CLIMATE TRANSPARENCY REPORT 2020

The international business of Federated Hermes (formerly Hermes Investment Management)

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/-6B21DA5B-2ACF-4416-8483-5456D8A95351/79894dbc337a40828d895f9402aa63de/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	✓	Public				
SG 13.5 CC	✓	Public				
SG 13.6 CC	✓	Public				
SG 13.7 CC	✓	Public				
SG 13.8 CC	✓	Public				
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.6 CC	✓	Public				
SG 14.7 CC	✓	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
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	The international business of Federated Hermes (formerly Hermes Investment Management)
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US$ 30 - 50 billion AUM
Main Asset Class	>50% Listed Equity Internally Managed
Signed PRI Initiative	2006
Region	Europe
Country	United Kingdom
Disclosure of Voluntary Indicators	98% from 38 Voluntary indicators

The international business of Federated Hermes (formerly Hermes Investment Management)

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.

We recognise that climate change presents serious risk to the world at large and to our business but it is equally important to understand that climate risks do not exist in isolation. They interact with other changes that are happening at the same time, such as the impact of technological innovation, urbanisation, globalisation, demographic lifestyle changes, consumer behaviour shifts and the catch-up in emerging markets.

As a result, our assessments do not sit in a standalone box, they are part of our fundamental view of value creation. As part of our integration of ESG issues into our investment processes and business strategy, we assess and model future ESG policy and regulatory changes and their impact on our investment strategies. This is based on our internal expert knowledge and insights from third party studies and data providers.

As part of this process, we assess the transition, physical and regulatory risks from climate change across all our investment products through qualitative analysis of market and regulatory framework and future trends.

We analyse physical risks at asset level through use of open source data and detailed asset level exposure analysis. We have mitigation and emergency action plans for our real assets.

Transition risks are assessed on a qualitative and quantitative basis using a pragmatic approach that acknowledges that there are issues with the amount and quality of data that is available.

We assess climate risks on how they will affect us in the short (0-2 years), medium (2-5 years) and long term (5 years and beyond), as set out in the table below. In the near term, regulatory risks and mandatory legislation are the biggest risks. As time goes on, new markets and opportunities will open up, but the risk of stranded assets increases and the physical impacts of climate change are likely to affect all sorts of different assets.

See our answer to SG 01.7 CC for more detail on the risks and opportunities we have identified over the short, medium and long term.

○ 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.

We analyse carbon and climate related risks across different timelines.

Short term - Risks that could cause impacts in 0-2 years from now; legal and regulatory risks. This includes regulatory changes and mandatory legislation affecting licence to operate or management practices in certain sectors or geographies.

Medium term - Risks that could cause impacts in 2-5 years from now; legal and market transformation risks. This includes regulatory changes and mandatory legislation affecting licence to operate in certain sectors or geographies; market-led changes, emerging new opportunities, obsolescence of certain products and services affecting certain sectors; and risk of stranded assets.

Long term - Risks that could cause impacts in 5 years and beyond; legal, market transformation risks and extreme weather events. In addition to the issues above, this include 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 disruption affecting large number of sectors; impact to infrastructure and real assets, ranging from business discontinuity costs, refurbishments and rebuilding costs, to obsolescence and destruction; and 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

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

We have a formal approach to climate-related risk and opportunities management, which integrates assessing and managing our exposure to climate-related risks and accessing 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.

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

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

Over the last four years, we have refined our approach based on our learnings and industry best practice and continued to implement it across our investment and stewardship activities, adapted to specific asset classes and investment strategies. We are now in the process of designing and implementing a strengthened climate strategy for 2020. As we deepen our understanding, we aim to further integrate climate change into our risk management systems, including through integrating scenario analysis into our existing processes and assessing Paris-alignment.

We have enhanced our proprietary ESG Dashboard, which allows our investment teams to access key ESG-related information on any company in their investment universe, to include more indicators on climate risks and opportunities in companies, using third-party data from Trucost and Sustainalytics as well as engagement insights from EOS at Federated Hermes' ('EOS'), our in-house stewardship provider.

Currently, we use the 2 Degrees Investing Initiative's PACTA tool for our scenario analysis, alongside the Transition Pathway Initiative Benchmarks, the Principles for Responsible Investment (PRI) scenario analysis tool, and the Science Based Targets (SBT) Assessments. Whilst each of these tools has limitations, including in their coverage, they help identify gaps and potential areas for greater engagement, and we supplement such tools with further work to examine both individual companies and how companies are responding to changing market dynamics.

Across public markets, EOS' engagement programme has identified climate as a specific engagement focus and is informed by the outcomes of the Carbon Tool. EOS has also 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

	specify

Climate-related financial disclosure report: https://www.hermes-investment.com/ukw/insight/corporate-news/climate-climate-related-financial-disclosures-report-2019/

☐ 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)

Investment Office

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Other role, specify (2)

Stewardship Team

☑ 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.

As per our ESG oversight/accountability, while the responsibility for implementing our approach resides with all our personnel, we have a number of structures and teams to ensure that we effectively discharge our stewardship responsibilities, including around climate change risks and opportunities.

Board members

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 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. The board and executive committee reviews our climate management approach on an annual basis and is informed on implementation progress through updates from the Head of Policy and Advocacy.

Chief Executive

Our Chief Executive has passionately led the development and implementation of our mission and responsibility goals. He has long been an advocate of change in the industry, having recently signed two agreements on behalf of the international business of Federated Hermes ('Federated Hermes') which focused on carbon pricing and carbon-risk disclosure following a two-day summit at the Vatican with the Pope.

Responsibility Office

Our Head of Policy & Advocacy chairs the Climate Change Working Group and is the climate change coordinator for Federated Hermes. She leads on implementation and delivery of our climate change strategy, reporting progress to the HFML Board and the Responsibility Working Group.

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

Portfolio managers and investment analysts

Each of our investment teams across all asset classes have formulated their own climate change management approach in the context of their particular strategy and investment universe. Each team is responsible for undertaking their own fundamental ESG research, including assessing climate risks and opportunities, and is accountable through the performance appraisal system for their part in delivering our mission.

Stewardship Team

Our stewardship team, EOS, boasts one of the largest stewardship resources of its kind in the world, representing £662 billion in assets as at 31st December 2019. The engagement programme has identified climate as a specific engagement focus. EOS has taken an active role in the Climate Action 100+ initiative, and leads on engagement with 27 companies, including BP, Centrica, Rolls Royce and AngloAmerican.

Climate Change Working Group

Our CCWG is made up of staff from across the business, including investment managers in public and private markets and representatives from the engagement, risk and sales and marketing departments. The group meets at least four times per year and is now focused on designing and implementing a strengthened climate strategy for 2020.

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

	Describe

Climate risks are part of the fundamentals of value creation and interact with others, such as the impact of technological innovation, globalisation, consumer behaviour shifts and the catch-up in emerging markets. We assess and model future ESG policy and regulatory changes and their impact on our investment strategies.

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

	Describe

We have a comprehensive process which includes scenario analysis. We are enhancing existing scenario analysis approaches to be meaningful for our investment processes across asset classes. Given the level of uncertainty around underlying assumptions, we are working towards a more dynamic assessment.

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

SG 13.2	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

	We do the following

☐ Allocation between asset classes

☑ Determining fixed income duration

☑ Allocation of assets between geographic markets

☑ Sector weightings

☐ Other, specify

☐ We do not consider ESG issues in strategic asset allocation

SG 13.3	Additional information. [OPTIONAL]

Allocation between asset classes is not a business activity which Federated Hermes carries out.

See 13.4 for more detail on our scenario analysis.

SG 13 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 13.4 CC	Describe how your organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, its results, and any future plans.

☑ Initial assessment

Describe

As part of our climate risk management, we are developing a comprehensive portfolio climate risk and opportunity management process. It covers carbon modelling tools, climate risk assessment, making sense of 1.5/2°C scenario analysis and impact to value. It also includes a dynamic approach to carbon footprinting that identifies concentrations of carbon risk in portfolios, the effect different carbon prices on valuations and tracks engagement activities. The overlap between our investment and engagement activities acts as a continuous positive feedback loop. We apply this approach to each asset class and we ensure that it is relevant to investors, portfolio managers and engagers and enables them to understand the key drivers of the transition, and challenge assumptions, either of companies or of third parties.

Fundamental research remains a key component of assessing transition risks in underlying assets, enabling us to assess whether dynamic strategies are in place to understand risks and manage the low carbon transition. But, as proprietary and market tools are currently limited in their sector coverage and corporate data availability, we are developing a suite of climate tools to measure and understand the risks in our portfolios and in individual companies.

In line with our commitments under the Montreal Pledge, we measure the carbon footprint of our investments across all relevant asset classes. We use data from various sources in order to understand a company's exposure to risks arising from climate change.

For listed equities and fixed income, we have been measuring portfolio-level carbon footprints since 2015 and we have developed a proprietary carbon tool that measures the GHG footprint of underlying assets and analyses trends and impacts of GHG pricing. The Carbon Tool allows fund managers to assess their fund's carbon performance, carbon risk, and corresponding engagements with investee companies in a comprehensive manner.

For real estate investments we have measured the physical risk exposure and the carbon footprint of our direct investments since 2006 and publish performance against carbon reduction targets annually.

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

Currently, we use the 2 Degrees Investing Initiative's PACTA tool, which has been trialled by over 200 institutional investors and used as part of collaborations with a number of financial supervisors, for our scenario analysis. The outputs provided in this report provide an analysis of the portfolio relative to an economic transition consistent with limiting global warming to 2°C above pre-industrial levels, as well as a comparison to peers.

Other tools that we are using include the Transition Pathway Initiative Benchmarks, the Principles for Responsible Investment (PRI) scenario analysis tool, and the Science Based Targets (SBT) Assessments.

☑ Incorporation into investment analysis

Describe

Our proprietary Carbon Tool assesses and integrates the following four key elements to evaluate the impact that investment funds have on the environment:

1. Measuring the carbon risk of an investment fund relative to its benchmark and of listed companies relative to their peers, including Scope 1, Scope 2 and Scope 3 emissions.
2. Calculating the profit 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 carbon 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.

The PACTA analysis provides answers to three questions:

5. What is the current exposure in the portfolio to economic activities affected by the transition to a low carbon economy?
6. Does the portfolio increase or decrease its alignment with the International Energy Agency's Sustainable Development Scenario (SDS) transition over the next five years?
7. What is the expected future exposure to high- and low-carbon economic activities?

The report and the tool have been useful for assessing risk in certain sectors (notably oil and gas, power and automotive), in particular for considering the time frames over which climate risks should be considered. However, the limitations of the data, including a lack of timeliness and coverage, also limit the usefulness of the reports. As a result, we take the view that while the tool works well in identifying gaps and potential areas for greater engagement, further work is required to examine both individual companies and how companies are responding to changing market dynamics.

Given the level of uncertainty and lack of understanding of underlying assumptions, we use scenario analysis with care, and are working towards a more dynamic assessment of risks. Our key finding is that deep engagement in the climate scenario analysis process is fundamental to understanding the low-carbon transition and applying it to both engagement and investment decision-making.

Whilst we do not discount the use of climate value-at-risk outputs from industry models, given the degree of uncertainty baked in, we see it as just one element of the story that is complemented by a deep fundamental analysis of trends and scenarios to achieve a full understanding of companies and their underlying progress.

☑ Inform active ownership

	Describe

We aim to bring all companies up to ESG and climate best practice through engagement. Through EOS, our stewardship service, which is one of the largest in the world, we represent £634 billion of assets and we engage with over 740 of the world's largest companies each year.

Stewardship through advocacy and corporate engagement is a crucial element of our climate change management approach. 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.

Assessing carbon risk through carbon foot printing and use of the tools described above is a key mean by which we choose our engagement targets. We use it to identify companies with which we should initiate or intensify carbon-focused engagement. We also use it to gauge the level of carbon risk within portfolios, visualised with our proprietary carbon tool, and the progress we have achieved through engagement.

EOS' engagement programme has identified climate as a specific engagement focus and is informed by the outcomes of the carbon tool. EOS has also taken an active role on the Climate 100+ initiative, see SG 14.9 CC.

☐ Other

SG 13.5 CC	Indicate who uses this analysis.

☑ Board members, trustees, C-level roles, Investment Committee

☑ Portfolio managers

☑ Dedicated responsible investment staff

☐ External managers

☐ Investment consultants/actuaries

☐ Other

SG 13.6 CC	Indicate whether your organisation has evaluated the potential impact of climate-related risks, beyond the investment time horizon, on its investment strategy.

◉ Yes

	Describe

Climate risks identification and analysis covers periods beyond investment horizons. We analyse long term risks that could cause impacts in 5 years and beyond, including legal and market transformation risks and extreme weather events. See SG 01.7 CC and SG 01.8 CC.

In real estate our carbon risks tools model value at risks and impact of carbon pricing over the lifetime of assets.

○ No

SG 13.7 CC	Indicate whether a range of climate scenarios is used.

☑ Analysis based on a 2°C or lower scenario

☐ Analysis based on an abrupt transition, consistent with the Inevitable Policy Response

☐ Analysis based on a 4°C or higher scenario

☐ No, a range is not used

SG 13.8 CC	Indicate the climate scenarios your organisation uses.

Provider	**Scenario used**
IEA	☑ Beyond 2 Degrees Scenario (B2DS)
IEA	☑ Energy Technology Perspectives (ETP) 2 Degrees scenario
IEA	☑ Sustainable Development Scenario (SDS)
IEA	☑ New Policy Scenario (NPS)
IEA	☑ Current Policy Scenario (CPS)
IRENA	☐ RE Map
Greenpeace	☐ Advanced Energy [R]evolution
Institute for Sustainable Development	☐ Deep Decarbonisation Pathway Project (DDPP)
Bloomberg	☐ BNEF reference scenario
IPCC	☐ Representative Concentration Pathway (RCP) 8.5
IPCC	☐ RPC 6
IPCC	☐ RPC 4.5
IPCC	☐ RPC 2.6
Other	☐ Other (1)
Other	☐ Other (2)
Other	☐ Other (3)

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)

Pollution and biodiversity

☑ Other, specify(2)

	other description (2)

Sustainable agriculture

☐ 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

	Specify the AUM invested in low carbon and climate resilient portfolios, funds, strategies or asset classes.

	trillions	billions	millions	thousands	hundreds
Total AUM			131	900	000
Currency	USD				
Assets in USD			131	900	000

	Specify the framework or taxonomy used.

The Low Carbon Strategy is a Global Equity Strategy that seeks to outperform the representative benchmark while avoiding companies that have material exposure to fossil-fuels or are highly carbon intensive, as well as companies that are engaged in unethical or unsustainable activities. We apply our experience integrating and analysing material ESG issues to identify companies that have good or improving ESG attributes alongside an attractive combination of fundamental investment characteristics. The strategy follows a style-agnostic integrated approach that applies systematic analysis combined with a fundamental overlay process.

☐ 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

☐ 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]

On top of mitigation activities, we are also working on being able to more accurately assess how our portfolios might be impacted by the physical risks of climate change impact.

SG 14 CC	Voluntary	Public		General

SG 14.6 CC	Provide further details on the key metric(s) used to assess climate-related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
Climate-related targets	☐ All assets ☐ Majority of assets ☑ Minority of assets	To achieve long-term carbon emissions reduction targets and annual operational targets for real estate	Absolute carbon emissions - tCO2 Carbon intensity relative to area - tCO2/m2 Absolute energy consumption - kWh Energy consumption relative to area - kWh/m2	Measure absolute and relative landlord-controlled Scope 1 and 2 carbon emissions from utilities in our Real Estate directly managed standard portfolio and relative emissions Carbon intensity relative to area reduced over time. Average of 9% operational like-for-like carbon emissions reduction every year since 2006. Absolute emissions have fallen 7% against the baseline. We are in the process of setting new targets for beyond 2020.
Weighted average carbon intensity	☐ All assets ☑ Majority of assets ☐ Minority of assets	To provide a proxy for assessing the exposure of our assets to carbon risk and compare with a fund's benchmark	tCO2 (metric tonnes) / company revenue in £m	We allocate the companies' carbon intensity based on the portfolio holding per each company as a share of the AUM. The carbon emissions data comes from Trucost. We track our WACI for our equity and credit portfolios, and compare our equity WACI with the MSCI world index. The limitations of this metric include that it is backwards looking and data is not available for all of our AUM.
Carbon footprint (scope 1 and 2)	☐ All assets ☑ Majority of assets ☐ Minority of assets	To provide a proxy for assessing the exposure of our assets to carbon risk.	tCO2 (metric tonnes) (Scope 1 and 2) per million invested (depending on the portfolio's base currency)	Depending on the nature of the portfolio's asset focus, we use either market capitalization or enterprise value as a measure of ownership. This is then normalized based on the portfolios' AUM. We track carbon emissions for equities, credit, and directly managed real estate. We have now undertaken GHG footprinting for 88% of our AUM. The carbon emissions data comes from Trucost, and the calculation takes into consideration the fund's ownership of each company as mentioned above. Real estate carbon emissions are measured directly at source from utility meter reads and billing and integrated into Real Estate sustainability data management system . Data is third party verified The limitations of this metric include that it is backwards looking and data is not available for all of our AUM.

Portfolio carbon footprint	☐ All assets ☑ Majority of assets ☐ Minority of assets	To provide a proxy for assessing the exposure of our assets to carbon risk and compare with a fund's benchmark.	tCO2 (metric tonnes) (Scope 1 and 2)	We use the market capitalisation ownership or enterprise value method for calculating the carbon footprint in total metric tonnes, depending on the nature of the portfolio's asset focus (equity of credit). . The carbon emissions data comes from Trucost, and the calculation takes into consideration the fund's ownership of each company Real estate carbon emissions are measured directly at source from utility meter reads and billing and integrated into Real Estate sustainability data management system . Data is third party verified We have now undertaken GHG footprinting for 88% of our AUM. Our proprietary Carbon Tool aggregates this information at a portfolio level and provides a comparison to the benchmark.
Total carbon emissions	☐ All assets ☑ Majority of assets ☐ Minority of assets	To provide a proxy for assessing the exposure of our assets to carbon risk and compare with a fund's benchmark.	tCO2 (metric tonnes)	Measuring total carbon emissions for public equities, credit, and directly managed real estate. This allows us to compare the carbon footprint with a fund's benchmark. Total metric tonnes. This is weighted by size of the portfolio's holding in each company. The carbon emissions data comes from Trucost, and the calculation takes into consideration the Fund's ownership of each company depending on the asset type. Real estate carbon emissions are measured directly at source from utility meter reads and billing and integrated into Real Estate sustainability data management system. Data is third party verified. We aggregate this information to use in calculations of the WACI of our equity holdings compared to the MSCI World Index.
Carbon intensity	☐ All assets ☑ Majority of assets ☐ Minority of assets	To provide a proxy for assessing the exposure of our assets to carbon risk and compare with a fund's benchmark.	tCO2 (metric tonnes) / company revenue in £m sales (depending on the portfolio's base currency)	Carbon intensity (carbon emissions in tCO2 / company revenue). The carbon emissions data comes from Trucost, and the calculation takes into consideration the Fund's ownership of each company Real estate carbon emissions are measured directly at source from utility meter reads and billing and integrated into Real Estate sustainability data management system. Data is third party verified.

Exposure to carbon-related assets	☐ All assets ☑ Majority of assets ☐ Minority of assets	To understand exposure to carbon risk and identify carbon-related assets to inform investment decisions and engagement.	tCO2 (metric tonnes) Percentage contribution per company to the fund's total carbon footprint	We identify the highest emitters in public equity funds and attribute the fund's carbon footprint to stock selection or industry exposure. This includes calculating each company's contribution to the fund's total carbon footprint as a percentage. We track our exposure to carbon intensive sectors in shareholder and participating funds. The carbon emissions data comes from Trucost.
Other emissions metrics	☐ All assets ☑ Majority of assets ☐ Minority of assets	Measuring Scope 3 emissions and carbon efficiency for public equities to provide a more complete picture of each fund's carbon emissions.	Scope 3 emissions - tCO2 (metric tonnes), Number of companies YoY difference, 5Y difference % above/below peers	We track absolute metric tonnes for Scope 3 emissions We identify outliers (across Scope 1,2 and 3), considering historical evolution and comparison with peers Carbon efficiency (Scope 3 emissions / mln USD invested) Carbon intensity (Scope 3 emissions / company revenue) These figures are weighted by size of the portfolio's holding in each company. The carbon emissions data comes from Trucost, and the calculation takes into consideration the Fund's ownership of each company Real estate scope 3 emissions are estimated by a third party consultant.

SG 14.7 CC	Describe in further detail the key targets.

Targettype	Baseline year	Target year	Description	Attachments
☑ Absolute target ☐ Intensity target	2006	By 2020	Reduce absolute carbon emissions (tCO2) by 40% for landlord controlled directly managed portfolio (scope 1/2) aligned with European 2020 carbon targets.	File 1:tcfd-report-hermes-19.pdf File 2:bd004122-hermes-rpi-report-2019.pdf
☑ Absolute target ☐ Intensity target	2006	By 2020	Reduce 5% year-on-year the absolute carbon emissions (tCO2) and total energy consumption (kWh) of our directly managed portfolio, adjusted for weather on a like-for-like basis.	
☐ Absolute target ☑ Intensity target	2006	By 2020	Reduce carbon intensity (tCO2/m2)for our landlord controlled directly managed portfolio (scope 1/2) by 40% aligned with European 2020 carbon targets.	
☐ Absolute target ☑ Intensity target	2006	By 2020	Reduce by 5% year-on-year the annual carbon emissions and the energy intensity (kWh/m2) of our directly managed portfolio.	
☐ Absolute target ☐ Intensity target				

SG 14.8 CC	Indicate whether climate-related risks are integrated into overall risk management and explain the risk management processes used for identifying, assessing and managing climate-related risks.

◉ Processes for climate-related risks are integrated into overall risk management

	Please describe

We manage climate-related risks as part of our overall investment risk management processes, integrating them in ways that are relevant to our different asset classes. Each asset class and investment strategy is different and has its own requirements and characteristics.

We carry out materiality assessments, taking into account our client mandates and the relevant regulatory environment.

We provide specific and focused training and education opportunities to the investment teams to ensure that they have a clear understanding of the change that is coming and access to the latest insights on market transition.

The Responsibility Office holds regular seminars, which feature leading thinkers on a range of relevant responsible investment topics. This series is open to everyone across the business. They are of particular interest to members of our investment teams and EOS engagement teams, but given the primacy of climate change, ESG and other sustainability topics as issues for a growing number of global asset owners, they are also relevant everyone across the wider business.

Topics and contributors have included 'Big Oil and the Energy Transition' by Deutsche Bank Research, 'The Power of Insurance Analytics to Price Physical Climate Risks in Asset Valuation' by Willis Tower Watson and 'Crude Awakening' by E3G.

Public markets

Climate change is an increasingly important issue for public markets and listed companies. Vast investment in renewable energy is needed within the power system, in transport and in heating and cooling. At the same time, all sectors of the economy need to decarbonise, a task that will be harder for some companies than others. Companies that fail to reduce their emissions and reliance on fossil fuels face significant dislocations and the possibility of assets becoming stranded because of tighter regulation and reduced consumer demand.

We mitigate climate risks and tap into the opportunities from the climate transition in a number of ways including through stock picking for real assets, dedicated impact products, ESG and climate strategies seeking assets specifically delivering the climate transition.

For example, under our Energy Transition theme, we invest in offshore wind, which is particularly attractive as its costs continue to fall, thanks to improving technologies and its potential to facilitate grid decarbonisation at scale.

We have also launched three strategies that explicitly link to the SDGs, encompassing tackling climate change as one of their goals.

- Impact Opportunities
- SDG Engagement Equity
- SDG Engagement High Yield Credit

Our Stewardship practices are also a key part of how we manage climate-related risk - see 14.9 for more detail.

Private Markets

Across private markets, which for the international business of Federated Hermes includes real estate, infrastructure, private equity and private debt, our strategies cover sectors that lend themselves more naturally to innovative opportunities arising from the low-carbon transition. We use our rights and leverage as owners or shareholders of those assets and companies in which we are invested to influence practice and strategy.

See 13.4 for more detail on how this approach works in practice across public and private markets.

○ Processes for climate-related risks are not integrated into overall risk management

SG 14.9 CC	Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake active ownership activities to encourage TCFD adoption.

◉ Yes

	Please describe

Stewardship through advocacy and corporate engagement is a crucial element of our climate change management approach. 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.

EOS engagement programme has identified climate as a specific engagement focus and is informed by the outcomes of the carbon tool.

EOS has also taken an active role on the Climate 100+ initiative. Climate Action 100+ is a major initiative representing 370 global investors with $35 trillion of assets management 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 GHG emitters, which account for two thirds of global industrial emissions every year. The initiative engages with a further 60 or so companies that have a significant opportunity to drive the clean energy transition. EOS is leading or co-leading the engagement on 27 companies.

The engagement agenda has three areas of focus. Firstly, it aims to secure commitments from companies that they will implement a strong governance framework. Secondly, companies must take action to reduce GHG emissions and align their business models to the goals of the Paris Agreement. Thirdly, they must provide better disclosure in line with TCFD recommendations, so investors can better understand the inherent risks that climate change poses to their portfolios.

The initiative, which is scheduled to last five years, has had some notable success. Significant progress has been seen across a range of industries, many of which are among the most challenging to decarbonise. Examples of focus companies making substantial net zero commitments over just the past seven months alone include; Heidelberg Cement, Duke Energy, Nestle, Daimler, VW, Thyssenkrupp, ArcelorMittal, BHP Billiton, Centrica and Saint-Gobain.

Advocacy

Below are some examples of our advocacy on climate risks.

- We contributed to the Green Finance Strategy (through our work on the Green Finance Taskforce), which has stated that TCFD disclosures will become mandatory for Asset Owners and large listed companies in 2022.
- We were among the signatories of a letter to Theresa May, the Prime Minister, calling for a 2050 net zero carbon target, which the UK has now adopted as a policy, with cross party support.
- We have been instrumental in creating a positive coalition of industry players supporting the development of EU rules on ESG and climate-related investor disclosure and a strengthened UK Stewardship Code.
- We are part of a group of investors who have engaged with the Big Four audit firms asking them to explicitly incorporate climate considerations into the audit of companies that are materially exposed to transition risks through decarbonisation and will now be engaging with the Audit Committees of companies deemed to be particularly exposed to transition risk.

○ No, we do not undertake active ownership activities.

○ No, we do not undertake active ownership activities to encourage TCFD adoption.

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.

	%

3.21

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

SDG Engagement Equity; Impact Opportunities Equity; Low Carbon Global Equity; SDG Engagement High Yield Credit

	Asset class invested

☑ Listed equity

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

2.53

☐ Fixed income - SSA

☑ Fixed income - Corporate (financial)

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

0.18

☑ Fixed income - Corporate (non-financial)

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

0.5

☐ Fixed income - Securitised

☐ Property

	Brief description and measures of investment

Our investments in our Impact Opportunities strategy are aligned with nine impact themes that are aligned with the 169 targets underlying the 17 SDGs. Our impact themes are the result of careful, continuous research into global sustainability challenges and the unmet needs these create. We believe that these unmet needs provide tremendous growth opportunities for companies able to provide disruptive solutions through innovative and cost-effective products/services. We have therefore developed our own impact themes to address these unmet needs; Water, Food Security, Health & Wellbeing, Education, Financial Inclusion, Future Mobility, Impact Enablers, Energy Transition and Circular Economy.

https://www.hermes-investment.com/ukw/insight/equities/impact-report-q4-2019/

The Federated Hermes SDG Engagement Equity Strategy aims to generate attractive investment returns and positive societal and environmental impacts through engagements with companies focused on the SDGs. We believe that there are compelling opportunities to create such change and value among smaller companies whose operations and supply chains provide rich potential for improvement and the direct access to management required for successful engagement.

https://www.hermes-investment.com/ukw/wp-content/uploads/2020/03/bd004867-sdg-engagement-equity-2019-annual-report-v2.pdf

In September 2019, we launched SDG Engagement High Yield Credit, which aims to outperform the global high-yield market through high-conviction investment in companies with strong fundamentals that also demonstrate the potential, through engagement, to create positive change.

○ No