescence and stranded assets across a range of assets, sectors and geographies due to regulatory changes, market transformation or extreme weather events;
- Extreme weather events impacting defined geographical locations and whole regions and supply chain disruptions affecting large number of sectors;
- Impact to infrastructure and real assets, ranging from business discontinuity costs, refurbishments and rebuilding costs, to obsolescence and destruction;
- Impact to insurance premiums or ability to insure assets in certain locations at risk.

○ No

SG 01.8 CC	Indicate whether the organisation publicly supports the TCFD?

○ Yes

◉ No

	Explain the rationale

While Federated is not listed as an official supporter of the TCFD we strongly support the need for a common framework for identifying and disclosing material financial risks associated with climate change. As an example, Federated participated in a policy development discussion with the GAO regarding a study the agency was conducting related to ESG disclosures by publicly traded companies, the extent to which these companies address ESG matters, the extent to which investors seek greater disclosures, and options for Congress to consider. When asked which, if any, organizations or companies we would recommend the GAO speak with to better understand investor interest in ESG reporting, Federated expressed its support for the TCFD climate-related risk framework and recommended the GAO engage with TCFD to discuss their framework for disclosures.

SG 01.9 CC	Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

◉ Yes

	Describe

Federated Hermes has in place executive level committees to identify and manage material climate-related risks and opportunities. The Investment Risk committee meets quarterly to identify and discuss firm-wide portfolio investment risk, which includes ESG risks. The committee includes representatives from investment management, CEO of the advisory companies and the firm's chief enterprise risk officer. The Enterprise Risk committee meets monthly and is tasked with identifying and managing material business risks to the firm, of which ESG investment risks are included. At the board level, Federated benefits greatly from having Saker Nusseibeh, CEO of Hermes Fund Managers, LTD as a board member and CEO of International at Federated. A leading advocate for climate change and the risks it presents, Saker discusses at the highest levels of the firm the need to address and manage climate-related issues within our investment portfolios.

The Responsible Investing Office (RIO) at Federated provides an infrastructure to help identify and manage climate-related risks. As a focal point for communicating about and disseminating information regarding ESG issues within the firm, RIO is a primary conduit for assisting investment teams in gathering and applying climate-related risk information to their investment processes. Federated investment teams have access to portfolio-level Carbon Footprint and ESG and engagement measurement tools that allow portfolio managers to see the exposure their holdings have to climate-related risks by sector and by individual holdings. EOS at Federated Hermes (EOS) engagement reports provide investment teams with insights into companies' identified objectives related to climate-related risks and progress towards those goals.

We are working together with our colleagues at Federated Hermes International to further enhance our approach to managing climate-related risk and opportunities in public equities and credit. The approach has four elements:

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

Integration - Portfolio managers integrate climate-related risk considerations alongside other value and risk considerations, and idenitfy where climate-related risk, alongside other factors, impacts value.

Engagement - We act as engaged stewards of the investments we manage. Where we hold assets with significant climate-related risk exposure, we will engage with public companies to mitigate climate-related risk.

Advocacy - We engage with public policymakers to encourage relevant policies and best practices.

RIO works closely with the Proxy Voting Committee to help in its analysis of climate-related issues, primarily relating to shareholder proposals. Two members of the RIO team are also permanent members of the Proxy Voting committee. This ensures that shareholder proposal issues benefit from the corporate body of knowledge regarding climate change and that it is integrated into relevant proxy discussions.

Across public markets, EOS' engagement program has identified climate as a specific focus and is informed by the outcomes of the Carbon Tool. EOS has taken an active role on the Climate 100+ initiative. More information is available at: https://www.hermes-investment.com/ukw/eos-insight/environment/taking-action-on-climate-change/

○ No

SG 1.10 CC	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

☑ Public PRI Climate Transparency Report

☐ Annual financial filings

☐ Regular client reporting

☐ Member communications

☐ Other

☐ We currently do not publish TCFD disclosures

Governance and human resources

SG 07 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 07.5 CC	Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

Board members or trustees

☑ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Other Chief-level staff or heads of departments

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Portfolio managers

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Investment analysts

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Dedicated responsible investment staff

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Investor relations

☐ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☑ No responsibility for climate-related issues

	Other role, specify (1)

Risk Management and Proxy Committees

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

SG 07.6 CC	For board-level roles that have climate-related issue oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.

Board-level roles have responsibility for and oversight for any issue which can present material risk to the firm and its strategies. ESG integration risks are reported regularly to the Board as a component of enterprise risk.

Saker Nusseibeh, CEO of Federated Hermes International, is a Board member. He is founder of the 300 Club, an inaugural member of the CFA Institute's Future of Finance Advisory Council, member of the IIRC Council, the FCA-PRA Climate Financial Risk Forum, the United Nations Environmental Programme Financial Initiative Steering Committee, the Banking Standards Board and the UK National Advisory Board on Impact Investing.

SG 07.7 CC	For management-level roles that assess and manage climate-related issues, provide further information on the structure and processes involved.

CIOs ultimately oversee the judgments made by their investment teams about security selection and portfolio construction within the framework of a strategy's investment objective. The portfolio managers and analysts that report to the CIOs are responsible for assessing as part of their fundamental research process material ESG factors, which include climate-related issues that have the potential to financially impact a security, whether the timeframe is short, medium or long term. Across all asset classes, portfolio managers and analysts assess a security based on fundamental quantitative metrics and also non-quantitative metrics, including relevant ESG factors. Investment teams are incorporating ESG data and research, such as MSCI ratings and proprietary QESG scores of covered companies, into the framework of their credit and stock selection processes. Investment teams and the CIOs to whom they report, now apply the added lens of ESG factors as additional insight into the risks a company or issuer may be exposed.

As part of our assessment and management of climate-related issues, our investment teams have access to the Carbon Tool, developed by the international business of Federated Hermes. Carbon Tool: Our Carbon Tool, launched in 2018, enables fund managers and engagers to identify carbon risks in listed investment portfolios and specific companies that are or might become more exposed to carbon risks in the future. Importantly the tool incorporates our stewardship activity and intelligence and is able to identify companies that are priorities for engagement and their progress against objectives. This tool evaluates the impact that investment funds have on the climate by:

- Measuring carbon risk and footprint of an investment fund relative to its benchmark as well as listed companies relative to their peers, including Scope 1, 2 and 3 emissions.
- Calculating the value at risk for an investment fund according to different carbon pricing and policy scenarios.
- Identifying companies with which carbon-focused engagement should be initiated or intensified.
- Gauging the level of carbon risk being engaged on within portfolios -- and progress achieved.

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1

SG 13.1	Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

☐ Yes, in order to assess future ESG factors

☐ Yes, in order to assess future climate-related risks and opportunities

☑ No, our organisation does not currently carry out scenario analysis and/or modelling

SG 14	Mandatory to Report Voluntary to Disclose	Public	Additional Assessed	PRI 1

SG 14.1	Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

☑ Changing demographics

☑ Climate change

☑ Resource scarcity

☑ Technological developments

☑ Other, specify(1)

	other description (1)

EOS at Federated Hermes engagement themes include pollution, biodiversity and sustainable agriculture.

☐ Other, specify(2)

☐ None of the above

SG 14.2	Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

☐ Established a climate change sensitive or climate change integrated asset allocation strategy

☐ Targeted low carbon or climate resilient investments

☐ Phase out your investments in your fossil fuel holdings

☐ Reduced portfolio exposure to emissions intensive or fossil fuel holdings

☑ Used emissions data or analysis to inform investment decision making

☑ Sought climate change integration by companies

☐ Sought climate supportive policy from governments

☑ Other, specify

	other description

Our Proxy Voting Committee has regularly voted for increased disclosure of climate change risk among investee companies.

☐ None of the above

SG 14.3	Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

☐ Scenario analysis

☑ Disclosures on emissions risks to clients/trustees/management/beneficiaries

☑ Climate-related targets

☑ Encouraging internal and/or external portfolio managers to monitor emissions risks

☐ Emissions-risk monitoring and reporting are formalised into contracts when appointing managers

☑ Weighted average carbon intensity

☑ Carbon footprint (scope 1 and 2)

☑ Portfolio carbon footprint

☐ Total carbon emissions

☑ Carbon intensity

☑ Exposure to carbon-related assets

☐ Other emissions metrics

☐ Other, specify

☐ None of the above

SG 14.5	Additional information [Optional]

We decided to develop the tool in-house because we realized that most commercially available portfolio tools were focused on reporting, as opposed to investment decision-making and delivering progress in climate-related engagements. We also wanted to combine carbon data from Trucost with our own internal carbon model, QESG score, financial and engagement data. Our proprietary public markets carbon analytics tool goes beyond portfolio-level aggregate statistics and focuses on identifying patterns and outliers. In particular, we look at data with various lenses to identify companies better or worse placed to deal with client change. In particularly, the carbon tool assesses and integrates the following four key elements, making it a cutting-edge approach in evaluating the impact that investment funds have on the environment:

1. Measuring carbon risk of an investment fund relative to its benchmark and of listed companies relative to its peers, including Scope 1, 2, and 3 emissions.
2. Calculating the value at risk for an investment fund for different carbon pricing and policy scenarios.
3. Identifying companies with which carbon-focused engagement should be initiated or intensified.
4. Gauging the level of carbon risk being engaged on within portfolios and the progress achieved.

The tool helps our fund managers to more effectively take into account information about specific carbone risk and thereby enhance their investment decisions. This helps them identify investment opportunities and threats to value, and to begin or intensify engagements that can reduce the risk of holding exposed companies.

We track carbon footprint and weighted average carbon intensity (carbon emissions divided by AUM) of our equity and credit portfolios. In addition, we compare our WACI with the MSCI world index. The analysis includes scope 1 and 2 emission. Despite being backward looking data, this provides a good proxy for assessing the exposure of our assets to carbon risk. We use the market capitalization ownership and enterprise value method for calculating the carbon footprint of our equity and credit assets under management.

Our carbon tool reveals, most importantly, that the concentration of emissions in a small number of companies makes engagement potentially very powerful. This gives a lot of leverage to push companies for better carbon performance, and more generally a coherent climate change strategy.

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1

SG 15.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

◉ Yes

SG 15.2	Indicate the percentage of your total AUM invested in environmental and social themed areas.

	%

.01

SG 15.3	Specify which thematic area(s) you invest in, indicate the percentage of your AUM in the particular asset class and provide a brief description.

	Area

☐ Energy efficiency / Clean technology

☐ Renewable energy

☐ Green buildings

☐ Sustainable forestry

☐ Sustainable agriculture

☐ Microfinance

☐ SME financing

☐ Social enterprise / community investing

☐ Affordable housing

☐ Education

☐ Global health

☐ Water

☑ Other area, specify

UN Sustainable Development Goals

	Asset class invested

☑ Listed equity

	Percentage of AUM (+/-5%) per asset class invested in the area

1

☐ Fixed income - SSA

☑ Fixed income - Corporate (financial)

	Percentage of AUM (+/-5%) per asset class invested in the area

.05

☑ Fixed income - Corporate (non-financial)

	Percentage of AUM (+/-5%) per asset class invested in the area

.05

☐ Fixed income - Securitised

	Brief description and measures of investment

Federated has sponsored and launched two SDG funds: Federated Hermes SDG Engagement Equity Fund. The Equity Fund seeks to invest in companies that provide the potential for long term capital appreciation while also contributing to positive societal impact aligned to the United Nations Sustainable Development Goals. In addition to fundamental financial indicator criteria, the Fund considers engagement criteria such as assessment of company management competence, integrity, and vision, as well as exposure to one or multiple UN Sustainable Development Goals.

The SDG Engagement High Yield Credit Fund is a high conviction strategy that invests in high yield companies that demonstrate willingness and ability to create positive change in society and/or environment while improving their credit profiles. The strategy aims to generate long-term, risk-adjusted outperformance by investing in attractive high yield credit instruments and engaging with the underlying companies to generate positive impacts that support the SDGs. Portfolio companies must meet specific investment and engagement criteria. Each should have supportive fundamentals and their business lines, supply chains, product or service offerings must provide a foundation to create SDG-aligned impact and their executive teams must be willing to enter the long-term transformative process of engagement.

○ No