

Engagement Report H1 2024

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2024 H1 Engagement Report

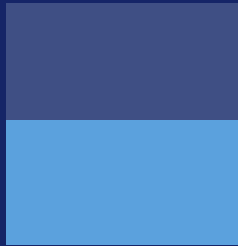
Federated Hermes SDG Engagement Equity H1 2024 highlights

95 Engagement actions carried out in H1 2024

89% of portfolio companies were engaged



49% of companies made progress with objectives



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Purposeful engagement is arguably a mechanism through which investors can encourage their investee companies.

In H1 2024, our engagements were focused proportionately:



The most intensively engaged Sustainable Development Goals (SDGs) were:



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While sentiment may ebb and flow over time, there is no doubt that the future will be green – by necessity.

Total meetings voted: **46**

Number of meetings voted against management on at least one resolution as part of efforts to achieve SDGs: **29%**

Engagement introduction H1 2024



Will Pomroy Lead Engager

Rumours about the death of ESG have been grossly exaggerated

The SDG Engagement Equity fund has been seeking long-term capital appreciation alongside positive societal impact since 2018.

In 2019, the Business Roundtable, an association of America's leading companies' CEOs, radically redefined its statement of the Purpose of a Corporation to include a "fundamental commitment to all our stakeholders" – which included everyone from customers, employees, suppliers and communities to shareholders. It was signed by 181 CEOs.

Fast forward five years. Environmental, social and governance (ESG) fund flows have plateaued (reversing in the US while staying modestly positive in Europe, according to Morningstar¹). A number of articles have suggested the ESG trend has run its course.

On top of this, the United Nations (UN) Sustainable Development Goal 2024 report sets out how progress on nearly half of the SDG targets are showing minimal or moderate progress, and progress on over one third has stalled or gone in reverse.²

Just


17% of the SDG targets are on track at the half-way stage

It is certainly true that anti-ESG sentiment has heightened scrutiny of companies and investors alike. Moreover, some of the scepticism is deserved. It has, in many ways, encouraged an awakening and a maturing of the market – a development which should ultimately be welcomed.

As responsible investors, it's important that all the sustainability claims we at Federated Hermes Limited (FHL) make are credible and we focus on the issues that matter. The same should be expected of companies. In practice, the ESG topics that were material to long-term value creation back in 2018 are likely to be even more material in 2024.

Among the values that the 'ESG' acronym stands for – such as being a good steward to the planet, treating employees equitably, ensuring supply chains operate ethically, and making sure boards oversee their responsibilities properly – remain deeply important to consumers, shareholders and regulators alike.

While sentiment may ebb and flow over time, there is no doubt that the future will be green – by necessity. To get there, substantial investments will need to be made and many manufacturing processes and product designs will require an overhaul.



While sentiment may ebb and flow over time, there is no doubt that the future will be green – by necessity.

¹ Global Sustainable Fund Flows: Q2 2024, Morningstar

² The Sustainable Development Goals Report, 2024.



In some instances, the technologies needed to decarbonise are readily available, but significantly faster rates of deployment are required.

In other cases, such technologies are not commercially viable at the present time and will require cross-industry collaboration to trial, develop and scale. In both scenarios, a concerted focus is required today if we are to effectively utilise these technologies tomorrow.

Similarly, while diversity, equity and inclusion (DEI) topics have become politically contentious in some parts of the world, the reality remains: populations in developed markets are ageing and skills gaps are growing.

In the meantime, the Covid-19 pandemic and subsequent cost-of-living crisis have exacerbated a range of pre-existing social inequalities.

In light of these many challenges, the need has grown for companies to:

- a) maximise the pool of talent they recruit from, and
- b) invest in the development of the talent at their disposal.

In an economy increasingly dominated by intangible value, it's important to remember that human capital remains one of the few appreciating assets available to any company.

The UN SDG progress report cited earlier should sound alarm bells – and we should collectively hear and respond to them.

Our focus remains consistent: to deliver on our dual objectives of strong investor returns and positive impact. Moreover, we remain more convinced than ever that

these dual objectives are not competing, and are mutually supportive.

Building on progress

We thank our investors for entrusting us with their capital. We strongly believe in the benefits of active management, both in the sense of actively choosing where to invest and in the sense of being directly engaged with those companies in which we do invest.

To re-orientate our economies, we believe it is necessary to work with a wide range of companies. Change is not straightforward, it takes time, and it is rarely linear. However, through ambition and perseverance, we are confident we can collectively play our part.

Through this report we provide colour on the ongoing, mostly constructive, dialogues we have been having with our investee companies. We hope you enjoy reading our activity overview for H1 2024 and welcome feedback as we seek to raise our own ambitions as well as those of the companies in which we invest.

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Climate transition and engagement

The scale of the challenge posed by climate change is now well documented. We know that last year was by far the warmest on record³ and the UK Met Office forecasts the global temperature for 2024 to be potentially warmer still⁴.

Meeting the goals of the 2015 Paris Agreement will require big changes in the economy to significantly reduce global greenhouse gas (GHG) emissions. It will require putting the climate at the forefront of economic models in the decades ahead. Many companies may need to transition their business strategies to reduce GHG emissions in line with regulatory frameworks and many investors can play their part in supporting these changes.

Success requires a combination of pragmatism, patience and perseverance.

More than 325 asset managers representing over US\$57tn of assets have signed up to the Net Zero Asset Managers initiative – and Federated Hermes Limited is among them⁵. Within public equities, investors can adopt varying approaches:

- i) Excluding high emitters and investing in companies that generate 'green' revenues.
- ii) Shifting investments from higher- to lower-emitting companies within sectors.
- iii) Engaging with portfolio companies to catalyse and accelerate implementation of decarbonisation strategies.

In the first two approaches listed above, the investors' emissions – in terms of their carbon footprint – should reduce, but overall real-world emissions will remain unchanged.

In the third approach listed, portfolio emissions may be higher for longer, but real-world emissions should over time reduce.

One can characterise low emissions portfolios as meaning that, at best, the investor will have a clean portfolio in a dirty planet.

The first set of approaches, where portfolios are tilted towards sectors with relatively lower emissions, may be fully de-linked from real-world decarbonisation. There is a risk that with portfolio carbon footprint metrics gaining more attention, we reward actions that ultimately make little real difference.

- Many sectors that are currently high emitters are crucial to enabling the green transition.
- Most real economy emissions reductions will come from currently high-emitting companies.

We need to get our hands dirty

There is self-evidently a significant need for primary capital allocation to support the growth and scaling of innovative technologies. In the case of public equities, there is a benefit to lowering the cost of capital for such companies, however, in many situations the additionality delivered through secondary market investing may be questionable.

Purposeful engagement is arguably the principal mechanism through which investors can encourage their investee companies. This still has caveats, namely:

- a) Recognising that not all companies and industries will be receptive to engagement. Many of the highest emitting sectors will still exist, and likely remain vitally important, in a net-zero economy. Others will not. Therefore, engagement should take a realistic and consultative approach.
- b) Success requires a combination of pragmatism, patience and perseverance. Change worth seeking is worth waiting for. Change, however, typically requires capital expenditure and results will not be immediate. Patience and support are needed.
- c) What matters most are the emissions reductions rather than the establishment of policies and targets. That is not to suggest that the latter are unimportant. Targets frame the decarbonisation strategy and enable accountability. However, we should avoid focusing disproportionately on form over substance.

The IEA's Tracking Clean Energy Progress report⁶ assesses the progress towards the Net-Zero-Emissions-by-2050 scenario across 50 components. Of these, it suggests only solar PV, electric vehicles and lighting in buildings is on track. Furthermore, the reports note that industries such as chemicals and cement are off-track as is transport and the development and adoption of low-emission fuels.



³ NOAA's National Centers for Environmental Information (NCEI).

⁴ 2024: First chance of 1.5 °C year – Met Office.

⁵ **The Net Zero Asset Managers initiative** is an international group of asset managers committed, to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. **Federated Hermes Inc., the US-based parent company of Federated Hermes Limited., is not a member of the Net Zero Asset Managers initiative.**

⁶ Tracking Clean Energy Progress 2023 – Analysis – IEA.

Our approach – higher emissions today for lower emissions tomorrow

By selecting companies that are higher emitters today, but that can improve, we set out not only to drive emissions reductions in the strategy over time, but to create change in the real world.

It is clear that shifting to low-emissions portfolios will not achieve the ultimate goal of real-world emissions reductions. Working with the higher emitters is, in our view, a far more effective way to bring about the change we need.

Reflecting on the need to focus investment stewardship towards those parts of the economy that have the greatest need to accelerate development of decarbonisation strategies, the Federated Hermes SDG Engagement Equity strategy has been structurally overweight energy intensive industries since inception.

We also recognise, however, that engagement with certain sectors must also be accompanied by regulatory changes and shifts in customer demand to result in meaningful progress.

As of July 2024, the strategy is meaningfully overweight Industrials and Materials.

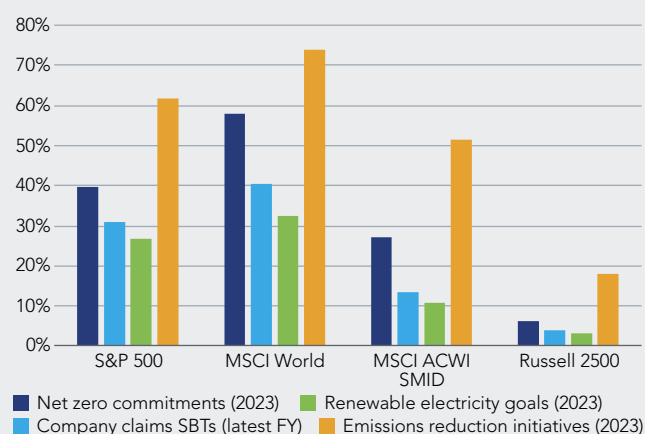
We are looking for companies that have an ongoing role in a low-carbon economy, but which can benefit from engagement to embolden and accelerate their green transition as well as enhance their efforts to communicate their strategy – and the execution thereof – to the market.

We believe that, through our engagement, we can help expedite emissions reductions, and that this will enhance the resilience – and sustainable future success – of the investee companies.

Focusing on SMIDs

In addition to focusing on higher emitting industries, the strategy is also SMID-focused because this area of the market has the greatest potential for improvement. As evidenced below, fewer small- and mid-cap (SMID) companies set net-zero goals than larger companies.

Figure 1: Corporate climate target setting⁸



Source: Bloomberg, July 2024.



CASE STUDY

THIS CASE STUDY WAS APPROVED BY EAGLE MATERIALS.

Eagle Materials

Eagle Materials is the second-largest domestic-only US cement producer – producing approximately 6% of total US clinker⁹ capacity¹⁰.

The issue

Cement is the key ingredient in concrete, which is the world's most common building material. It is also the most used material in the world after water. Unfortunately, however, cement manufacturing is inherently carbon intensive.

According to the IEA, the sector will need to reduce annual CO₂ intensity by 4% through to 2030 if it is to get on track with the Net-Zero-Emissions-by-2050 (NZE) scenario. Measures to reduce emissions include the reduction of the clinker-to-cement ratio through the adoption of supplementary cement materials (SCMs), the adoption of low-carbon fuels, and the capture of residual CO₂ emissions.

The engagement

We have engaged with Eagle's management more than 20 times since 2018. The company has not, as yet, set science-based emissions reduction targets and those targets it has

set are, we believe, far too conservative. However, Eagle is taking steps to reduce its clinker content, including scaling supply of low-carbon supplementary cementitious material. Likewise, it is allocating capital to improve the efficiency of its plants. This includes the US\$430m announced in May 2024 for its Wyoming based plant which will bring about a 20% reduction in carbon intensity during production. Finally, the company is collaborating with Chart Industries (in which we are also invested) to pilot its Cryogenic Carbon Capture technology – a technology that has the potential to reduce emitted carbon emissions by 90-99%¹¹.

Outlook

Eagle Materials has taken a number of positive steps, but a marked improvement is still required – in terms of its own production and across the industry at large – if this essential commodity is to support rather than hinder national and global efforts to achieve net-zero emissions.

⁷ On a scope 1 and 2 basis.

⁸ Data obtained from Bloomberg, July 2024 for the periods stipulated.

⁹ **Clinker** is the backbone of cement production. It is essentially a mix of limestone and minerals that have been heated in a kiln and have been transformed by this heat.

¹⁰ Company reports.

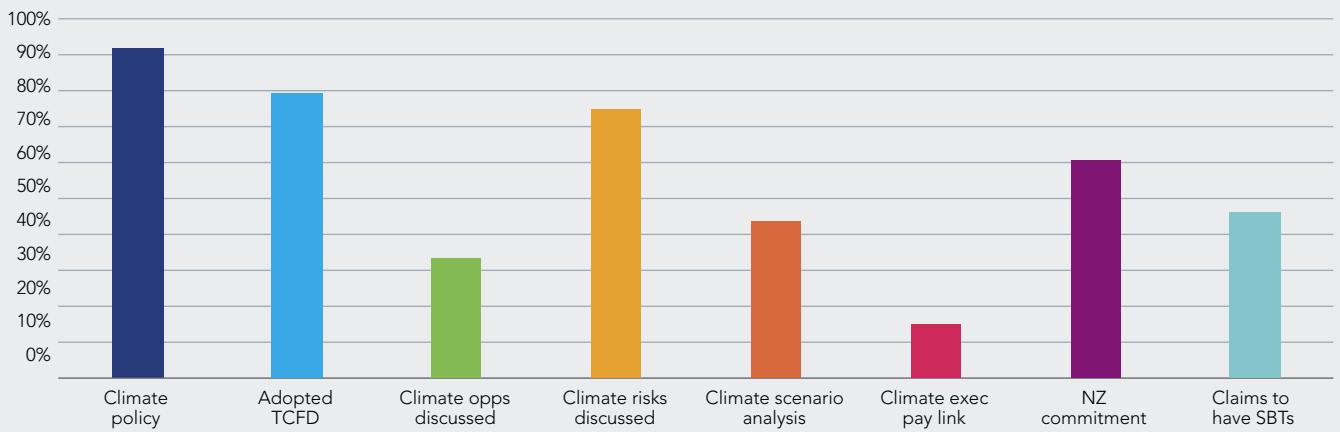
¹¹ Eagle Materials press release.

Progress

Pleasingly, when looking at our portfolio today¹², we can reflect on the progress made with many of our more carbon intensive holdings. Equally, we are very cognisant that much more needs to be achieved. For this reason, our climate-orientated engagement focus with these holdings will remain a priority and our expectations of them will increase.

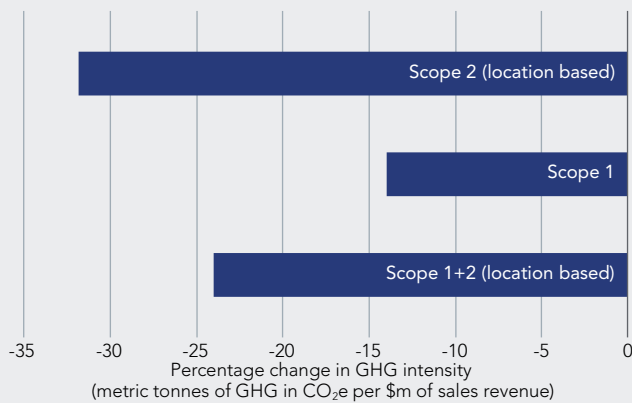
In addition, reflecting on the progress made with some businesses, we continue to look for fresh investment opportunities which present the twin potential for generating investment returns and meaningful emissions reductions – the latter over the long-run reinforcing the potential for the former.

Figure 2: Proportion of portfolio companies today meeting various expectations



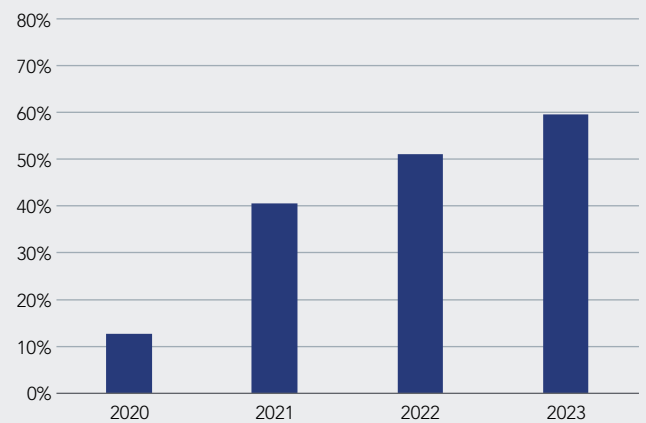
Source: Company reports/Federated Hermes Limited.

Figure 3: SDG Engagement Equity – median three-year GHG intensity reduction



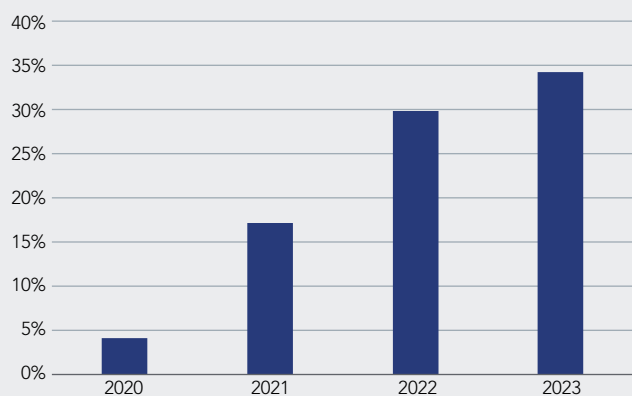
Source: Company reports/Federated Hermes Limited.

Figure 4: Net-zero targets among names held three-plus years



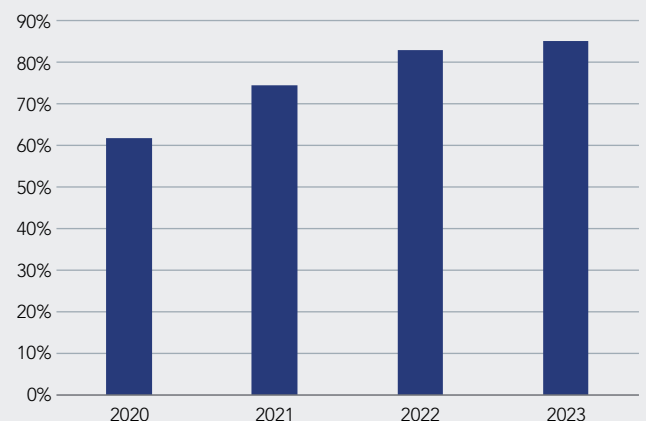
Source: Company reports/Federated Hermes Limited.

Figure 5: Science-based targets among names held three-plus years



Source: Company reports/Federated Hermes Limited.

Figure 6: Climate policy among names held three-plus years



Source: Company reports/Federated Hermes Limited.

¹² Data obtained from Bloomberg, July 2024.

Mental health-focused engagement



Lucy Revill Engagement Manager

The context

The Covid-19 pandemic, the cost-of-living crisis, and an increase in economic uncertainty – coupled with limited mental health support – have led to a rise in mental health problems in many countries around the world.

As we highlighted in our 2023 H1 report, there is a compelling argument that company management should prioritise employee mental health on an economic basis – as well as a moral one.¹³

In England alone, the financial loss linked to mental health is estimated to exceed £110bn every year because of factors such as staff turnover, presenteeism¹⁴, economic inactivity and sickness absence.¹⁵

In contrast, recent research suggests that companies with a more supportive work culture can outperform a comparative benchmark by 2-5% over a 20-year period.¹⁶

Here, legislation has a role to play. In France, a law introduced in 2017 gives employees the 'right to disconnect' from their job and ignore work-related emails and calls outside office hours. In the UK, the new Labour government plans to introduce similar guidelines as part of efforts to improve workers' rights.

Meanwhile, through our engagement, we seek to encourage practices that promote employee wellbeing and contribute to a positive workplace culture.



The benchmark

Back in 2023, we pledged to ask management about mental health in the workplace. Since then, we have researched evidence-led initiatives, undertaken an extensive benchmarking exercise and commenced engagement with companies where employee mental health is material.

Our initial review of company disclosures indicated that the most common practices included provision of employee assistance programmes (EAPs), counselling services, stress management training and measures to promote a healthy lifestyle. However, research from the University of Oxford suggests that the benefit of such measures may be limited.¹⁷

In early 2024, we undertook two benchmarking exercises across all of the companies in the strategy, using an external benchmark methodology as a baseline. Following this, we developed our own evidence-based benchmark, which narrowed down the criteria, and focused on the companies where we felt the challenges related to mental health could be particularly material (companies which rely on frontline workers, for example).

We also reviewed annual reports and websites to find out how many of the companies met some or all of the following criteria.

- Existence of visible leadership at the highest level (through a statement or actions by the CEO);
- Whether the company had an EAP so employees have access to employer-funded counselling;
- Whether the company has line manager training on mental health (or mental health first aider training);
- Whether the company measures, or has some kind of KPI system in place, to assess the progress of its wellbeing programme;
- Whether the company has a specific mental health policy;
- Existence of documented acknowledgement of a link between financial wellbeing and mental health.
- Whether an organisation can do more than simply conduct an engagement survey to measure culture and engage with employees from a top-down level.

We chose these criteria – with their emphasis on organisational change – with care. This is because workplace mental health interventions often seek change at the individual behavioural level, despite formal recommendations¹⁸ and evidence supporting the effectiveness of organisational change and work redesign on improving worker wellbeing.¹⁹

¹³ Evidence from Deloitte shows for every £1 put into mental health by employers, there is a £5 return on investment. Deloitte (2022), 'Mental health and employers: the case for investment – pandemic and beyond', online at www2.deloitte.com/content/dam/Deloitte/uk/Documents/consultancy/deloitte-ukmental-health-report-2022.pdf

¹⁴ **Presenteeism** refers to the lost productivity that occurs when employees are not fully functioning in the workplace because of an illness, injury, or other condition. Even though the employee may be physically at work, they may not be able to fully perform their duties and are more likely to make mistakes on the job.

¹⁵ Federico Cardoso and Zoe McHayle (2024), 'The economic and cost of mental ill health: review of methodology and update of calculations.' Online at https://www.centreformentalhealth.org.uk/publications/the-economic-and-social-costs-of-mental-ill-health/www.centreformentalhealth.org.uk/wp-content/uploads/2024/03/CentreforMH_TheEconomicSocialCostsofMentalIllHealth-1.pdf

¹⁶ Edmans, Alex, 'Grow the Pie', Cambridge University Press (2020).

¹⁷ Flemming, William J. 'Employee well-being outcomes from individual-level mental health interventions: Cross-sectional evidence from the United Kingdom', *Industrial Relations Journal*, Vol 5, Issue 2, pp 162-182, (2024) online at <https://onlinelibrary.wiley.com/doi/10.1111/irj.12418>, retrieved 20 June 2024.

¹⁸ National Institute for Health and Care Excellence (NICE). (2022). Mental wellbeing at work (NICE Guideline NG212).

¹⁹ Fox, K. E., Johnson, S. T., Berkman, L. F., Sianoja, M., Soh, Y., Kubzansky, L. D., & Kelly, E. L. (2022). Organisational- and group-level workplace interventions and their effect on multiple domains of worker well-being: A systematic review. *Work & Stress*, 36(1), 30–59.



Many of the management teams we have spoken to have made it clear that employee mental health has become a priority.

Hence, our benchmark compared only evidence-backed initiatives that focused on changing the workplace and culture, and excluded those initiated by a worker themselves (such as stress training or meditation apps).

Subsequently we wrote to approximately half of our investee companies – which we assessed as having higher risk regarding workplace mental health for employees, setting out our engagement thesis.

The response

As of H1 2024, we have had an 80%²⁰ response rate, indicating a readiness to talk about mental health. While some companies responded with a summary of their existing programmes, many others sought out a constructive dialogue with us on the topic.

This year we have had dozens of conversations with management at investee companies, allowing us to develop further insights and helping us build a more detailed picture – which we have used to update our benchmark.

It's reassuring to witness the curiosity and enthusiasm many of our holdings have for this topic. Companies offered top senior leaders to speak to us, such as the CEOs from Chart Industries, Burckhardt Compression and Aalberts and the chief human resources and people officers from Aptar, Breedon and PTC. It is clear that many companies are doing more than simply paying lip service to the issue, and are making changes that meaningfully affect employees.

We believe that emotional resilience is closely linked to other issues that the SDG Engagement Equity strategy continues to raise – such as paying a living wage.

At the end of the day, there's no point in offering employees' wellbeing benefits if they are working in a poor environment or are under constant work-induced stress.

It is one of the reasons we suggested to Finnish food packing group Huhtamaki that it look into offering income advance schemes to its workers (as other holdings have done). The benefit enables an employee to access a portion of their pay

cheque for the upcoming month in advance to help address any short-term financial pressures, without affecting their credit file. The benefit helps many employees avoid relying on high-interest credit. According to research, users of this benefit reduce their reliance on credit and debt products while employers see a reduced number of leavers and an increase in employee engagement.²¹

The benefit has been introduced at a number of our holdings and executives have expressed their surprise to us at the higher-than-expected uptake, indicating the economic challenges that many employees are facing.

Future focus

At the conclusion of this calendar year, we will review the results of the benchmark and analyse the information our engagements have uncovered. We will also assess whether there has been a step change since the commencement of our engagement. We acknowledge, however, that investor engagement is not a quick fix, and our work will not stop there.

We intend to keep building on this theme and establish practicable asks borne out of reasonable expectations, as well as geographic realities.

We will also look in more detail at a company's employee value proposition, including the relative generosity of the benefits it offers. For example, how much paid annual leave is taken in Japan or made available in the US? Is paid parental leave available and is it taken? We will also deepen our discussions with management to indicate our support for organisational-level initiatives such as improvements in management practices, scheduling changes or available staff resources.

We have been encouraged by the strong start to this engagement theme. Many of the management teams we have spoken to have made it clear that employee mental health has become a priority. Nonetheless, we are aware that we are at the beginning of a process and we look forward to drawing further conclusions in the 2024 annual report.

²⁰ While we also wrote to other companies outside our portfolio, this number is specific to SDG Engagement strategy holdings.

²¹ Wage Stream White Paper, 'Unlocking the Pay Cycle Wagestream' (2023), <https://wagestream.com/en/resources/financial-wellbeing-research-whitepaper-unlocking-the-pay-cycle>, retrieved on 8 August 2024.

Engagement in numbers



Figure 7: Proportion of engagement actions (H1 2024)

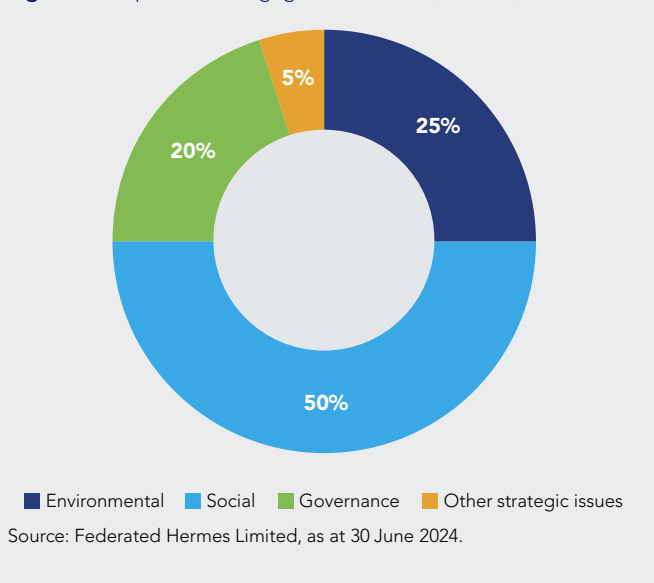


Figure 8: Split of social objectives and issues engaged (H1 2024)

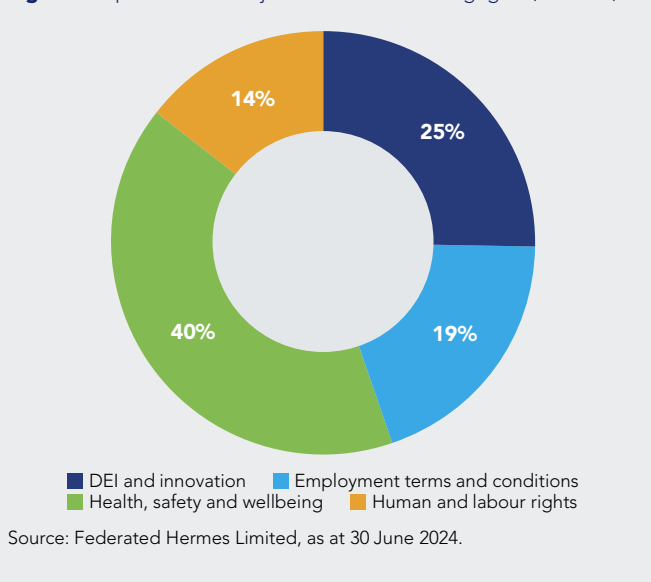
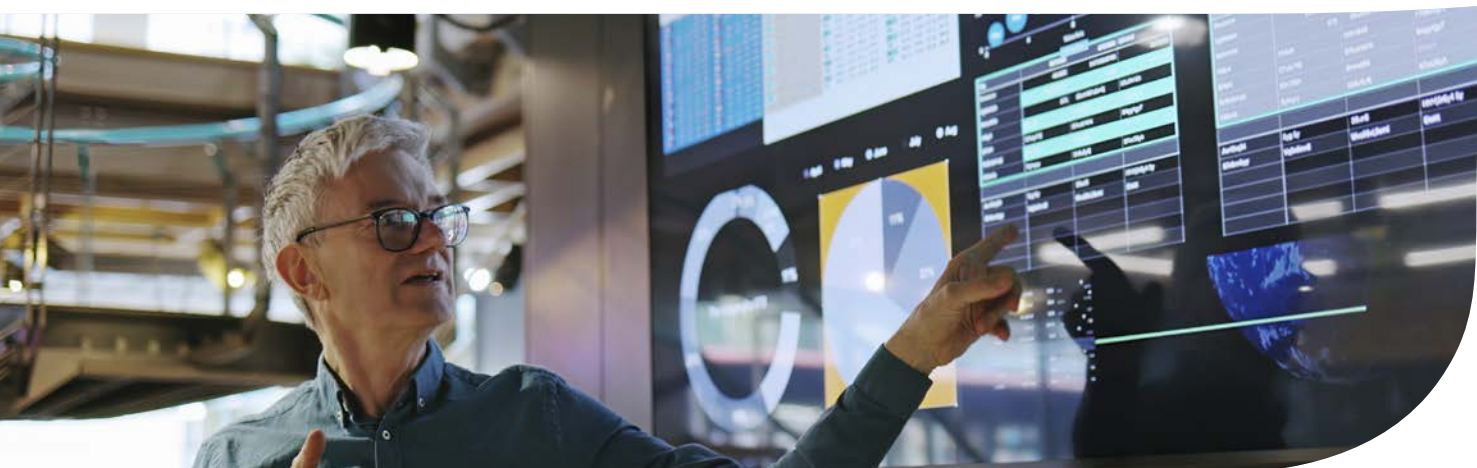
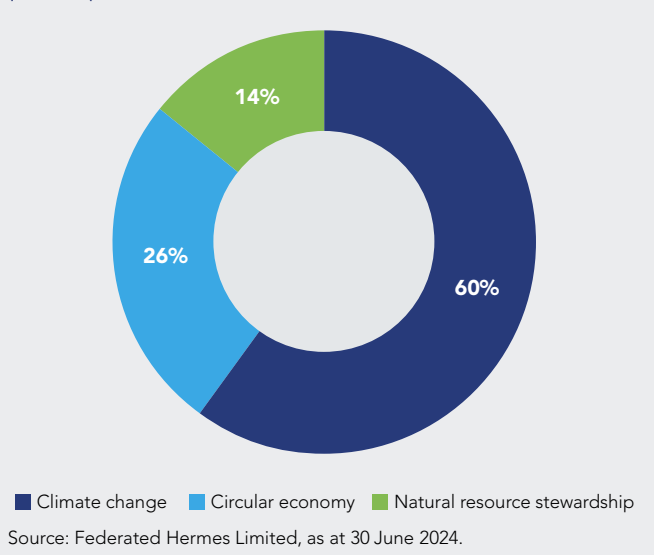


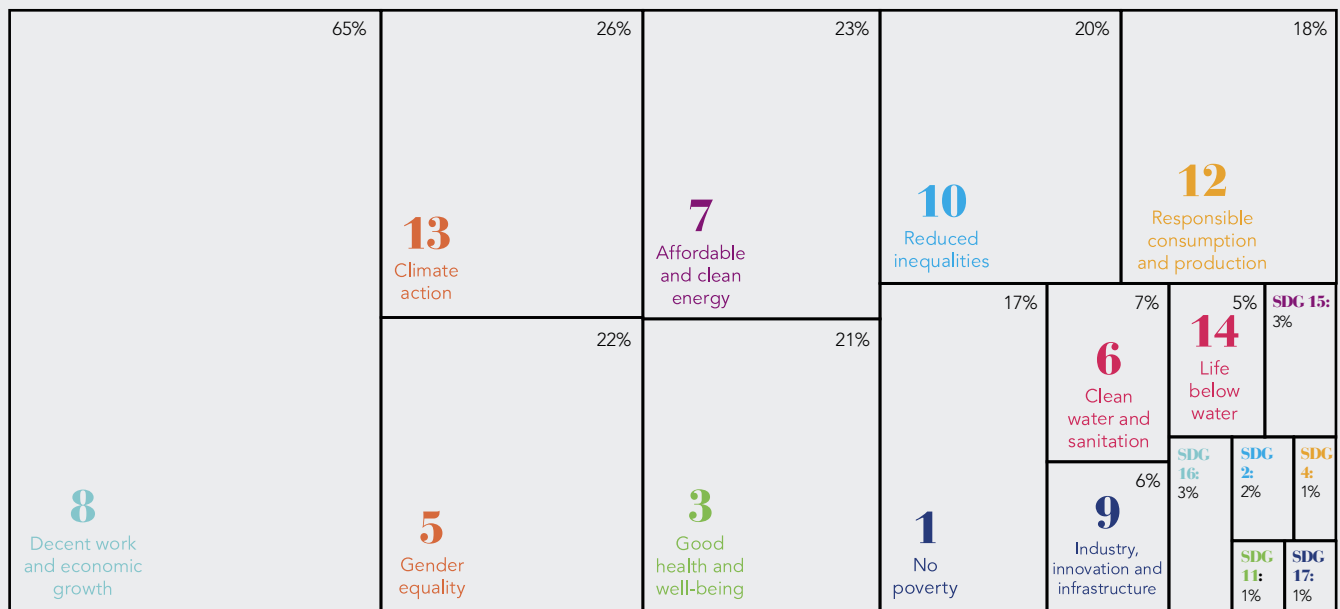
Figure 9: Split of environmental objectives and issues engaged (H1 2024)



²² **Engagement action** is any dialogue with investee companies conducted through meetings, calls, letters or emails, either directly or as part of a collaborative group. Engagement interactions are tailored to specific companies and seek to assess the most material ESG risks and opportunities, through long-term, continuous dialogue at the board and senior executive level.
Engagement objectives are specific, measurable changes defined at the company that are designed to improve long-term corporate performance.



Figure 10: Percentage of actions touching each SDG in H1 2024



Source: Federated Hermes Limited, as at 30 June 2024.

Voting

Across the SDG Engagement Equity strategy during H1 2024:

- There were 45 company general meetings.
- Federated Hermes Limited (UK and Ireland-based advisory companies) voted against management on at least one resolution at 29% of these meetings as part of efforts to achieve the SDGs:

Voting highlight

At the 2024 AGM of UK housebuilder Vistry Group, FHL voted against the re-election of the CEO Greg Fitzgerald (20.7% opposition) as well as the election as director of Usman Nabi.

As explained in our 2023 annual report, FHL has been concerned at the deterioration in governance at Vistry over the last 18 months. During that period several experienced

independent non-executive directors resigned or retired from the board – including the outgoing chairman Ralph Findlay. In early 2024 it was further announced that CEO Greg Fitzgerald was to become joint CEO and Chair at the AGM adding to concerns we have about board oversight and good corporate governance.

FHL engaged with the CEO in the run up to the AGM and have had further engagements since then. We have welcomed the frank and candid dialogue. A senior independent director has been appointed with clear terms of reference and we will engage with him later in the year. We also expect further non-executive director appointments. In the meantime, the business continues to perform very well, illustrating that our concern is not with the strategy but the risk of insufficient oversight during a period of significant change.

Selected engagement highlights

Europe

Trelleborg (Swedish engineering group)

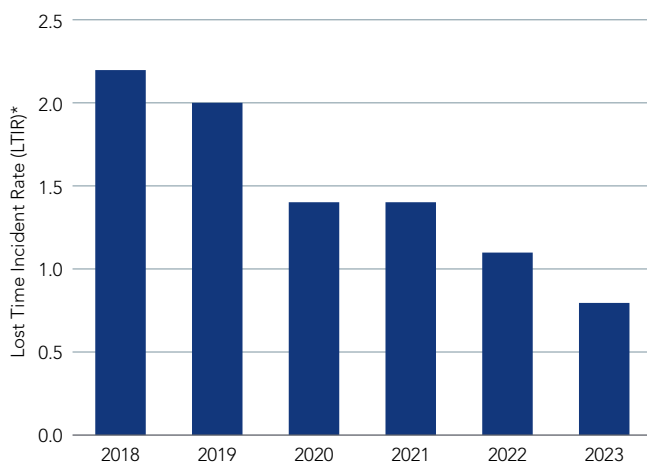
After selling its agricultural tyres business, Trelleborg's carbon emissions have significantly reduced, and it has met its 2025 emissions reduction target two years early. In turn, the company has established new emission reduction targets – **halving its Scope 1 and 2 emissions by 2030 and reducing its Scope 3 emissions by 25% over the same period.**

FHL's engagement initially focused on the human rights risks associated with the company's natural rubber sourcing. Since the divestiture of its agricultural tyres business, Trelleborg's primary sustainability risks have shifted towards its upstream Scope 3 GHG emissions, in particular its oil-based input material.

As a result, our engagement focus has shifted. We are now urging the company to invest adequately into its research and development regarding recycled and bio-based materials – this will necessitate close collaboration with suppliers to identify scalable solutions. To that end, it is positive to note the company has a target for **25% recycled or bio-based raw materials by 2030.**

Human capital remains a core focus of our engagement. In recognition of the evolving footprint of the business, we have been discussing pay and conditions at the company's newly-acquired subsidiary Minnesota Rubber & Plastics. We have also been asking the company to focus on workplace mental health as part of its wider health and safety programme reflecting the need for improved, standardised policies in this area. Trelleborg's management continues to be receptive to engagement and we anticipate a levelling up of human capital management practices, in particular health and safety, at the newly-acquired operations.

Figure 11: Trelleborg lost time incident rate²³



*LTIR: Number of incidents resulting in lost time from work (per 200,000 hours worked or per 100 employees) assuming 40 hour work week and 50 weeks per year. Source: Company reports.

Burckhardt Compression (Swiss industrial compressor manufacturer)

Burckhardt employs approximately 3,300 people – across Switzerland, India, the US, South Korea and China.

The company has expanded its footprint in recent years – particularly in China and India – and we have focused our engagement on their human capital practices in these regions, and questioned whether it is doing enough to support employee wellbeing.

As outlined earlier in this report, wellbeing is a key topic for our engagements in 2024. FHL wrote to Burckhardt's CEO asking about the company's approach to promoting and safeguarding workplace mental health.²⁴ The letter led to a meeting with Burckhardt's CEO who has been open and responsive on this issue.

We discussed how employee wellbeing should be prioritised on a global and regional level and how it can contribute to reduced staff turnover. In addition, we discussed how differing cultural attitudes towards wellbeing can necessitate varying approaches to the subject, depending on the region.

Burckhardt is in the process of developing its strategy around staff wellbeing and has welcomed our input. It has pledged to consider line manager training; incorporate grassroots committees sponsored by senior leadership; and to seek to ensure its existing programmes are more visible in its reporting.

In the meantime, the company has increased sales of 'green' compressor systems. 'New energy' applications – including for green hydrogen projects and solar panel applications – contributed more than a quarter of system sales in FY 2023.²⁵

In addition, the company has fleshed out its target to double its 'revamp and repair' services activity by 2027. It has launched BC Activate, a tailored programme to enhance the sustainability and reliability of all compressor systems, including other brand compressors.

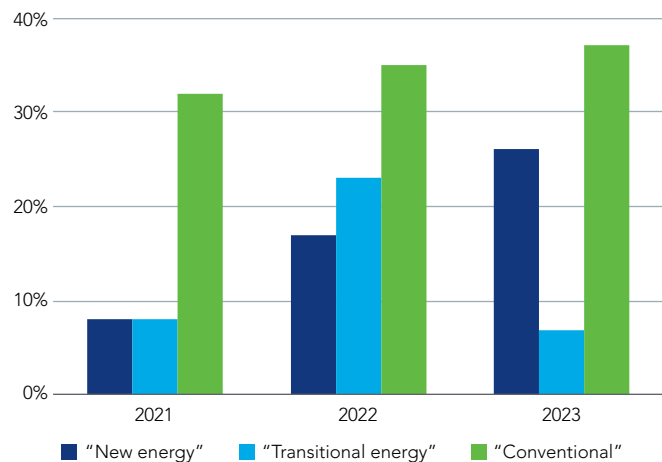
As **99% of compressors' GHG emissions occur in the use-phase**, this should help its customers achieve their own sustainability targets and reduce their carbon footprint.

²³ **Lost Time Incident Rate:** number of incidents resulting in lost time from work, per 200,000 hours worked or per 100 employees, assuming employees work 40 hours per week and 50 weeks per year.

²⁴ Evidence from Deloitte shows for every £1 put into mental health by employers, there is a £5 return on investment. Deloitte (2022), 'Mental health and employers: the case for investment – pandemic and beyond', online at www2.deloitte.com/content/dam/Deloitte/uk/Documents/consultancy/deloitte-ukmental-health-report-2022.pdf

²⁵ Company reports.

Figure 12: Burckhardt ‘green’ compressor system revenue



Source: Company reports.

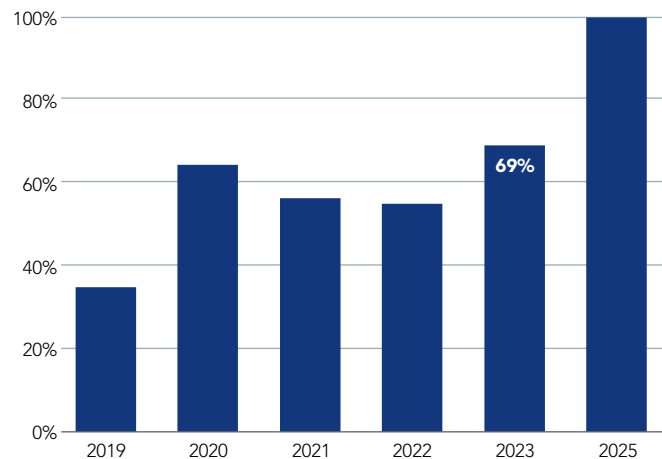


United States

AptarGroup (US consumer and pharmaceutical packaging group)

Aptar manufactures and sells consumer dispensing products for a range of sectors. The company has long championed the need for the packaging industry to move beyond the ‘make, use and dispose’ practices that continue to be common. Aptar has set itself a target to ensure 100% of its packaging is recyclable, compostable or reusable by 2025.

Figure 13: Aptar: increasing proportion of its products that are recyclable, reusable or compostable



Source: Company reports.

In 2023, more than 69% of Aptar’s (non-pharma) products were recyclable, reusable or compostable. Subsequent product innovations – such as the fully recyclable mono-material pump and its SimpliCycle recyclable valve– should significantly increase this percentage in 2024.

While Aptar’s progress is laudable, the pace of progress across industry as a whole has been much slower.

Many of Aptar’s largest customers had also set 100% recyclability targets, which have subsequently proven to be unrealistic. A number of high-profile consumer goods companies have reset their sustainable packaging targets this year. Unilever, for example, is now aiming for a 30% reduction in virgin plastic usage by 2026, and has pushed back its target date for when 100% of its packaging will be recyclable, compostable or reusable to 2030 (for rigid solutions) and 2035 (for flexibles).

While the pace of progress on addressing plastic pollution has not met previous hopes, the United Nations is expected to deliver a legally-binding agreement on plastics pollution by the end of 2024. This global plastics treaty, we hope, will reinvigorate a wider focus on this agenda.

Japan

Yaoko (Japanese supermarket group)

In November 2023, we wrote to Yaoko’s president and reiterated our concerns about the lack of progress in improving gender diversity at the company.

As an example, we noted that the number of female managers had not increased over the previous four years (remaining at about 6.5%).

In response, Yaoko arranged a meeting with the company’s sole female independent director (Asako Saito). She agreed that progress had been limited amid various challenges. However, she assured us that the company has stepped up its focus on diversity and human capital management. She added that she was encouraging the board to set clearer goals and interim objectives in this area, which aligned with the requests in our letter.

Yaoko has subsequently raised its target for the number of female managers in its organisation and is now aiming for 20% female managers by 2030 (doubling its previous target) and is looking to increase its male childcare leave uptake to 85% (from 13% in 2022). These positive steps are welcome.

Ten Largest Holdings as at 30 June 2024

Security	Country	% of Portfolio
Trelleborg AB Class B	Sweden	3.10
PTC Inc.	United States	3.00
Yaoko Co. Ltd.	Japan	3.00
Reinsurance Group of America, Incorporated	United States	2.90
Clean Harbors, Inc.	United States	2.80
Varun Beverages Limited	India	2.70
AptarGroup, Inc.	United States	2.60
Techtronic Industries Co.	Hong Kong	2.60
STERIS PLC	United States	2.50
Wintrust Financial Corporation	United States	2.50
Total % of Portfolio		27.70

Engagement data represents the trailing 6 months ended 6/30/2024 and includes direct engagement by the investment team as well as Federated Hermes stewardship division, EOS at Federated Hermes Limited. Engagement interactions are tailored to specific companies and seek to assess the most material ESG risks and opportunities, through long-term, continuous dialogue at the board and senior executive level. We may have multiple engagements with a company at any one time. Objectives are regularly reviewed until they are completed and are tracked using milestones. Objectives may be discontinued if the objective is no longer relevant, or because the engagement is no longer feasible or material.

Engagement numbers are derived from the fund's engageable holdings. These numbers do not include cash or cash-equivalent holdings, U.S. Treasury securities, derivative contracts, sovereign bonds, or third-party pooled vehicles. The fund may invest in affiliated funds and, where applicable, the engagement numbers reflect exposure to the underlying securities held by the affiliated funds, with the engagements for those funds included within the overall percentages. However, the engagement objectives and engagement interactions totals do not include numbers related to investments in affiliated money market funds.

Engagement progress represents the percentage of engagements whose objectives moved forward by at least one milestone over the period.

Risk Considerations:

The Federated Hermes SDG Engagement Equity Fund's strategy is to target companies that the adviser or sub-adviser believes will contribute positive societal impact aligned to the SDGs. The fund may underperform funds that do not have such a strategy.

Mutual funds are subject to risks and fluctuate in value.

The value of equity securities in the fund's portfolio will fluctuate and, as a result, the fund's share price may decline. Equity securities may decline in value because of an increase in interest rates or changes in the stock market.

Because the fund may allocate relatively more assets to certain industry sectors than others, the fund's performance may be more susceptible to any developments which affect those sectors emphasized by the Fund.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging-market and frontier-market securities can be significantly more volatile than the prices of securities in developed countries, and currency risk and political risks are accentuated in emerging markets.

Small-cap companies may have less liquid stock, a more volatile share price, unproven track records, a limited product or service base and limited access to capital. The above factors could make small-cap companies more likely to fail than larger companies and increase the volatility of a fund's portfolio, performance and share price. Suitable securities of small-cap companies also can have limited availability and cause capacity constraints on investment strategies for funds that invest in them.

Mid-capitalization companies often have narrower markets and limited managerial and financial resources compared to larger and more established companies.

Diversification does not assure a profit nor protect against loss.

Definitions:

Scope 1 emissions are all direct greenhouse gas (GHG) emissions by a company. They include fuel combustion, company vehicles and fugitive emissions.

Scope 2 emissions are indirect emissions from the generation of purchased electricity, heat and steam.

Investors should carefully consider the Federated Hermes SDG Engagement Equity Fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus containing this and other information, contact us or visit [FederatedHermes.com/us](https://www.federatedhermes.com/us). Please carefully read the summary prospectus or prospectus before investing.

Federated Global Investment Management Corp. (Fed Global) is the adviser of the Federated Hermes SDG Engagement Equity Fund and Hermes Investment Management Limited (HIML) is the sub adviser. Fed Global is a wholly owned subsidiary of Federated Hermes. HIML is a wholly owned subsidiary of Federated Hermes Limited, which is a 100% indirect, wholly owned subsidiary of Federated Hermes.

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24-30184 (10/24)

The SDGs are as follows: no poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; and partnership for the goals.

Specific investments described herein do not represent all investment decisions made by Federated Hermes. The reader should not assume that investment decisions identified and discussed were or will be profitable. Specific engagement references provided herein are for illustrative purposes only and are not necessarily representative of investments that will be made in the future.

Terminology such as "ESG integrated," "sustainable" or "impact," among other terms, is not uniformly defined across the industry. Investment managers may understand and apply ESG factors in different ways, and that the role those factors play in investment decisions also varies. Therefore, we recommend investors understand the role of ESG factors in a strategy to ensure that approach is consistent with their investment objectives. Like any aspect of investment analysis, there is no guarantee that an investment strategy that considers ESG factors will result in performance better than or equal to products that do not consider such factors. Investing and making buy-and-sell decisions that emphasize ESG factors carries the risk that, under certain market conditions, the fund or strategy may underperform those that do not incorporate such factors explicitly into the decision-making process.

The application of ESG criteria may affect exposure to certain sectors or securities and may impact relative investment performance depending on whether such sectors or securities are generally in or out of favor in the market.

The ESG ratings assigned are one consideration among others as part of the security selection process. The qualitative analysis described does not automatically result in including or excluding specific securities but is used as an additional input to improve portfolio risk/return characteristics.

Certain statements in this report constitute forward- looking statements, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results, levels of activity, performance or achievements of Federated Hermes, Incorporated, or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. As a result, no assurance can be given as to future results, levels of activity, performance or achievements, and neither Federated Hermes, Incorporated nor any other person assumes responsibility for the accuracy and completeness of such statements in the future. For more information on these items and additional risks that may impact the forward- looking statements, see the Federated Hermes, Incorporated Annual Report on Form 10.

Facts and figures related to Federated Hermes' engagement approach are derived at the strategy level. While these generally indicative of the overall approach, the statistics will vary from portfolio to portfolio.

The holdings percentages are based on net assets at the close of business on 6/30/24 and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes. Because this is a managed portfolio, the investment mix will change.

There is no guarantee that any investment approach will be successful.

Past performance is no guarantee of future results.

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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, where possible, to contribute to positive outcomes that benefit the wider world.

Our investment and stewardship capabilities:

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

For more information, visit [FederatedHermes.com/us](https://www.federatedhermes.com/us) or connect with us on social media:  