

Fi360

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**Federated
Hermes** 



ESG 101: Responsibility works

Presented to

Fi360

Presented by

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August 19, 2021

Federated Advisory Services Company

Federated Hermes history

\$625 billion in assets under management | \$1.5 trillion in assets under stewardship



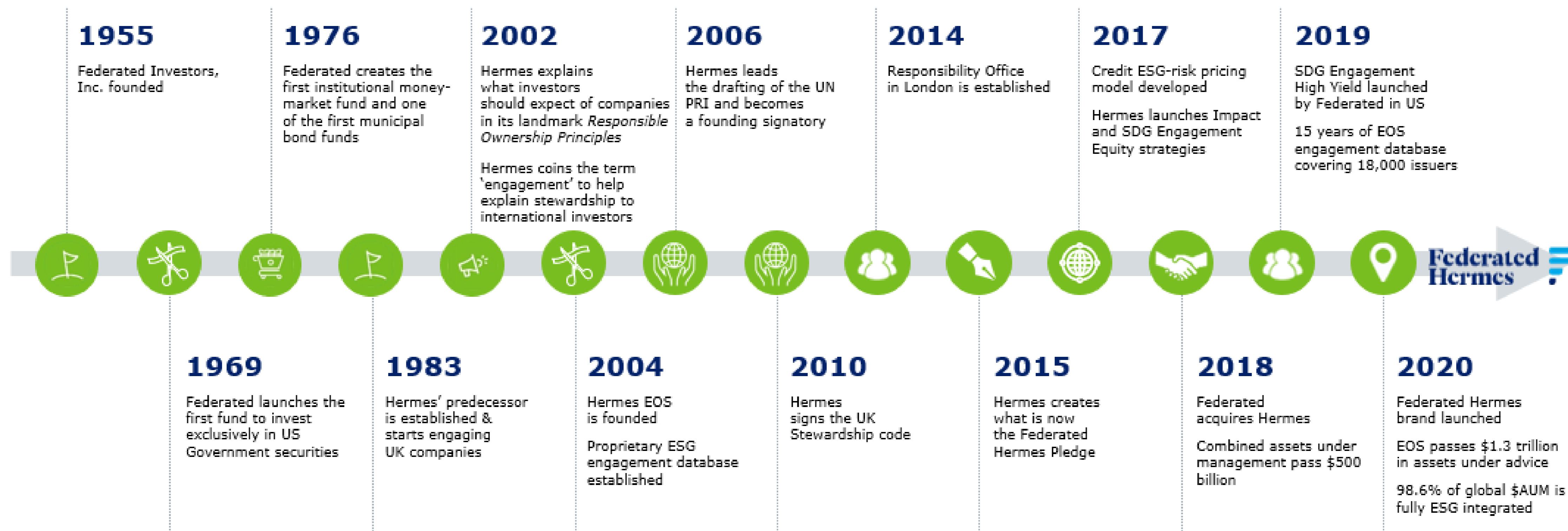
Federated

Fiduciary focus on client outcomes since 1955



Hermes

A pioneer of responsible investing since 1983



For illustrative purposes only. Does not represent an investment recommendation.

What is ESG?

Material long term risks and opportunities



Environmental

Climate change	Circular economy	Product lifecycle management	Pollution
Resource depletion	Deforestation	Waste management	

Social

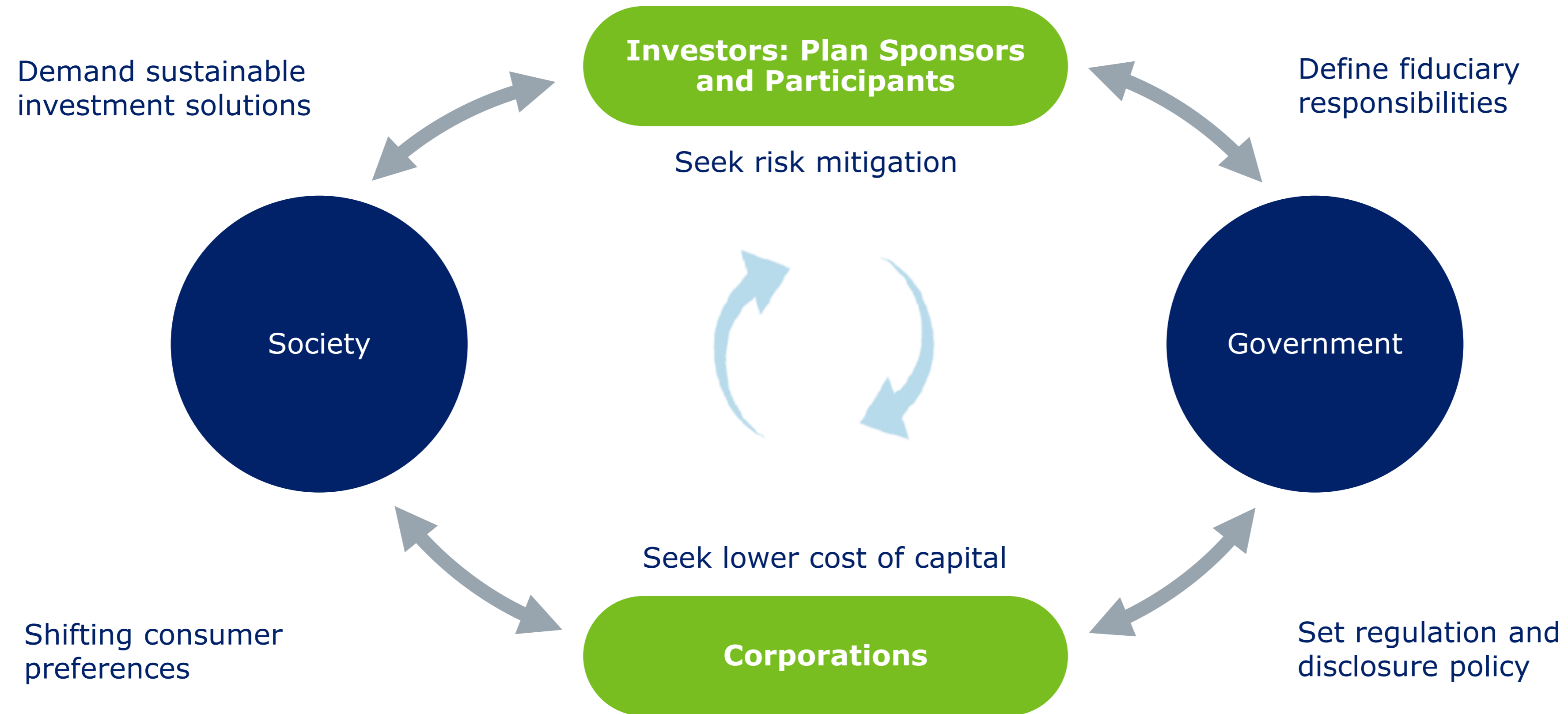
Human rights	Child labor	Employee relations	Health and safety
Modern slavery	Working conditions	Diversity and inclusion	Corporate culture

Governance

Bribery and corruption	Risk management	Board diversity and structure	Corporate reporting
Executive pay	Tax strategy	Political lobbying and donations	Shareholder protection and rights

ESG demand drivers

The carrot and the stick



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More than a feel-good factor



■ Corporate cost of capital

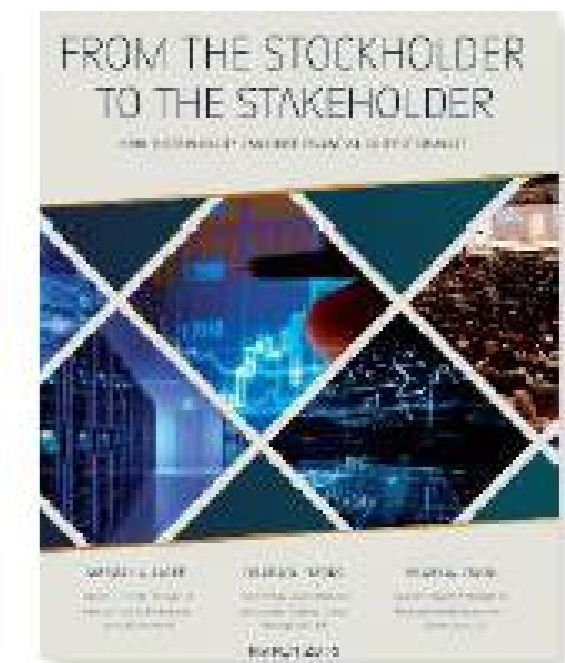
- 90% of the reviewed studies show that sound ESG standards lower corporate cost of capital

■ Operational performance

- 88% show that solid ESG practices result in better operational performance

■ Market performance

- 80% show that stock price performance is positively influenced by good corporate responsibility practices

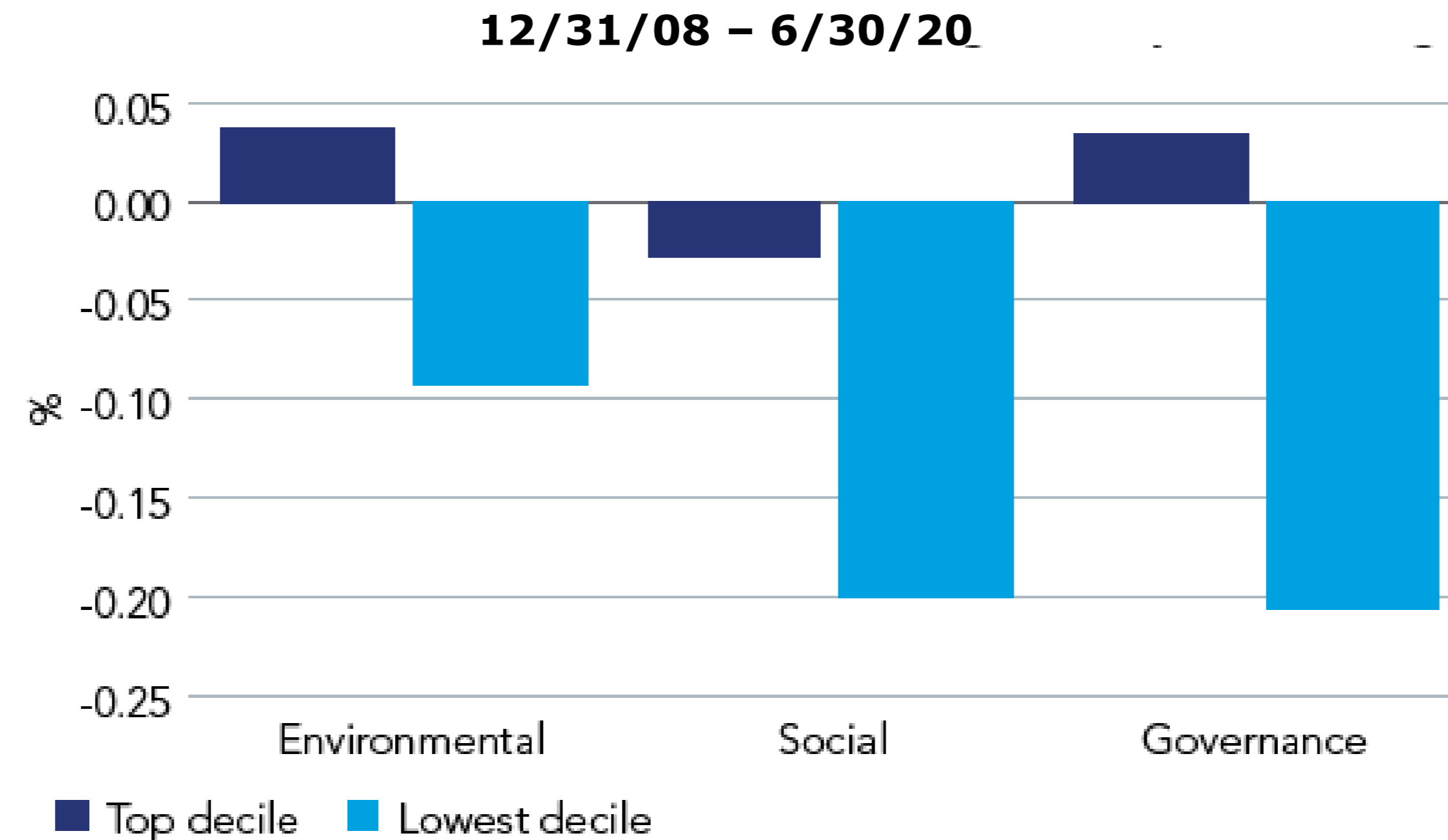


Stockholder to the Stakeholder 'Meta Study' (2015)

Source: Clark, G.L., Feiner, A., & M. Viehs (2015). "From the stockholder to the stakeholder: How sustainability can drive financial outperformance". Available on SSRN. Past performance is no guarantee of future results.

ESG factors and shareholder returns

Average monthly total relative returns of companies in the top decile and lowest decile based on ESG scores

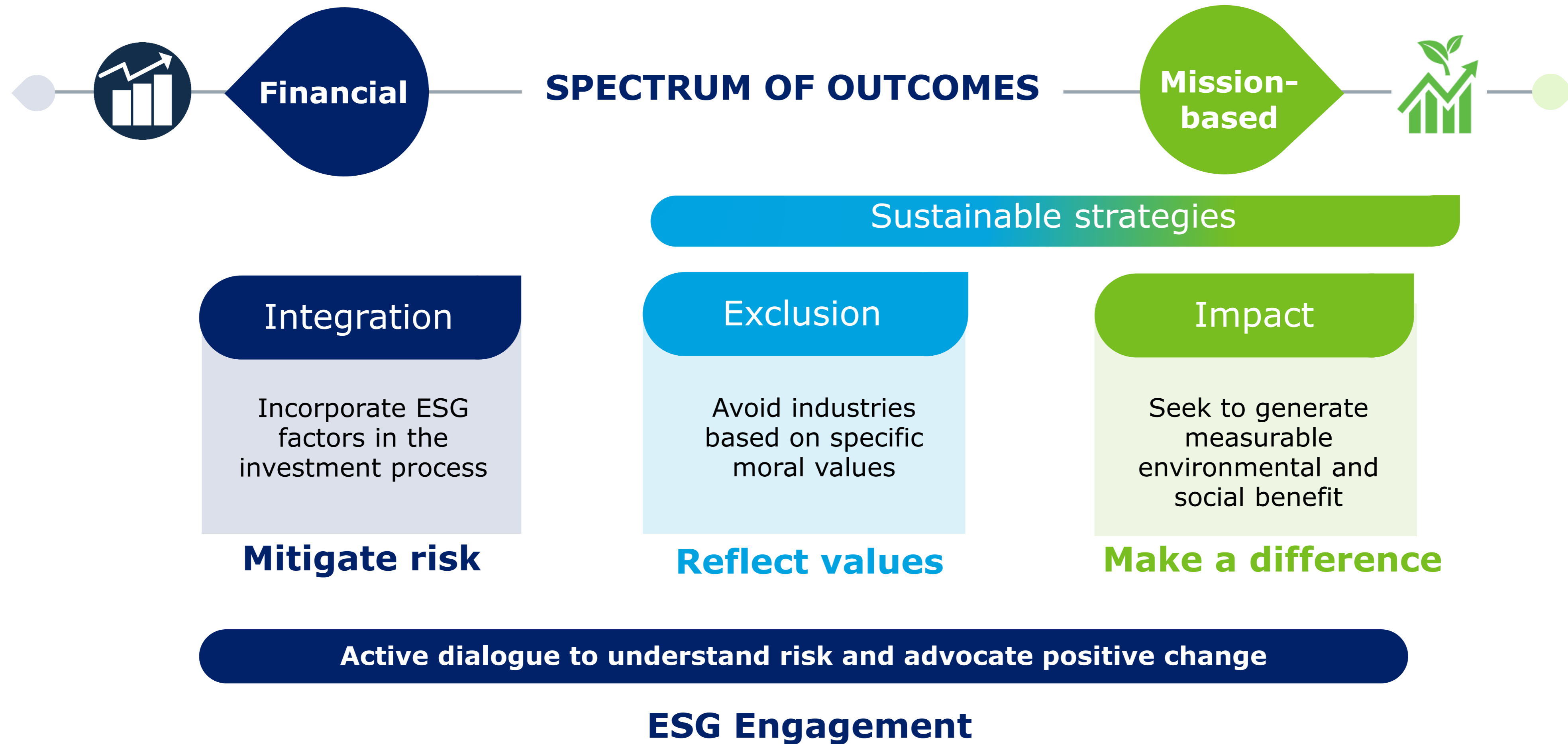


Source: Federated Hermes, as of June 30, 2020.

Figures are calculated using constituents of the MSCI World index assuming monthly rebalancing.
Past performance is no guarantee of future results. For illustrative purposes only and not representative of any specific investment.

Key market categories

Clarifying terminology



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Commitment to ESG integration

**ESG
1.0**

Ratings

- Proprietary data analytics vs. outsourced ESG research

**ESG
2.0**

Materiality

- In-house materiality assessment as an extension of primary research

**ESG
3.0**

Engagement

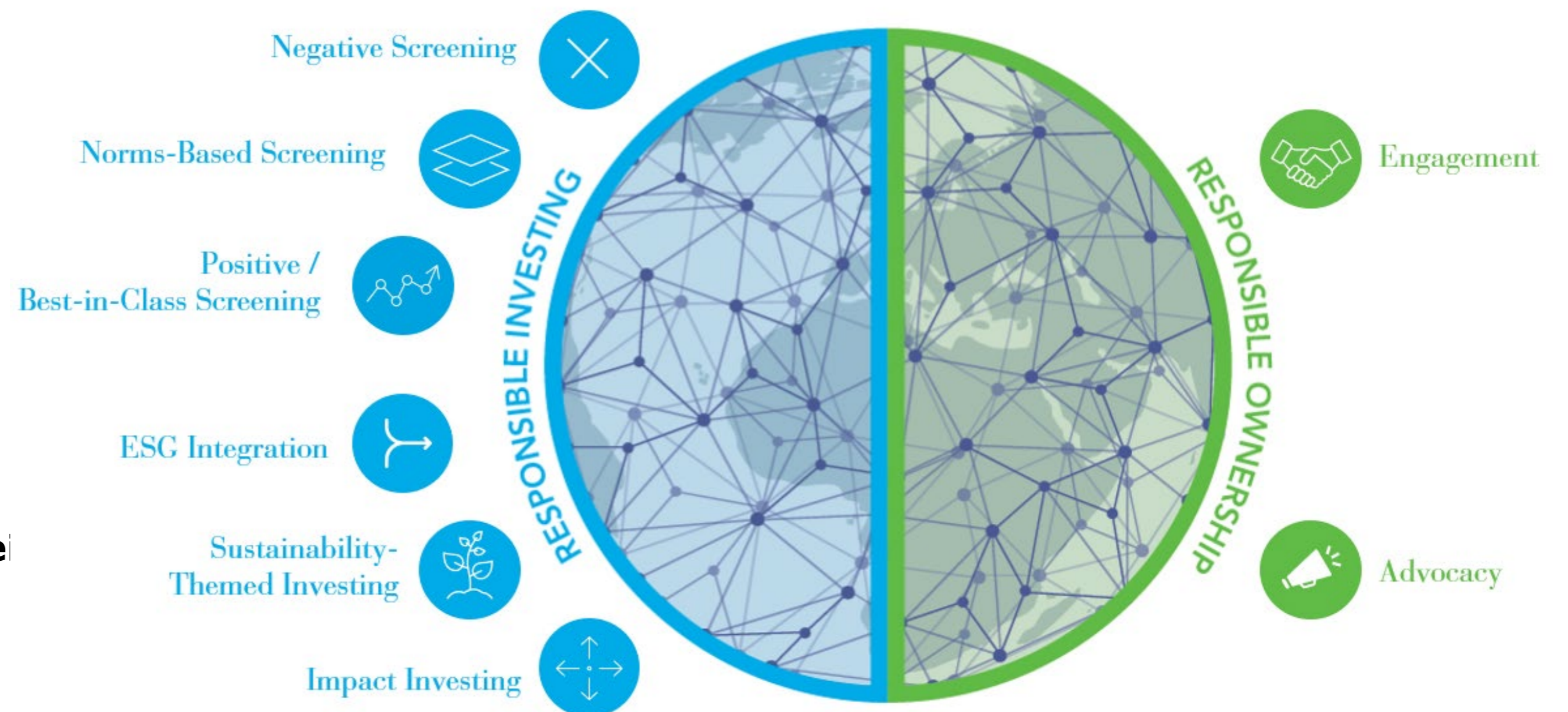
- Proactive investment edge from global ESG engagement team

Responsible investing is active investing

Multi-dimensional approach to ESG investing

Engagement is the secret sauce

- Two mutually reinforcing strands of responsible investment management:
 - responsible investing
 - responsible ownership
- Together, these aim to generate **sustainable wealth creation** for the end beneficiary investor, encompassing both **investment returns and the social and environmental impact**



16 years of ESG engagement leadership

EOS at Federated Hermes



As of 3/31/21
Past performance is no guarantee of future events.

Corporate engagement

Company selection and measuring progress

1

Engagement intensity selection

Tier 1, Tier 2, Tier 3

2

Material, SMART objecting setting

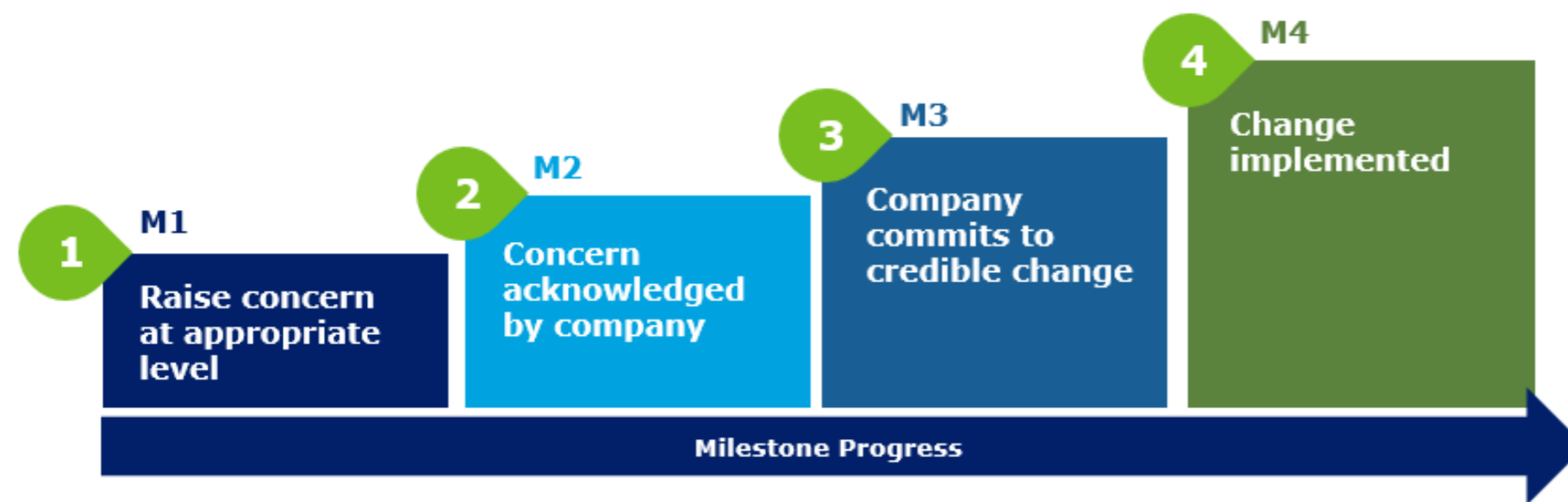
3

Engagement strategy and tools

Measuring progress

Milestone measurement system

- Recording and reporting progress to clients



Case studies

- Fact-checked by companies to verify our engagement



Academic evidence

- Successful engagement leads to reductions in downside risk¹
- Independent studies on EOS engagement data

1 Hoepner, A., Oikonomou, I., Sautner, Z., Starks, L., and X. Zhou (2019). ESG Shareholder Engagement and Downside Risk. Working Papers. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2874252 <https://www.hermes-investment.com/ukw/eos-insight/eos/shareholderengagementresearch/>

Effective global engagement on material ESG issues

Over 1,200 corporate issuers directly engaged per year



A systematically important Oil & Gas supermajor and one of the world's top 20 largest greenhouse gas emitting corporations

Engagement objectives:

Environmental

- Asset portfolio resilience to climate change
- Align strategy to goals of UN Paris Agreement 2016
- Align lobbying to corporate position on climate change

Engagement results:



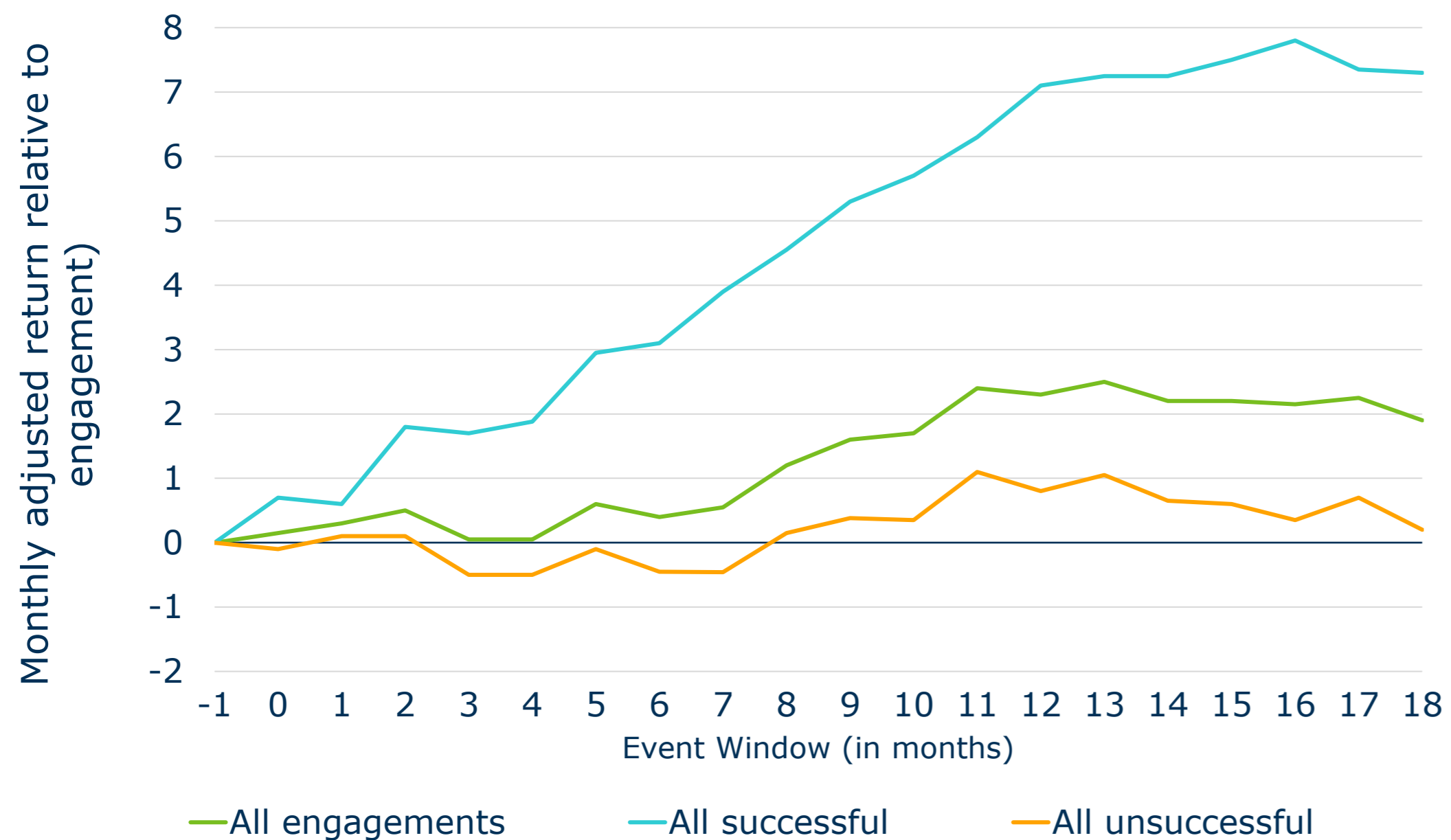
- **12 years of documented engagement history**
- **Leading Climate Action 100+ investor group**
- **30+ direct interactions in 2019**; AGM statements 2018, 2019, 2020
- Led the drafting of shareholder resolution presented at 2019 AGM
- Focus on strategy, capex and targets including GHG emissions consistent with Paris goals
- Passed with support of >99% of shareholders
- 2020: First oil major to announce ambition to achieve net-zero emissions by 2050, focused on energy produced by company
- Pledge to align lobbying to public policy position; exits 3 US industry associations

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Source: Bloomberg.

Emerging evidence that engagement may drive value

Independent academic analysis of engagement portfolio shows links to value

Engagement linked to potentially enhanced financial performance



2015 study by Elroy Dimson, Oğuzhan Karakaş, and Xi Li analyses an extensive database of corporate social responsibility engagements with US public companies over 1999–2009 addressing environmental, social, and governance concerns.

¹ Hoepner, A., Oikonomou, I., Sautner, Z., Starks, L., and X. Zhou (2019). ESG Shareholder Engagement and Downside Risk. Working Papers. Available at link [here](#).

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ESG shareholder engagement and downside risk¹

- Independent research study investigating the HEOS engagement data: 1,712 engagements across 573 targeted companies worldwide, between 2005 and 2018
- Results indicate that shareholder engagement on ESG can potentially significantly reduce the downside risk of companies
- Two measures of risk: (1) risk-weighted probability of a negative stock return and (2) value-at-risk
- Risk reduction effect is biggest when the engagement is more successful (i.e. at milestone 3 or 4) and when environmental topics are addressed

Three things to look for



Firmwide Commitment

- Culture of responsibility. Dedicated ESG experts. Independent oversight of ESG integration



Proprietary Analytics

- Advanced ESG data analytics and engagement which go beyond outsourced rating providers—incorporating materiality



Expert Active Ownership

- Combined active fundamental analysis and ESG engagement create unique insights for an information advantage

For illustrative purposes only

Want to learn more?

Reach out to your Federated Hermes Representative



- **Three 50-minute CE credit approved courses**
 - ESG 101
 - Data & Investment Implementation
 - ESG Business Implementation
- **Web-based and interactive**
- **Includes downloadable content, videos and a podcast series**
- **Free for advisors**

<https://info.federatedinvestors.com/Responsible-Investing-Institute.html>

Disclosure

This information has been obtained from sources deemed to be reliable, but neither the completeness nor accuracy can be guaranteed.

This document is not investment research.

There is no guarantee that considering ESG risks will be a successful investment approach.

Investing involves risk, including possible loss of principal.