

ESG

Responsibility Works |

Presented to

LATAM ConsultUs

Presented by

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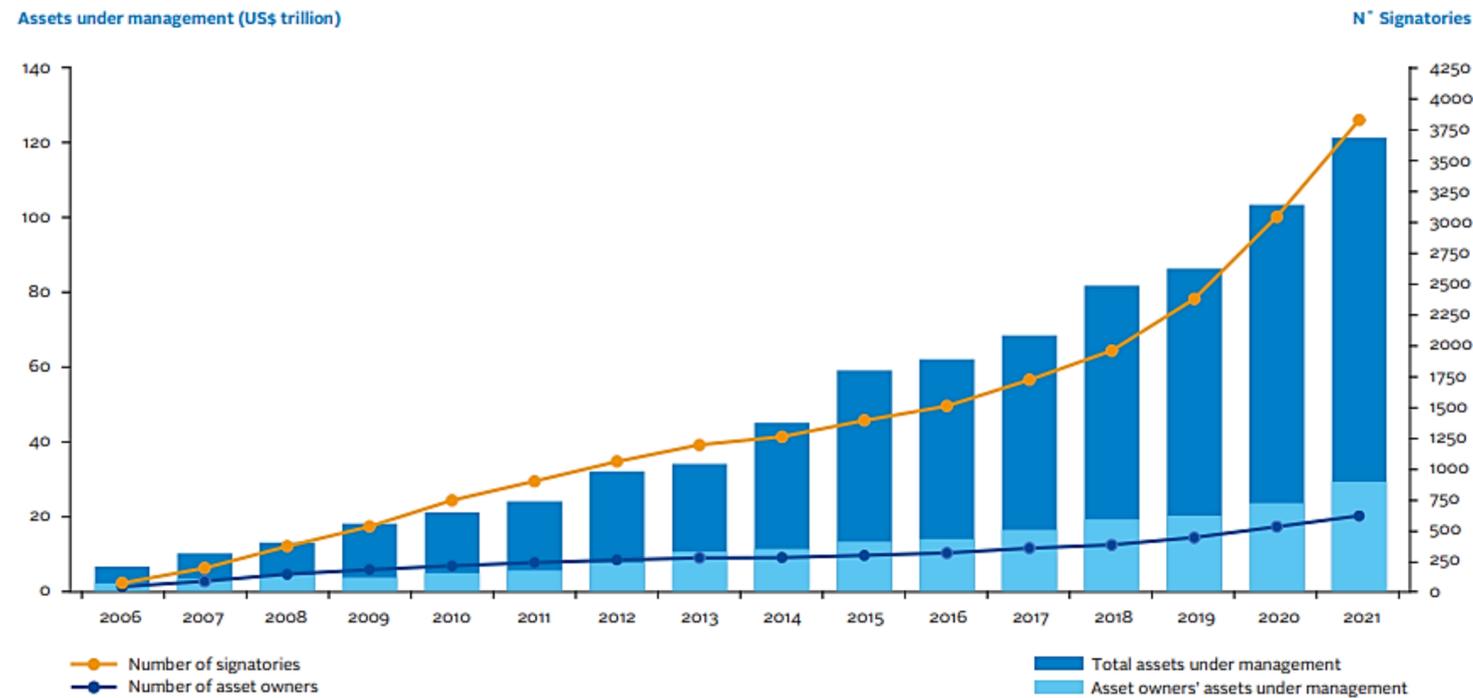
February 2022

Federated Advisory Services Company

Responsible investing momentum

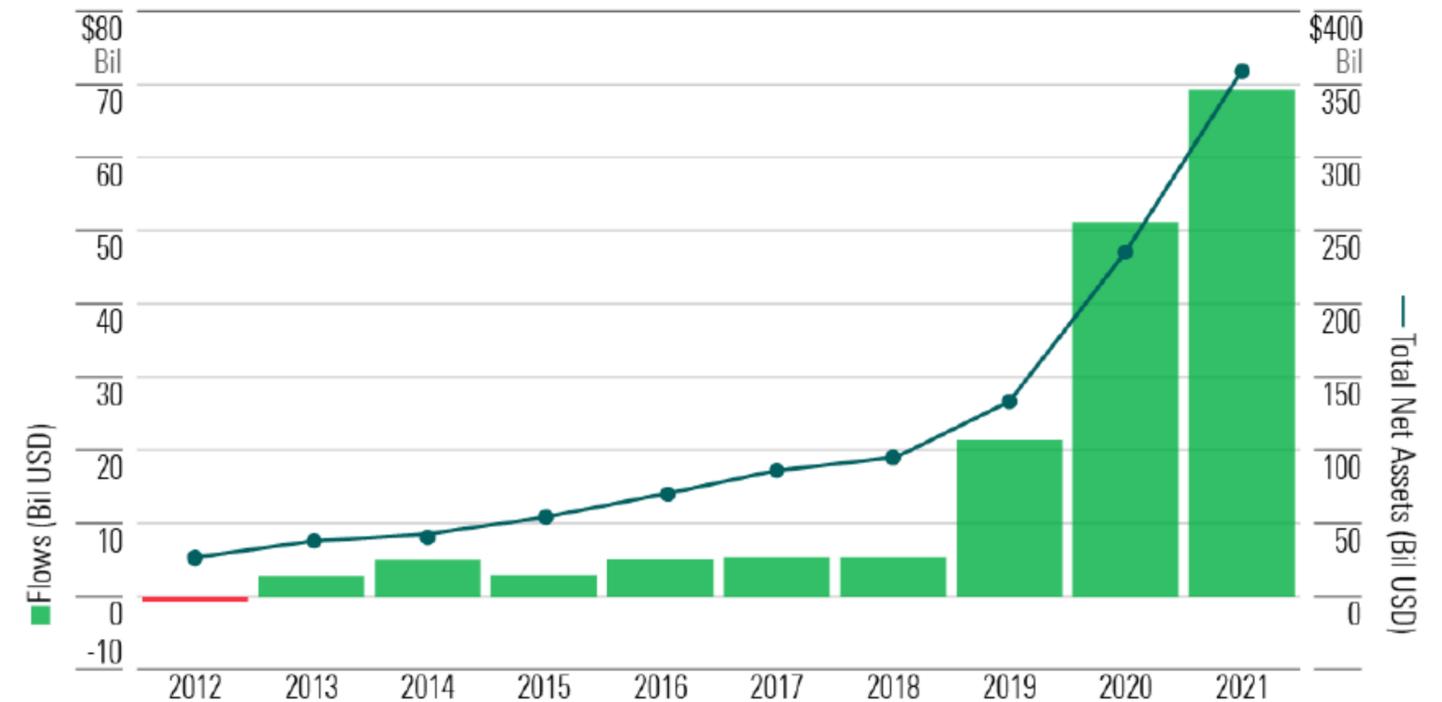
UN Principles for Responsible Investment (PRI) initiatives continue to grow¹ alongside record flows² into sustainable products

PRI growth (2006 through April 2021)



PRI Signatories' AUM now stands at over \$120 trillion

Sustainable funds annual flows and assets



**Record \$69.2 billion in 2021 net flows
AUM more than 4x the total three years ago**

¹ Source: UNPRI as of 10/2021. Updated annually in April.

² Source: Morningstar Direct as of 12/31/2021

Includes Sustainable Funds as defined in Morningstar's Sustainable Funds U.S. Landscape Report, Jan. 2022. Includes funds that have been liquidated; does not include funds of funds.

COVID-19 and social unrest ignite interest in ESG

Key findings from the 2021 Federated Hermes ESG Investing Survey



95%

- 95% of financial advisors say their clients have asked them about ESG or responsible investing
- ESG risk evaluation is becoming a key part of investment programs



S & G in the spotlight

- 74% of investors perceive increased importance of **diversity, equity and inclusion**
- Data privacy and security** was the main growing concern among 78% of investors, followed by **supply chain resiliency** (71%)



Active over passive

- 48% of financial advisors increased actively managed ESG investments
- Institutions and HNW reported decreased use of passive ESG



ESG role in returns

"We did a lot of research on this, and we think that there's a demonstrated enhanced return by considering ESG factors."

- Senior Investment Officer, \$250B US public pension plan

What is ESG?

Material non-financial factors can have long-term financial impacts



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

For illustrative purposes only

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

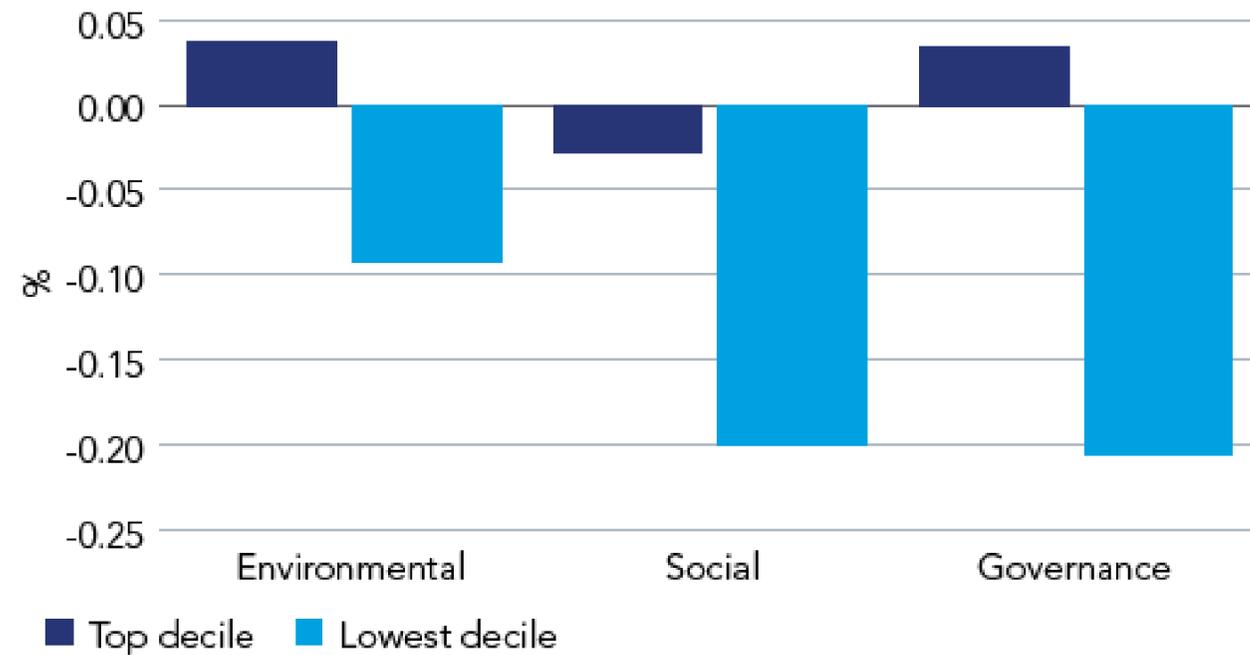
Source: Clark, G.L., Feiner, A., & M. Viehs (2015). "From the stockholder to the stakeholder: How sustainability can drive financial outperformance". Available on SSRN. Past performance is no guarantee of future results.

Quantifying ESG

Equities and fixed income

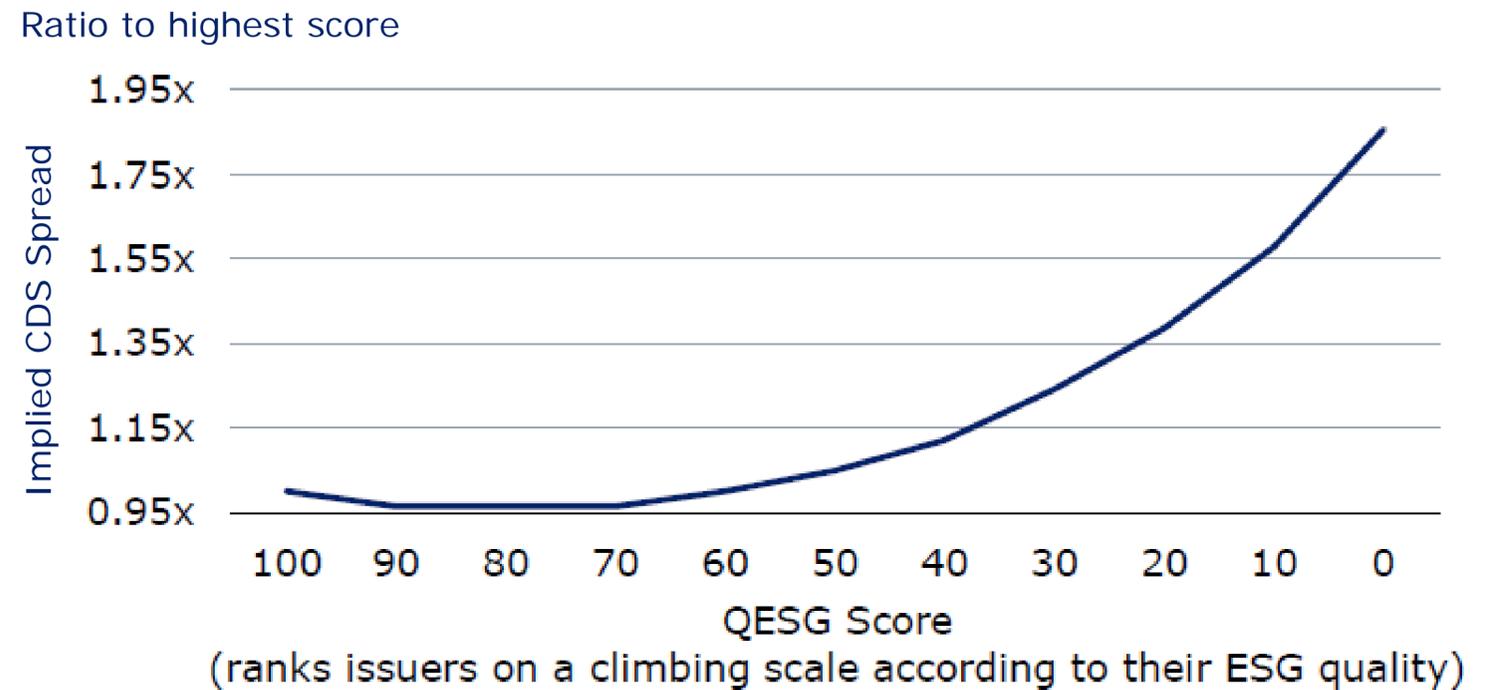
Average monthly total relative equity returns of companies based on QESG scores¹

2008 – 2020



Implied CDS spreads and corresponding QESG scores²

2012 – 2020



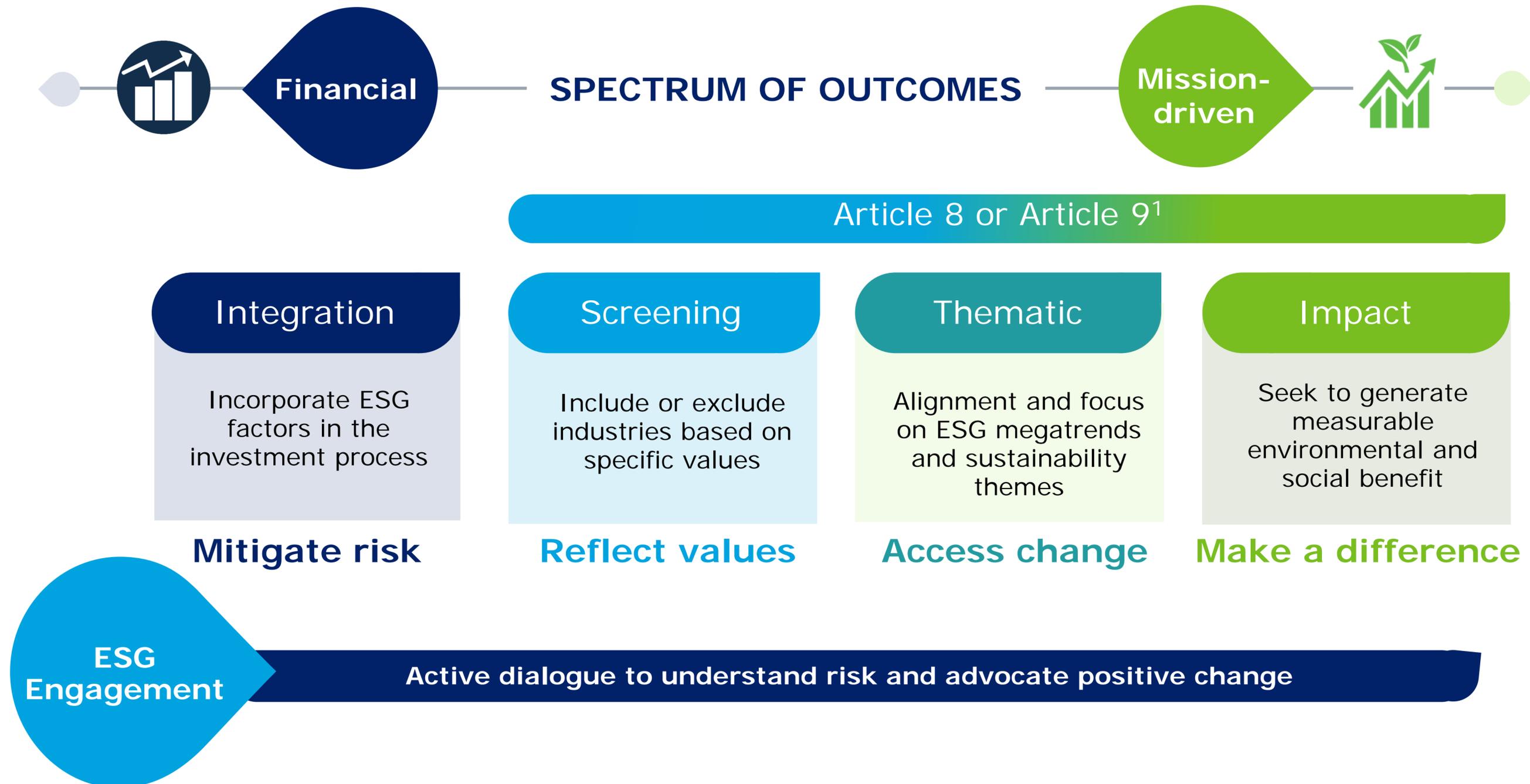
¹ Source: Federated Hermes, as of June 30, 2020. Figures are calculated using constituents of the MSCI World index assuming monthly rebalancing.

² Source: Federated Hermes, as of December 31, 2020.

Past performance is no guarantee of future results. For illustrative purposes only and not representative of any specific investment.

Key market categories

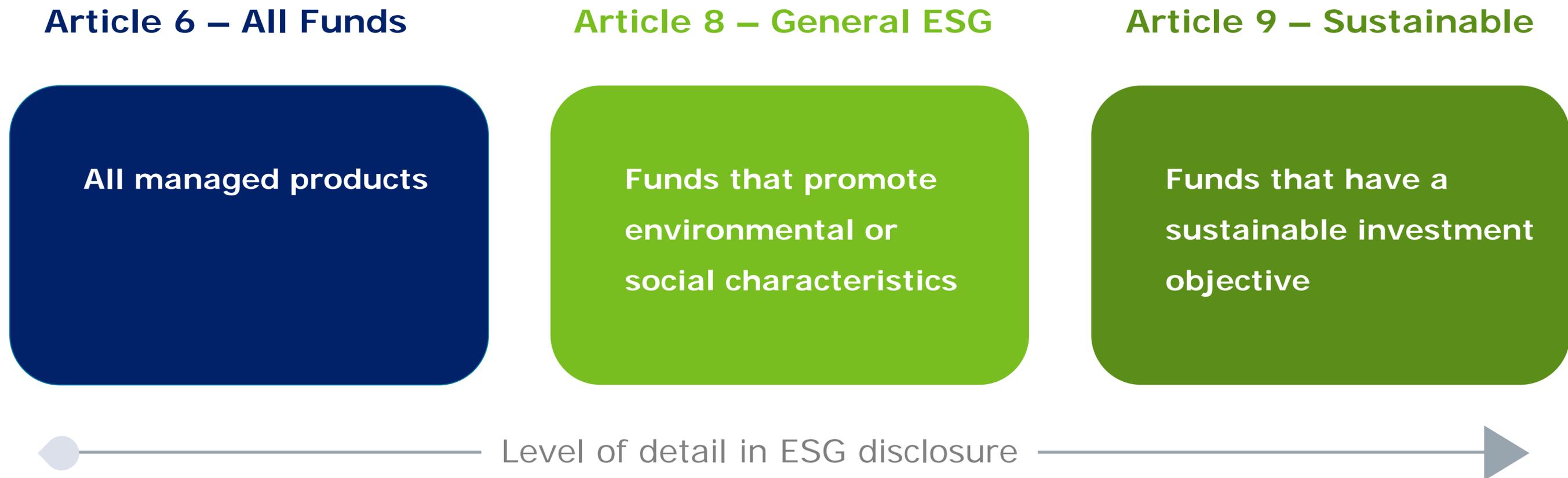
Aligning products with client motivations



¹SFDR classifications: Article 8 and Article 9 products consider sustainability in a binding way. In addition, Article 8 products promote social and or environmental characteristics and Article 9 products have a sustainable objective. For illustrative purposes only. Does not represent an investment recommendation. Past performance not indicative of future results.

SFDR Classification explained

Guides ESG disclosure for European funds | Based on sustainability objective



Source: Federated Hermes and Morningstar. SFDR classifications: Article 8 and Article 9 products consider sustainability in a binding way. In addition, Article 8 products promote social and or environmental characteristics and Article 9 products have a sustainable objective. Does not represent an investment recommendation. SFDR refers to the Sustainable Finance Disclosure Regulation.

Three levels of ESG integration



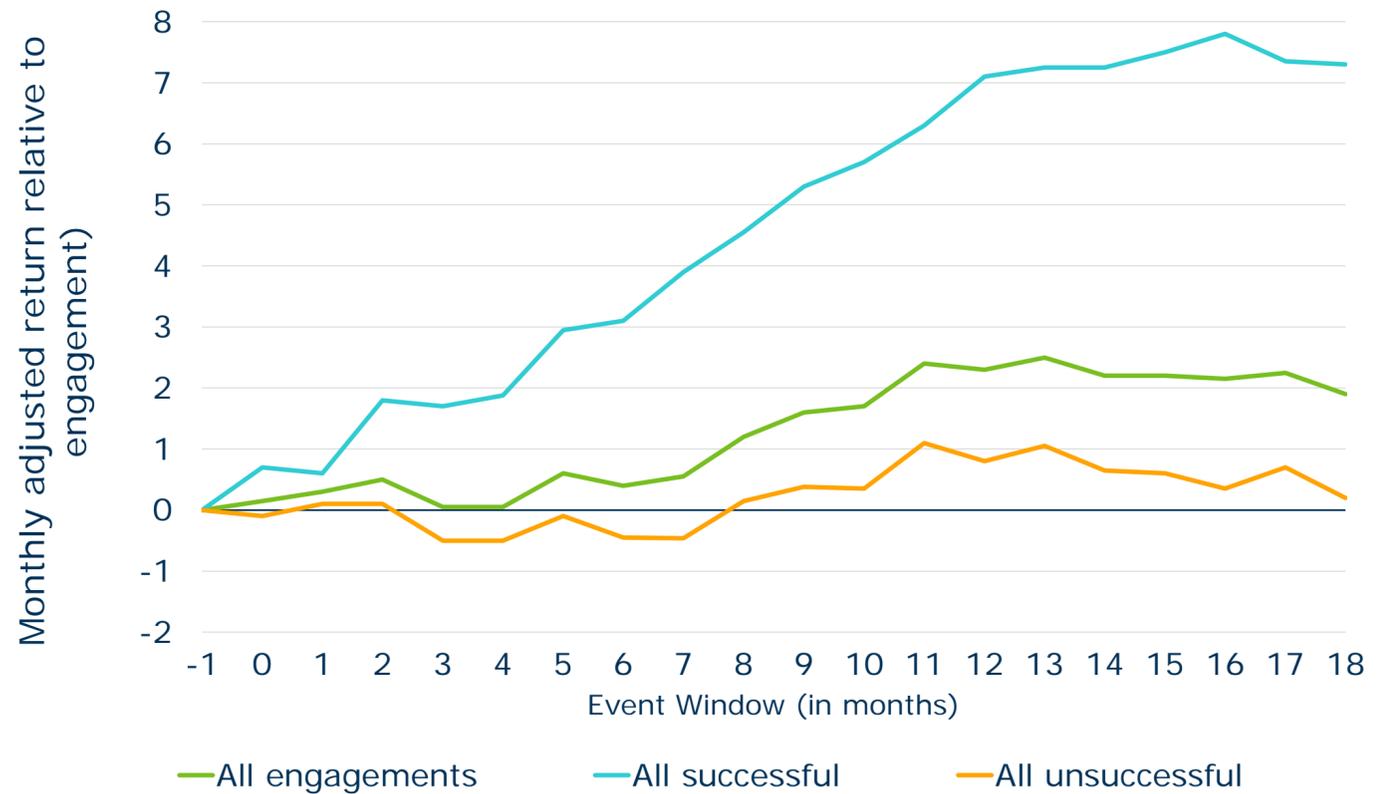
Engagement is not activism

Informed ownership | Stewardship model



- Engagement is the heart of informed ownership
- Dialogue with companies on ESG issues

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.

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Engagement integration

A long-term approach to risk mitigation supports value creation

Engagement example: Human rights



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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

ESG investments may be viewed as “sustainable,” “responsible” or “socially conscious,” among other names. ESG factors may be utilized and evaluated differently by different investment managers and may mean different things to different people. Investing based in part on ESG factors carries the risk that, under certain market conditions, the investment strategy may underperform strategies that do not utilize such factors. The application of responsible investment criteria may affect exposure to certain sectors or types of investments and may impact relative investment performance depending on whether such sectors or investments are in or out of favor in the market. An investment’s ESG performance or an investment manager’s assessment of such performance may change over time. The successful application of ESG factors is dependent on an investment manager’s skill in properly identifying and analyzing material ESG issues, and the suitability of ESG investments may change over time.

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.

Investing involves risk, including possible loss of principal.