

# Federated Hermes Sustainable European Equities

**James Rutherford**

Head of European Equities

**Chi Chan**

Portfolio Manager

This document refers to both the Sustainable European Equity strategy and the Sustainable Europe ex-UK Equity strategy.

## Highlights

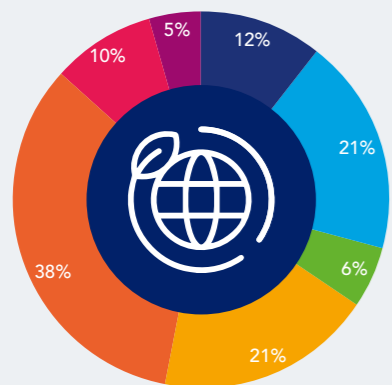
All portfolio holdings are exposed to one or more of the following environmental and social themes.

The portfolio's exposure is outlined below:

### Thematic exposures

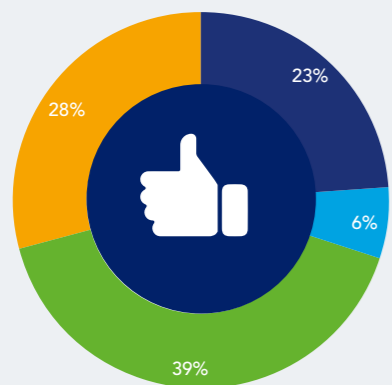
#### Sustainable European Equity

##### Environmental



■ Circular Economy ■ Clean/Future Mobility ■ Clean Energy  
 ■ CO<sub>2</sub> reduction ■ Energy Efficiency ■ Sustainable Financing  
 ■ Sustainable Food Production

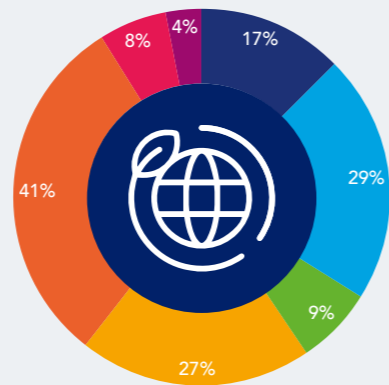
##### Social



■ Automation ■ Financial Inclusion ■ Health & Wellbeing  
 ■ Online Economy

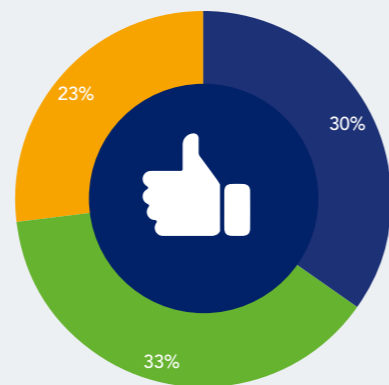
#### Sustainable Europe ex-UK

##### Environmental



■ Circular Economy ■ Clean/Future Mobility ■ Clean Energy  
 ■ CO<sub>2</sub> reduction ■ Energy Efficiency ■ Sustainable Financing  
 ■ Sustainable Food Production

##### Social



■ Automation ■ Health & Wellbeing ■ Online Economy

## UN Sustainable Development Goals alignment

Through its products, services or activities, each company in the portfolio is aligned to at least one of the UN Sustainable Development Goals.

### Sustainable European Equity



### Sustainable Europe ex-UK





### Environmental footprint

The strategies aim to have a smaller environmental footprint than the benchmarks (MSCI Europe and MSCI Europe ex-UK). As of 31 December 2021, the strategies' CO2, water and waste footprint was measured as follows:

#### Carbon footprint

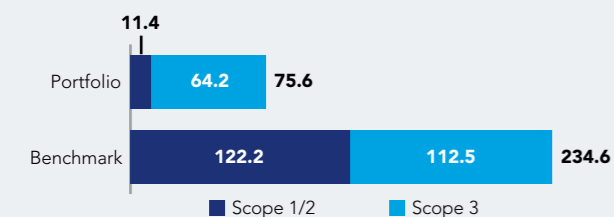
The Sustainable European Equity strategy's carbon footprint is 68% lower than the benchmark index, while the Sustainable Europe ex-UK strategy is 50% lower than the benchmark.

#### Sustainable European Equity

	Fund	MSCI Europe
Carbon footprint (Scope 1 & 2: tonnes/\$m invested)	11.4	122.2
Water footprint (Direct: m3/\$m invested)	330.2	12436.8
Waste footprint (Direct: tonnes/\$m invested)	0.9	6.3

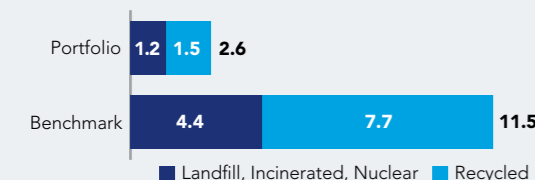
#### Carbon footprint

tonnes/\$m invested in portfolio currency



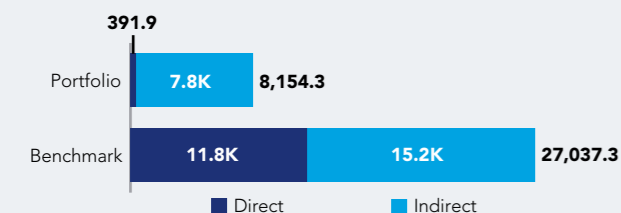
#### Waste footprint

tonnes/\$m invested in portfolio currency



#### Water footprint

m³/\$m invested in portfolio currency

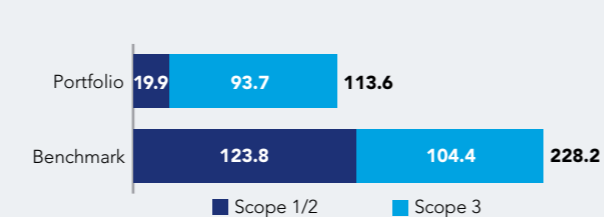


#### Sustainable Europe ex-UK

	Fund	MSCI Europe ex-UK
Carbon footprint (Scope 1 & 2: tonnes/\$m invested)	19.9	123.8
Water footprint (Direct: m3/\$m invested)	319.4	10691.2
Waste footprint (Direct: tonnes/\$m invested)	1.1	4.8

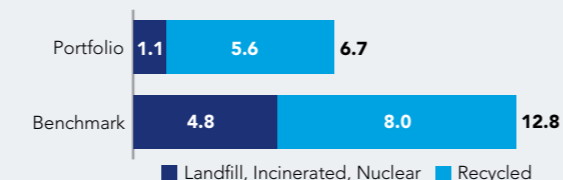
#### Carbon footprint

tonnes/\$m invested in portfolio currency



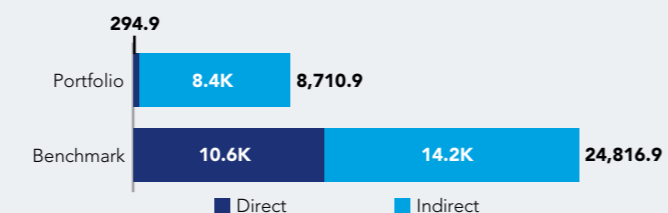
#### Waste footprint

tonnes/\$m invested in portfolio currency



#### Water footprint

m³/\$m invested in portfolio currency



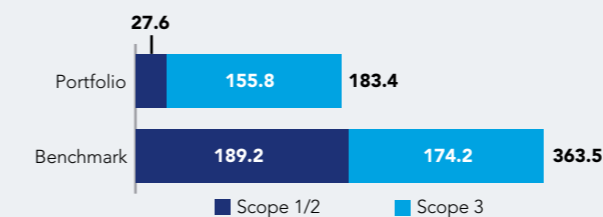
### Carbon intensity

#### Sustainable European Equity

	Fund	MSCI Europe
Carbon intensity (Scope 1 & 2: tonnes/\$m sales)	27.6	189.2
Water intensity (Direct: m3/\$m sales)	919.4	16051.4
Waste intensity (Direct: tonnes/\$m sales)	2.6	9.3

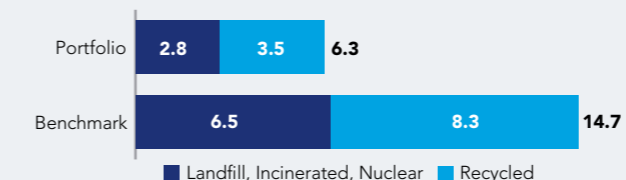
#### Carbon intensity

tonnes/\$m revenue



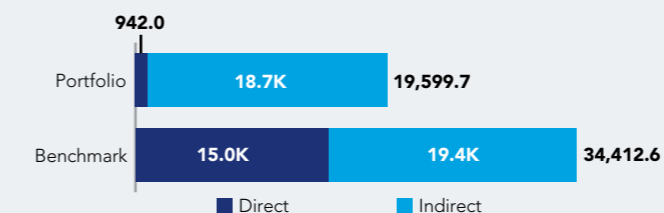
#### Waste intensity

tonnes/\$m revenue



#### Water intensity

m³/\$m revenue

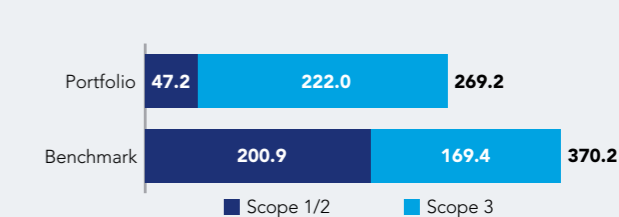


#### Sustainable Europe ex-UK

	Fund	MSCI Europe ex-UK
Carbon intensity (Scope 1 & 2: tonnes/\$m sales)	47.2	200.9
Water intensity (Direct: m3/\$m sales)	681.7	15700.7
Waste intensity (Direct: tonnes/\$m sales)	2.3	11.2

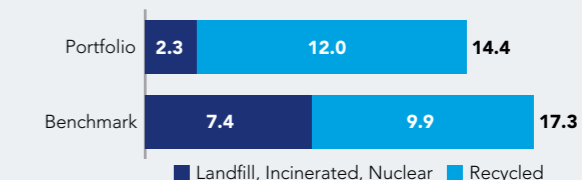
#### Carbon intensity

tonnes/\$m revenue



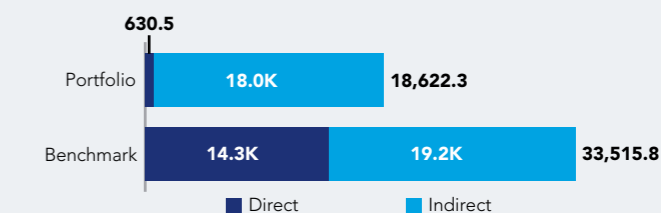
#### Waste intensity

tonnes/\$m revenue



#### Water intensity

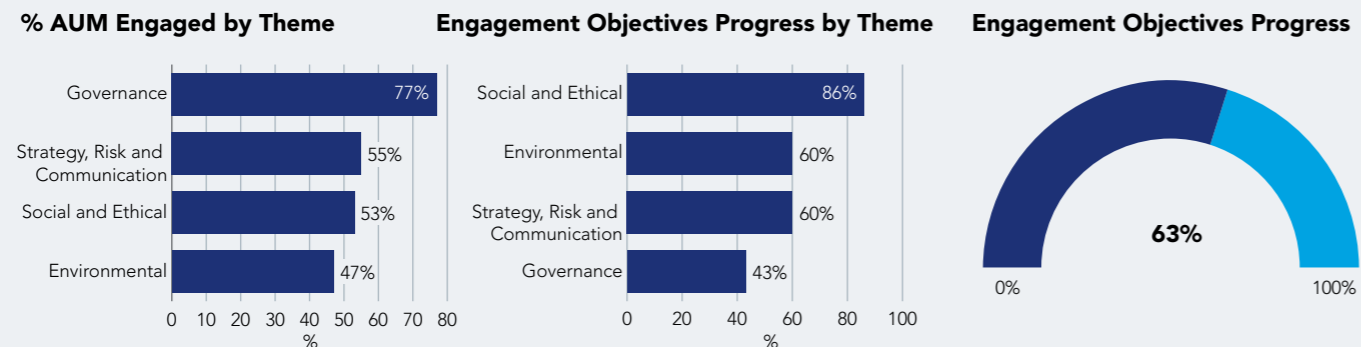
m³/\$m revenue



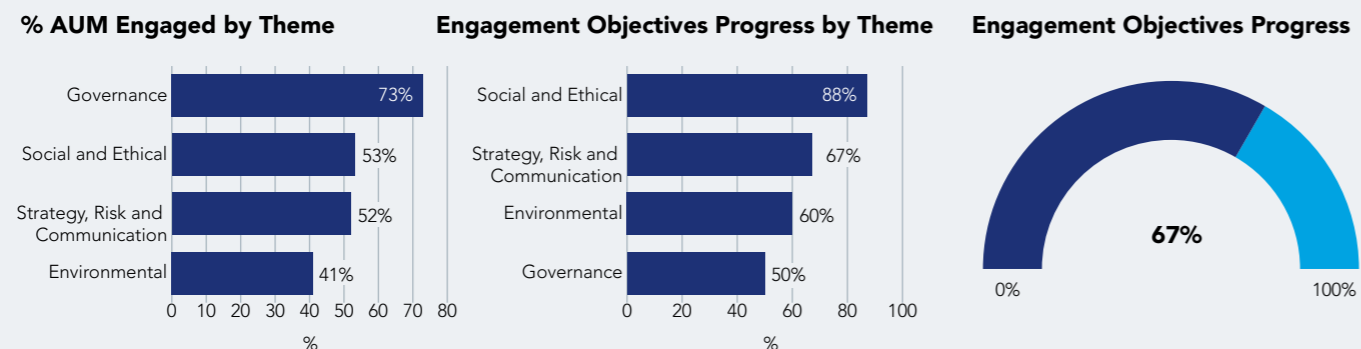
### Engagement

A crucial part of our approach. It enables the team to hold companies to account, encourage positive change and ensure senior management take their responsibilities to the environment and society seriously.

#### Sustainable European Equity



#### Sustainable Europe ex-UK



## Federated Hermes Sustainable European Equities

We categorise our approach as being sustainability driven, but investment led. In other words, it's not enough to just be good, the team must have conviction in the long-term investment prospects

The sustainable investment opportunity is driven by several factors. On a broad level, the publication of the UN Sustainable Development Goals (SDGs) in 2015 highlighted the many challenges facing society and the environment.

They have also provided a framework around which future legislation and government policy will likely head.

Businesses driving the sustainable transition operate on the right side of social and environmental change. Moreover, changing consumer preferences are accelerating demand for more sustainable products produced by companies that treat their responsibilities to society and the environment seriously.

Our investment approach can be summarised as follows:



### The importance of change

During almost 30 years of investing, a central pillar of the European Equity team's investment philosophy has been the idea that change is systematically misunderstood and underappreciated by investors.

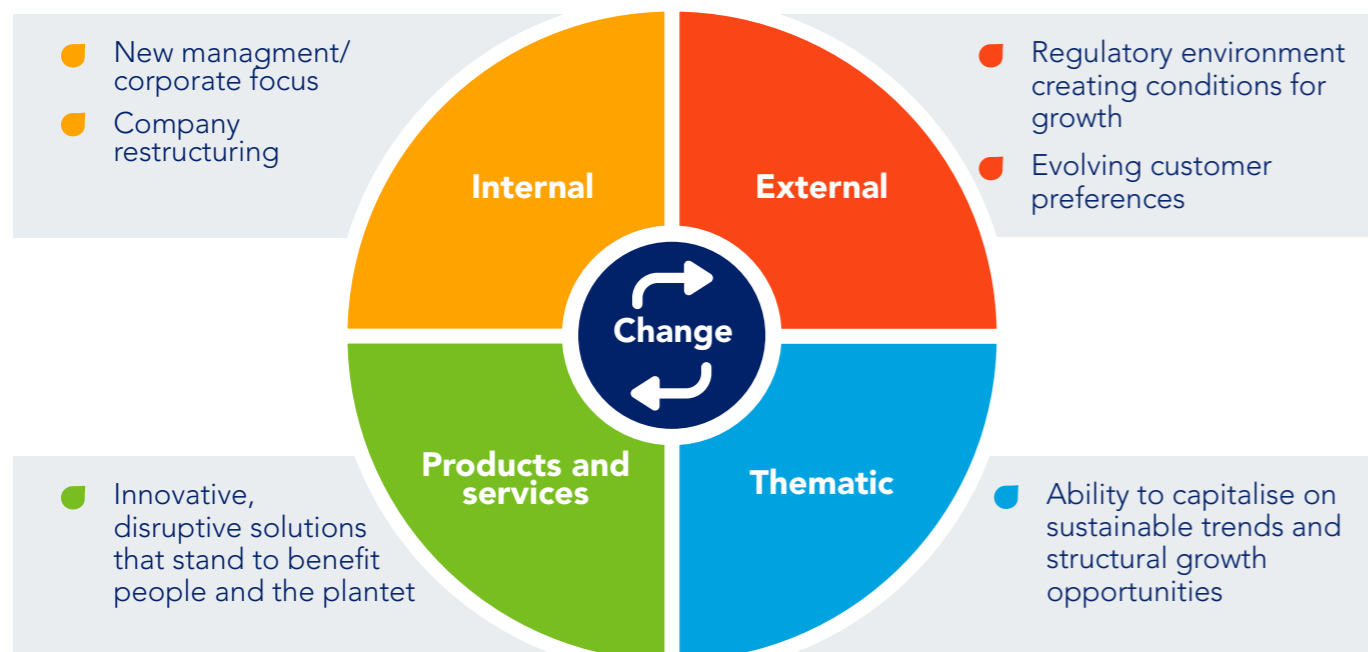
Most stock analysis is done in a linear manner, while the reality is that we live in a non-linear and scalable world. As a consequence, change can lead to dramatic expansions in stock valuations as changes in a business persist for longer than most investors expect. As such, we believe better returns can be achieved by investing in companies at the forefront of the transition to a more sustainable future.

At its most simple:

- Change leads to uncertainty
- Uncertainty leads to mispricing
- Mispricing leads to opportunity

Importantly, change also provides a rich seam of attractive long-term, investment opportunities because it manifests itself in a variety of ways, both within individual companies and through external influences.





- It can be internal to the company (change in strategy, new products, new technologies that disrupt and transform industries, etc).
- It can also be external (regulation, change in consumer preferences, fiscal spending, etc).

It also ensures that the ideas generated by the team are naturally focused on sustainability trends as the increasing demand for a cleaner, greener and fairer world is generating significant change within companies and industries. Responsible innovative companies that are helping meet the challenges highlighted by the UN SDGs stand at the vanguard of these efforts, thereby creating a variety of attractive, long-term investment opportunities.

### Sustainability framework

Evaluation of a company's sustainability credentials and assessment of how it manages its Environmental, Social, and Governance (ESG) risks is a crucial part of the idea generation process. It also ensures that each portfolio holding has a clear environmental or social purpose allied to good or improving standards of governance. The team's approach to sustainability is comprised of three elements:

- Exclusions:** Our initial screen of the universe applies our exclusions, which rule out companies generating material revenues from certain sectors, including fossil fuels, tobacco and weapons.
- Sustainability assessment:** A company must then pass the team's sustainability assessment in order to be put forward for investment analysis. This assessment uses quantitative and qualitative techniques, employing proprietary tools, best-of-breed external research, engagement and insights from our own company interactions that provide a different perspective and enables the team to assess the most material ESG risks for a company.
- Engagement:** We draw on engagement insights during the investment process, using the resources of EOS, Federated Hermes's leading stewardship team. Once in the portfolio, the team continues to engage with all portfolio companies, attempting to encourage positive change and progress towards greater sustainability.

Using a combination of bottom-up stock picking and thematic research, the team are able to identify companies that are built on strong foundations: purposeful, resilient, innovative companies in control of their own destinies – consistently generating cash flow and profits through products, services and activities that help create a better world.

**Exclusions**

  
 Fossil fuels

  
 Electric utilities  
(not aligned with 1.5')

  
 Nuclear power

  
 GMO crops

  
 Weapons

  
 Tobacco

  
 Alcohol

  
 Gambling

  
 Adult entertainment



## EssilorLuxottica

**Theme:** Health & Wellbeing

EssilorLuxottica is a unique, fully vertically integrated player in the design, manufacture and distribution of ophthalmic lenses, frames and sunglasses. It controls the largest market share in each respective segment in which it operates and, following a long period of uncertainty around governance after a merger, it is finally operating under a single structure and should further benefit from significant synergies.

As the world's largest designer, manufacturer and distributor of ophthalmic lenses and frames, EssilorLuxottica plays a key role in providing accessible eyecare – one of the UN's SDGs. The company focuses on improving lives through better vision; providing access to free eye exams, free glasses and funding for local vision care programmes to underserved populations where people do not have access to conventional distribution channels.

Globally, EssilorLuxottica has an ambition to eliminate uncorrected poor vision by 2050. With the support of their non-profit partners, they have helped fit glasses to more than 2 million new wearers since 2013 and have pledged to donate 200 million pairs of lenses by 2030. To ensure they deliver long-term sustainable impact, Essilor launched 2.5 New Vision Generation in 2013, which helps unemployed young people from rural communities across Asia, Africa and Latin America set up as self-employed primary vision care technicians through training, small grants and ongoing business support. The programme has helped the company create the world's largest rural optical network with more than 17,000 primary vision care entrepreneurs, creating access to vision care for more than 450m people in developing countries.

 **eliminate uncorrected poor vision by 2050**

Moreover, EssilorLuxottica has pioneered innovative products to correct poor vision. It's Stellest lens, for example, has been shown to slow down myopia progression by 67% in children<sup>1</sup>. For context, EssilorLuxottica estimate that 80% of 18-year-old university students in China are myopic, and that across the world there are about 200 million children with corrected myopia (around 90% of which wear glasses). As rising usage of digital screens and various other factors contribute to myopia progression in children at younger and younger ages, solutions such as this are essential in improving quality of vision and life.

**Within its own operations, the company takes the management of its own ESG risks seriously.**

- Targeting carbon neutrality by 2025, starting in Europe from 2023 in direct operations (Scope 1 and 2) by investing in solar and biomass heating systems and procuring renewable electricity.
- Launched a major forest restoration project of 30 hectares near its production facility in the foothills of the Dolomites: a UNESCO world heritage site.
- Commitment to promoting a circular economy. Aims to embed eco-design into all products by 2025. Recycling centre in Italy that transforms plastic waste from production into new raw materials.
- Introduced bio-based materials into a range of products. The Untangled Collection, for example, is made of discarded fishing nets.
- Strong supply chain practices. Conducts a '360 review' on supply chain and ensures competitive pay and benefits, safe working conditions and open-door policy for staff.
- Good board diversity with 44% women and majority independent.

<sup>1</sup> Source: Essilor Stellest Lenses – Myopia Control Lenses





CASE STUDY

Merck

**Theme:** Health & Wellbeing

Through its provision of prescription drugs to treat a range of conditions, such as cancer and multiple sclerosis, and a life sciences division that supports research and drug development, Merck is at the heart of UN SDG 3: Good Health & Wellbeing.

The defensive nature of these core business lines provides long-term earnings sustainability and visibility. The company also benefits from high barriers to entry, alongside stringent regulations and policy on product control that further solidifies the sustainability of the business model against new entrants.

Merck's management of ESG issues across the spectrum are truly best-in-class. Its ESG strategy is underpinned by three goals: human progress, sustainable value chains, and climate neutrality; and we see meaningful efforts from the company in advancing these.

Through this approach, the company has significant alignment with a variety of the UN SDGs.

 **35%** of leadership positions held by women

 **38%** women representation on the board

Merck's stellar track record on ESG is also recognised by outstanding external rankings and through our own internal assessment. This is reflected by its alignment with the UN Guiding Principles; its membership of UN Global Compact and Responsible Care Global Charter and strong gender diversity. Moreover, its recent formation of a global sustainability board and future integration of ESG into long-term board incentives should only serve to reinforce this momentum.

**SDG 3: Good Health & Wellbeing**

Through scientific innovation and technology, the company aims to create a positive impact on the health & wellbeing of people around the world, including in underserved populations.

Merck is also committed to flexible, fair and sustainable pricing and Employs pricing schemes to help underserved populations and low-income patients.

**SDG 8: Decent Work & Economic Growth**

The company has comprehensive policies surrounding its supply chain.

It is a signatory to multiple charters, conducts external audits and unannounced inspections, which demonstrates its commitment to upholding standards on human rights and labour conditions.

**SDG 12: Responsible Consumption & Production**

The company has strong transparency in its reporting of CO<sub>2</sub> emissions and energy consumption. It has also made progress and has clear targets for environmental stewardship, climate action, waste recycling and water management. These include:

- 80% of packaging from strategic suppliers is aligned with sustainable forestry guidelines
- Launched a recycling program for clients in the US
- Achieved its 2020 goal of lowering water consumption by 10% at sites in water-stressed areas

**The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.** The fund has environmental and/or social characteristics and so may perform differently to other funds, as its exposures reflect its sustainability criteria. This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

**For professional investors only.** This is a marketing communication. It does not constitute a solicitation or offer to any person to buy or sell any related securities, financial instruments or financial products. No action should be taken or omitted to be taken based on this document. Tax treatment depends on personal circumstances and may change. This document is not advice on legal, taxation or investment matters so investors must rely on their own examination of such matters or seek advice. Before making any investment (new or continuous), please consult a professional and/or investment adviser as to its suitability. Any opinions expressed may change. All figures, unless otherwise indicated, are sourced from Federated Hermes. All performance includes reinvestment of dividends and other earnings. Please consider all fund characteristics when investing and not just ESG characteristics.

Federated Hermes refers to the international business of Federated Hermes ("Federated Hermes"). The main entities operating under Federated Hermes are: Hermes Investment Management Limited ("HIML"); Hermes Fund Managers Ireland Limited ("HFML"); Hermes Alternative Investment Management Limited ("HAIML"); Hermes Real Estate Investment Management Limited ("HREIML"); Hermes Equity Ownership Limited ("EOS"); Hermes Stewardship North America Inc. ("HSNA"); Hermes GPE LLP ("Hermes GPE"); Hermes GPE (USA) Inc. ("Hermes GPE USA") and Hermes GPE (Singapore) Pte. Limited ("HGPE Singapore"). HIML, and HAIML are each authorised and regulated by the Financial Conduct Authority. HIML, Hermes GPE and Hermes GPE USA are each a registered investment adviser with the United States Securities and Exchange Commission ("SEC"). HGPE Singapore is regulated by the Monetary Authority of Singapore. HFML is authorised and regulated by the Central Bank of Ireland. HREIML, EOS and HSNA are unregulated and do not engage in regulated activity.

In the European Economic Area ("EEA") this document is distributed by HFML. From 1st January 2021, new contracts with potential investors based in the EEA for a segregated account will be contracted with HFML.

Issued and approved by Hermes Investment Management Limited which is authorised and regulated by the Financial Conduct Authority. Registered address: Sixth Floor, 150 Cheapside, London EC2V 6ET. Telephone calls may be recorded for training and monitoring purposes. Potential investors in the United Kingdom are advised that compensation may not be available under the United Kingdom Financial Services Compensation Scheme.

**In Australia:** This Strategy Document relates to potential offer of financial products or investment opportunities in Australia (Investment opportunities). Both Hermes Investment Management Ltd (HIML) and Federated Investors Australia Services Ltd ACN 161 230 637 (FIAS) are the distributors of the Investment opportunities. HIML does not hold an Australian financial services licence (AFS licence) under the Corporations Act 2001 (Cth) ("Corporations Act"). HIML operates under the relevant class order relief from the Australian Securities and Investments Commission (ASIC) while FIAS holds an AFS licence (Licence Number - 433831).

The offer of Investment opportunities only made in circumstances under which no disclosure is required under Chapter 6D and Part 7.9 of the Corporations Act. Nothing in this Strategy Document is, or purports to be, an offer to a person to whom disclosure would be required under Chapter 6D or Part 7.9 of the Corporations Act.

This Strategy Document is not a disclosure document under Chapter 6D of the Corporations Act or a product disclosure statement for the purposes of Part 7.9 of the Corporations Act. This Strategy Document has not been and will not be lodged with ASIC and does not contain all the information that a disclosure document or a product disclosure statement is required to contain. The distribution of this Strategy Document in Australia has not been authorised by ASIC or any other regulatory authority in Australia. In addition, the Fund is not a registered managed investment scheme, as defined in the Corporations Act.

This Strategy Document is provided for general information purposes only and is not intended to constitute, and does not constitute, the provision of any financial product advice or recommendation and must not be relied upon as such. This Strategy Document is not intended to influence a person in making a decision in relation to a particular financial product or class of financial products, or an interest in a particular financial product or class of financial products.

This Strategy Document has been prepared without taking account of your objectives, financial situation or needs and you should obtain independent professional financial advice that considers your circumstances before making any financial or investment decisions.

**In Bahrain:** This document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the strategies will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**In Canada:** HIML is not registered in Canada as a dealer, adviser or investment fund manager under applicable Canadian securities laws. Except for the provinces of Alberta, British Columbia, Ontario, Quebec and Nova Scotia, HIML does not engage in the business of, and none of its activities should be construed as holding itself out as engaging in the business of, advising anyone in any Canadian jurisdiction with respect to investing in, buying or selling securities. In the provinces of Alberta, British Columbia, Ontario, Quebec and Nova Scotia, HIML relies on the international adviser registration exemption pursuant to section 8.26 of National Instrument 31-103- Registration Requirements, Exemptions and Ongoing Registrant Obligations. Prior to carrying on any investment advisory or portfolio management services for a client located in a Canadian jurisdiction other than Alberta, British Columbia, Ontario, Quebec or Nova Scotia, HIML will first need to take certain steps to either obtain the appropriate registration or rely on an available exemption from registration.

**In Hong Kong:** The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. The strategies are not authorised under Section 104 of the Securities and Futures Ordinance of Hong Kong by the Securities and Futures Commission of Hong Kong. Accordingly, the distribution of this document, and the placement of interests in Hong Kong, is restricted. This document may only be distributed, circulated or issued to persons who are professional investors under the Securities and Futures Ordinance and any rules made under that Ordinance or as otherwise permitted by the Securities and Futures Ordinance.

**In Japan:** The strategies have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law no. 25 of 1948, as amended) and, accordingly, none of the Strategies nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit, of any Japanese person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For this purpose, a "Japanese person" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

**In Kuwait:** This document is not for general circulation to the public in Kuwait. The strategies have not been licensed for offering in Kuwait by the Kuwait Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the strategies in Kuwait on the basis of a private placement or public offering is, therefore, restricted in accordance with Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the strategies is being made in Kuwait, and no agreement relating to the sale of the strategies will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the strategies in Kuwait.

**In The Sultanate of Oman:** The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy Non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued by Decision No.1/2009). Additionally, this document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**In South Korea:** Hermes Investment Management Limited is not making any representation with respect to the eligibility of any recipients of this document to acquire the strategies therein under the laws of Korea, including but without limitation the Foreign Exchange Transaction Act and Regulations thereunder. The strategies have not been registered under the Financial Investment Services and Capital Markets Act of Korea, and none of the strategies may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

**In United Arab Emirates (Excluding Dubai International Financial Centre and Abu Dhabi Global Market):** This document, and the information contained herein, does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The strategies are only being offered to a limited number of sophisticated investors in the UAE who (a) are willing and able to conduct an independent investigation of the risks involved in an investment in such strategies, and (b) upon their specific request. The strategies have not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. The document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the UAE and any enquiries regarding the strategies should be made to Hermes Investment Management Limited in London.

**In the United States of America:** For a full list of all affiliated companies please see the relevant Form ADV. Certain affiliates have cash solicitation arrangements under which they receive compensation for referring prospects for advisory services.

BD009420 0012506 03/22

## 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 to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

## Our investment and stewardship capabilities:

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

For more information, visit [www.hermes-investment.com](http://www.hermes-investment.com) or connect with us on social media:

