

Taking politics out of ESG

Presented to
NYBA

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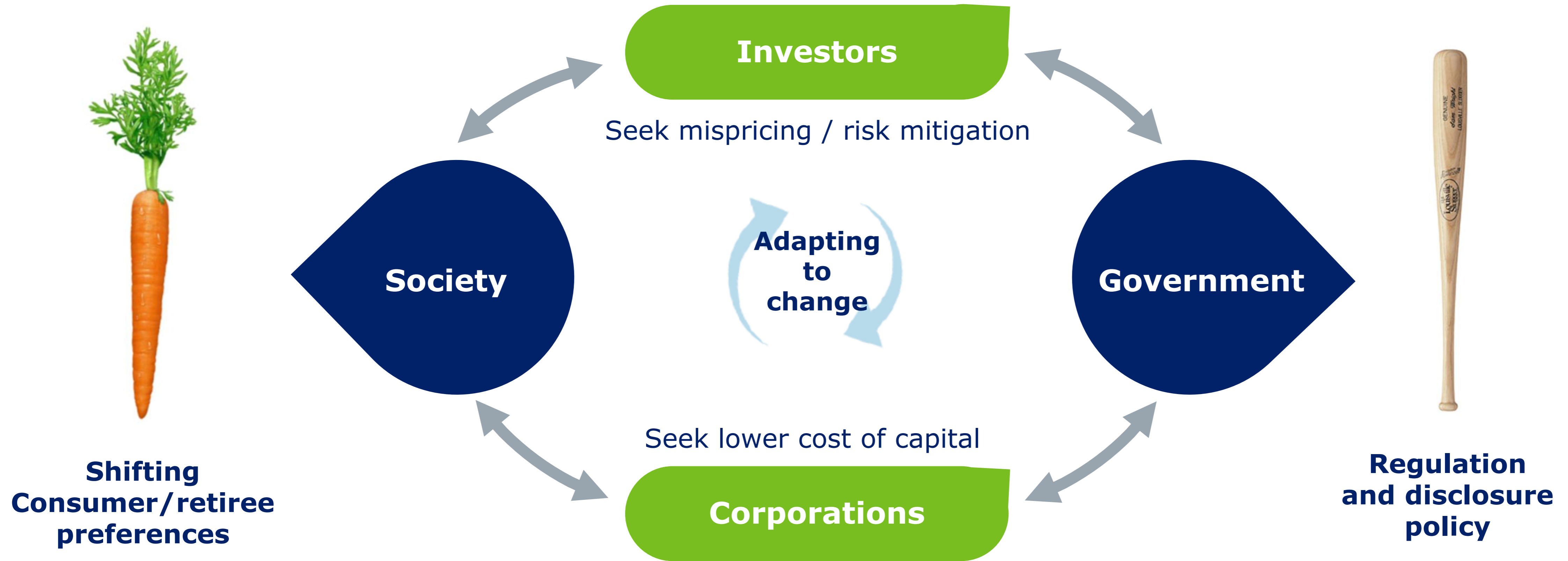
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ESG demand drivers

Changing consumer preferences and regulatory policy



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

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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

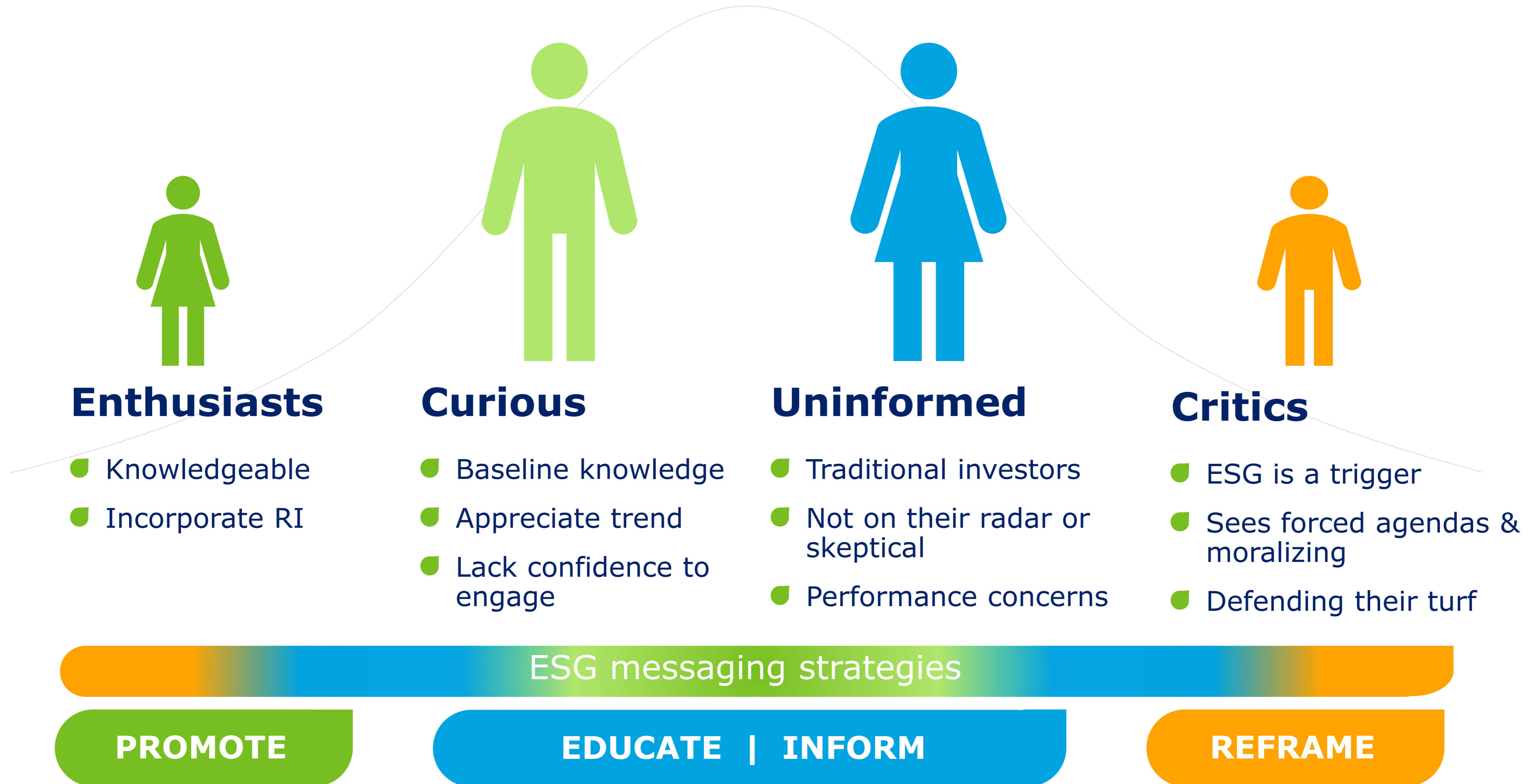
■ Market performance

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

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.

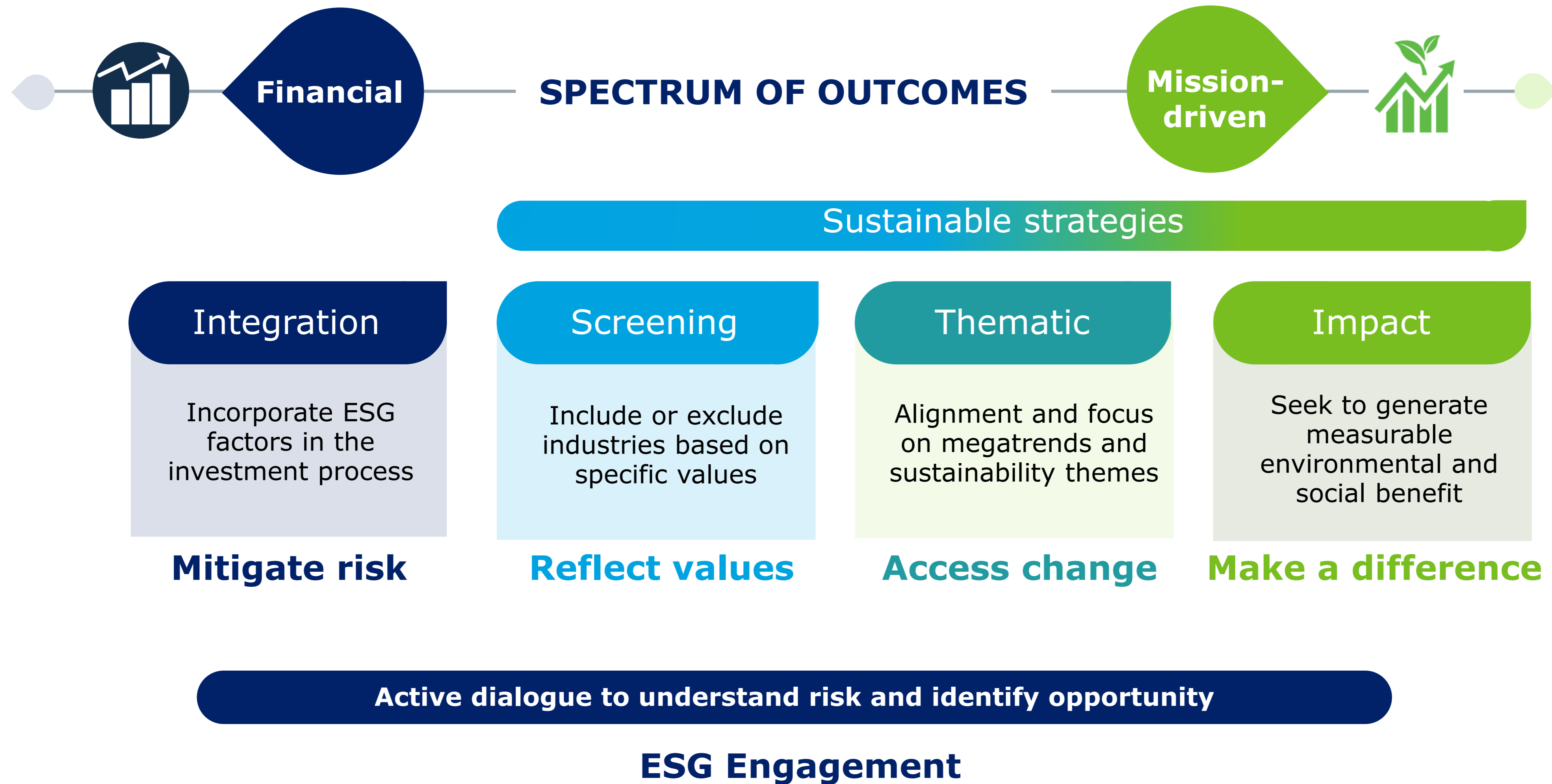
A bell curve of opinion

Calibrating ESG messaging



Reframe ESG: Neither an agenda nor a strategy

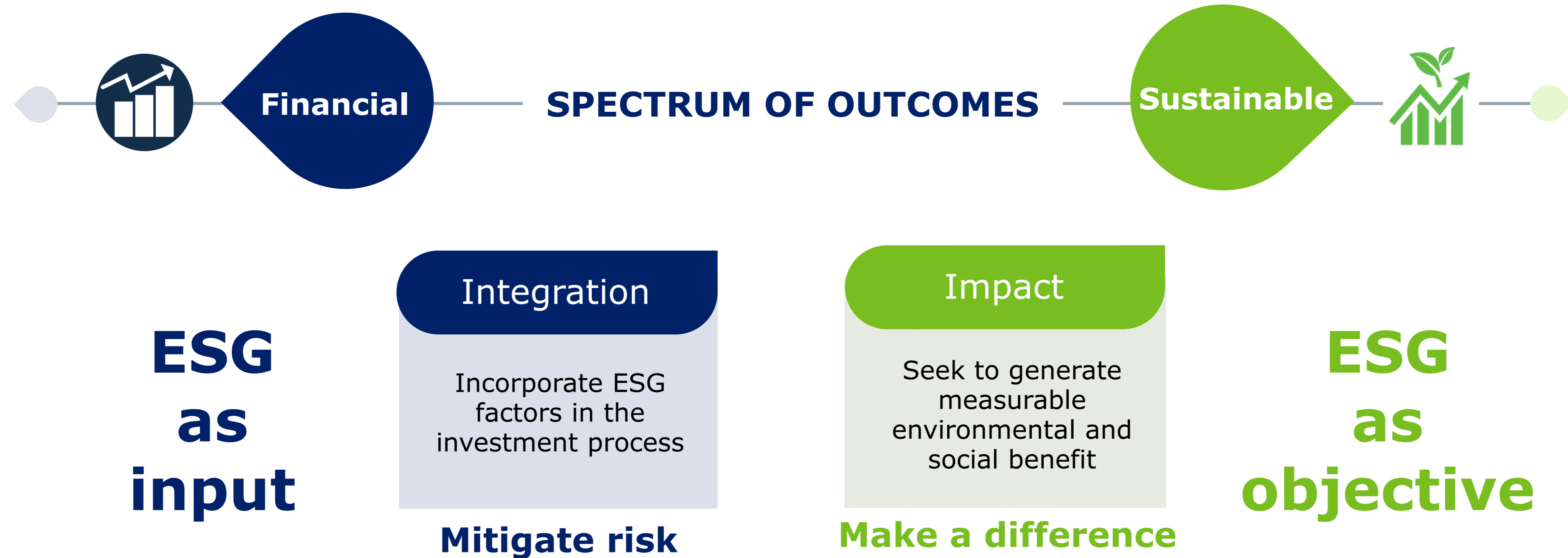
Client has final say on desired investment outcomes



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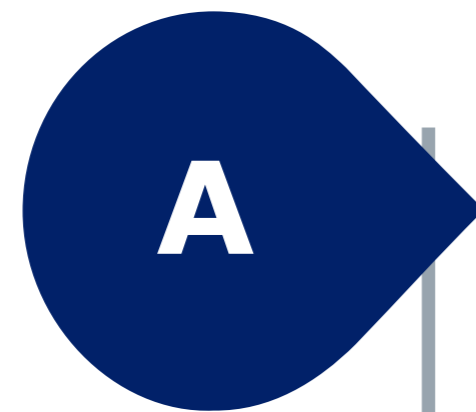
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Is ESG part of the mosaic or the driving factor?



Removing politics

Guidelines for a client-centered discussion



Acknowledge | Affirm

- People are at varying degrees of ESG knowledge and acceptance (We expect this. It's OK)
- "You're not wrong, you're right..."



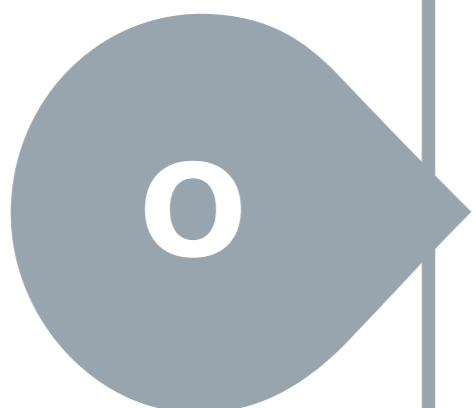
Educate

- We are here to create more informed market participants, *not to convince*



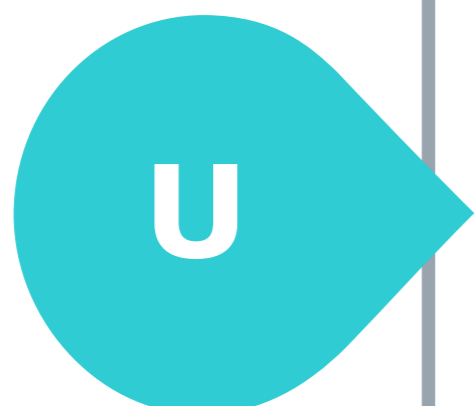
Investment | Inclusion

- Investment-focused dialogue
- Emphasize engagement over exclusion



Outcomes

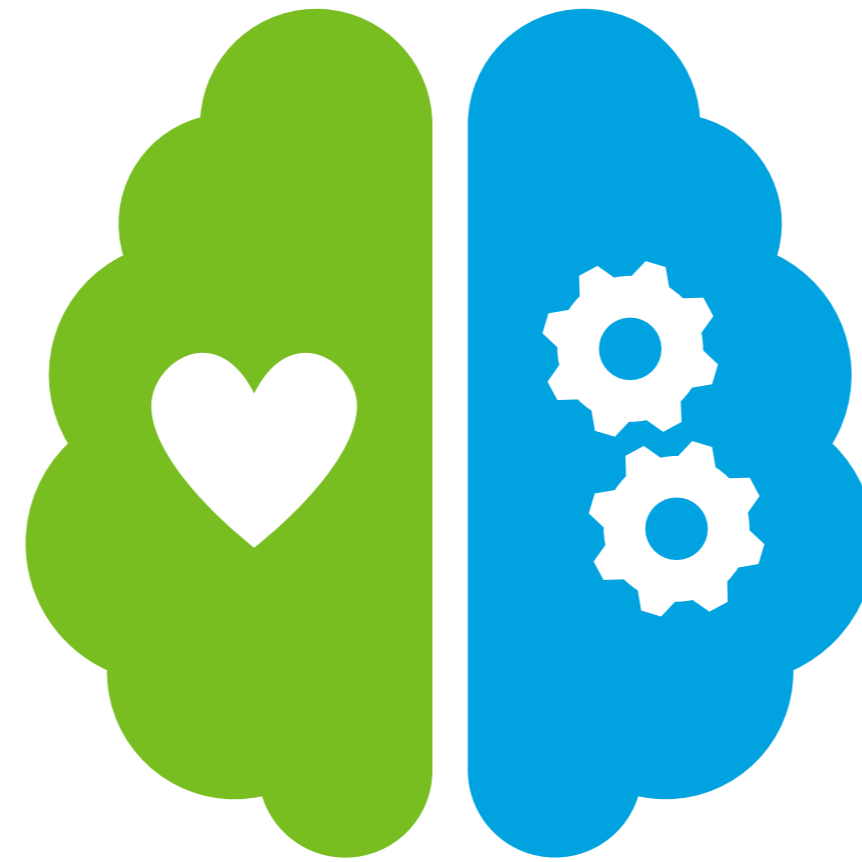
- Pure financial or financial + sustainability outcome; *No agenda, just alpha*
- ESG is an input to achieve better risk adjusted returns
- Dial up: "Critical input" | Dial down: "Part of the mosaic"



YOU get to choose

Hearts and minds can coexist

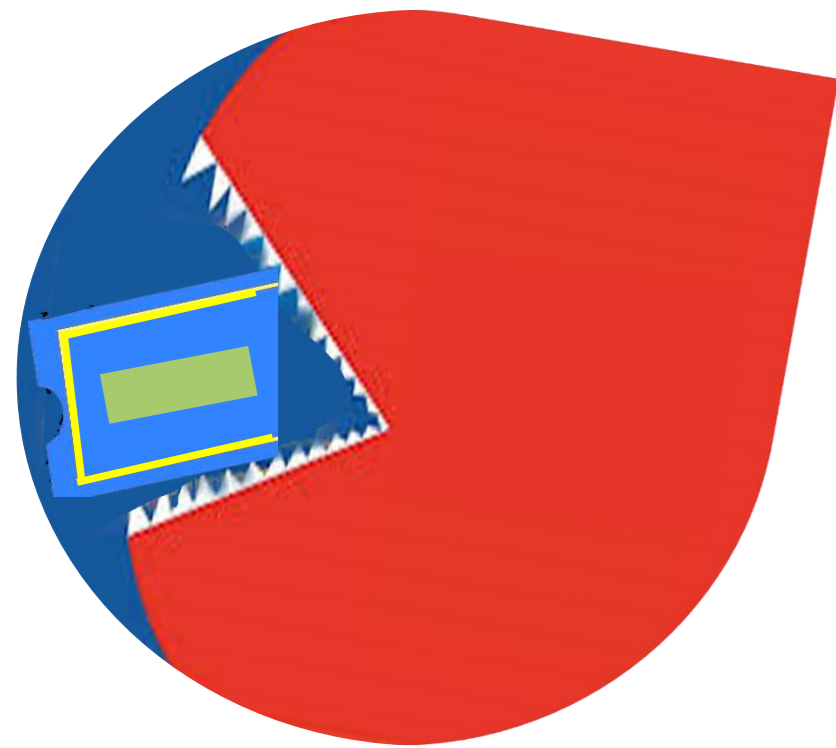
Federated Hermes is not a moral authority, rather we seek to be an authority on sound investment research



 Hearts		 Minds
Sustainable Planet & Society	Philosophy	Sustainable Business Models
Mission-based	Objective	Financial
<i>Objective:</i> ESG Benefits	Role of ESG	<i>Input:</i> Supporting Returns
Identify Impact	Process	Identify Mispricing
Make a Change	Stewardship	Monitor Change

Material investment themes

Identifying tomorrow's winners



Remember Blockbuster?

- At its peak, Blockbuster launched a mail rental service to compete with upstart Netflix
- Now Blockbuster is no more, and Netflix hardly mails anything
- Shifting consumer preferences and innovation cycles are forward-looking



Megatrends change everything

- Future-focused insights help mitigate risk and identify mispricing
- Better information can reveal business models in transition
- Without fully understanding a company's *Products & Practices*, you run the risk of picking the next Blockbuster instead of the next Netflix

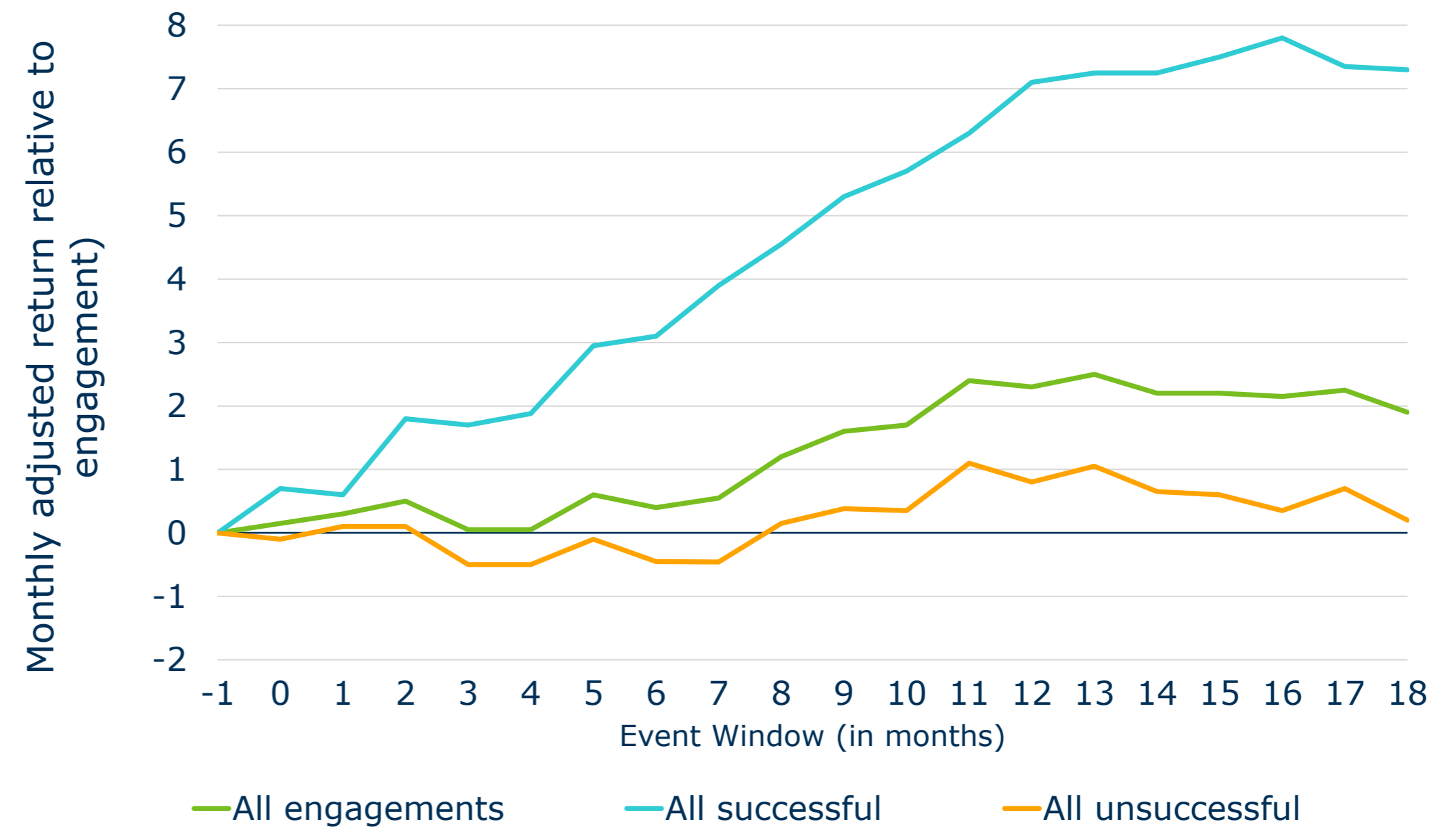
Engagement is not activism

Informed ownership | Stewardship model



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

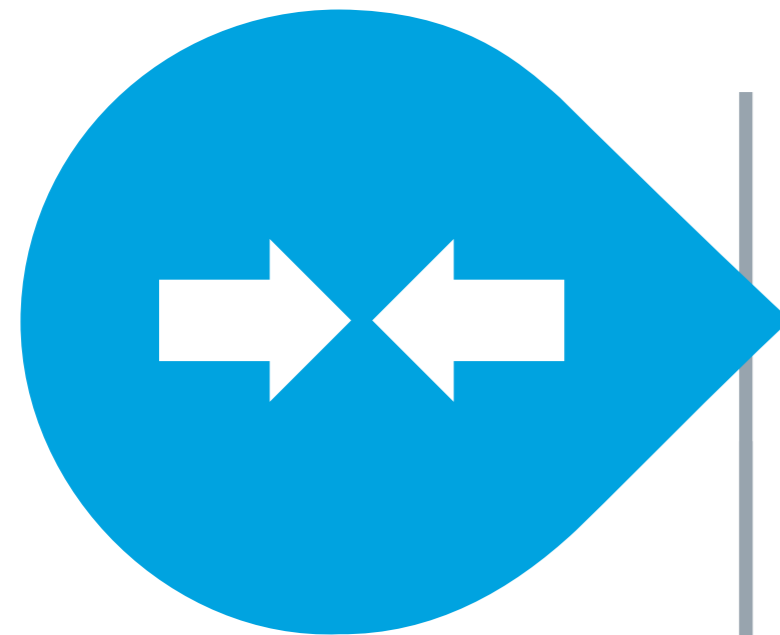
Engagement linked to potentially enhanced financial performance



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.

Past performance is no guarantee of future results. The return information is for illustrative purposes only and is not representative of any specific investment.

Proceed with confidence



De-polarize

- Reframe. Avoid moralizing as you educate and inform
- Have an investment-focused dialogue



De-politicize

- With material investment themes we can all agree on
- Sustainable business models change with the times
- Not directing capital as a moral authority, but helping you meet your objectives



De-mystify

- ESG integration as a better way of understanding an investment
- Responsible investing as a spectrum of outcomes—from pure financial to impact

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**

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or scan



An aerial photograph of a large container ship sailing on a deep blue ocean. The ship is viewed from above, showing its deck and the stacks of colorful shipping containers (red, blue, and white) on its deck. A large, dark blue circle is overlaid on the left side of the image, with a smaller, light blue circle positioned on the ship's deck. The word "Appendix" is written in white text inside the dark blue circle.

Appendix

SEC

Doubling Down on Disclosure

● Proposed Rulemaking on Climate Change Disclosures for Public Companies

- Greenhouse gas (GHG) emissions disclosures
- Attestation for Scope 1 and Scope 2 disclosures
- Financial statement note disclosures,
- Qualitative and governance disclosures within the registration statement and annual report (Form 10-K)
- Comments due June 17, 2022

● Upcoming:

- Proposed Rulemaking for Fund and Adviser Climate Change Risk Disclosures
- Proposed Rulemaking on the Fund Names Rule related to ESG Terms and Disclosures

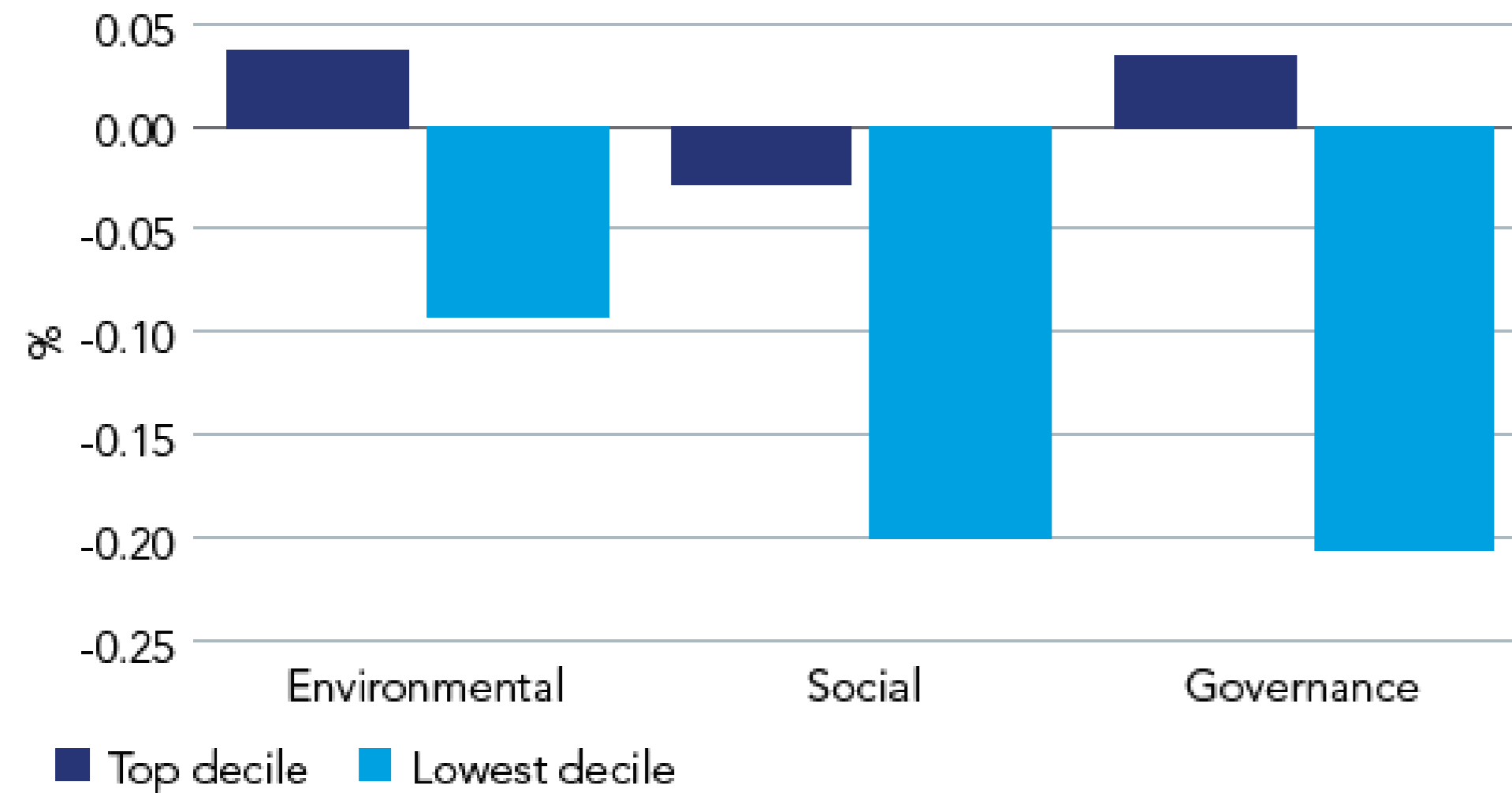
- **Proposed Rulemaking on Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights**
 - Clearly establishes that fiduciaries may consider climate change and other environmental, social, and governance (ESG) factors when they make investment decisions and when they exercise shareholder rights, including voting on shareholder resolutions and board nominations
 - Comment period ended December 13, 2021
- **Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk**
 - 22 specific questions seeking information about ways that climate change may impact the retirement industry and whether the DOL should take additional, broader action to protect ERISA plans from climate change risks
 - Comments due May 16, 2022

Quantifying ESG

Equities and fixed income

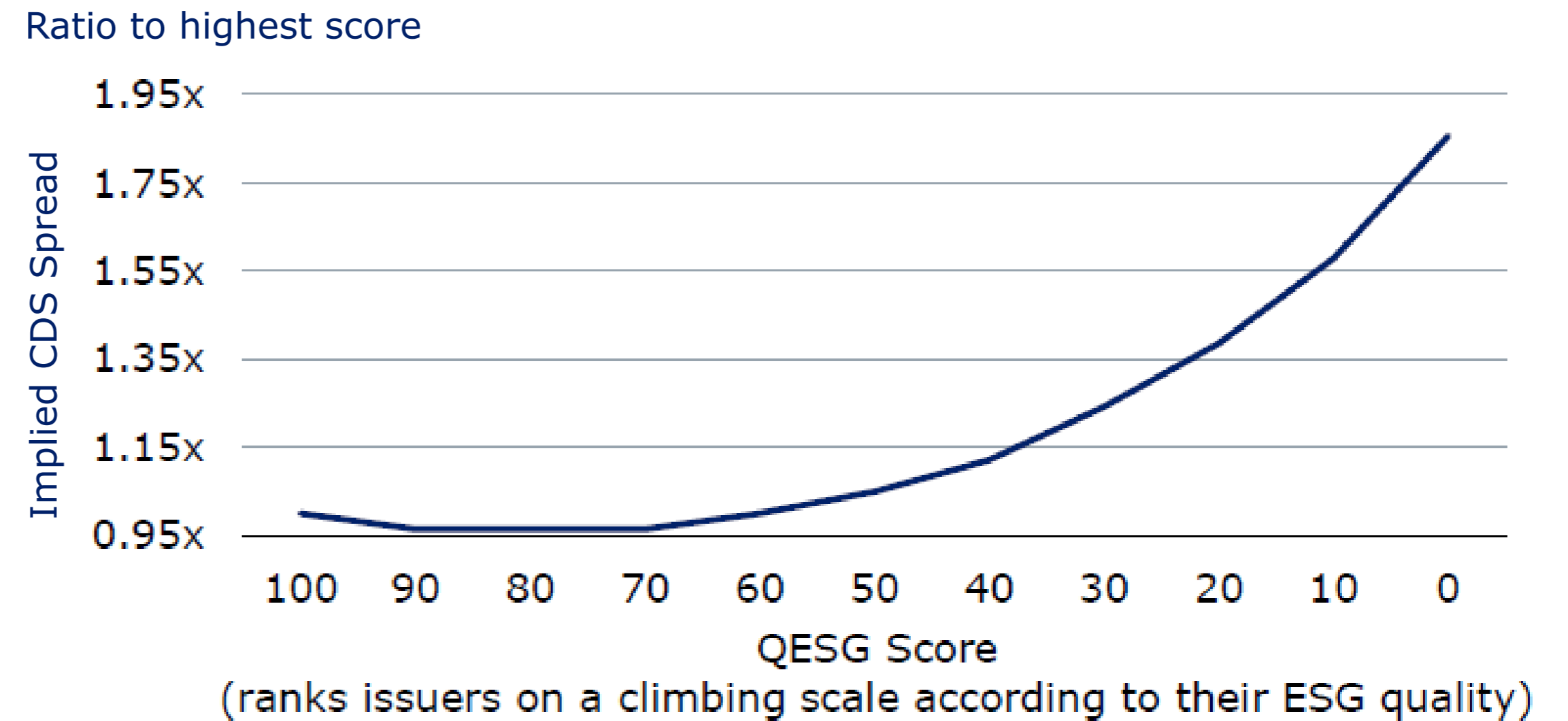
Average monthly total relative equity returns of companies based on QESG scores¹

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.

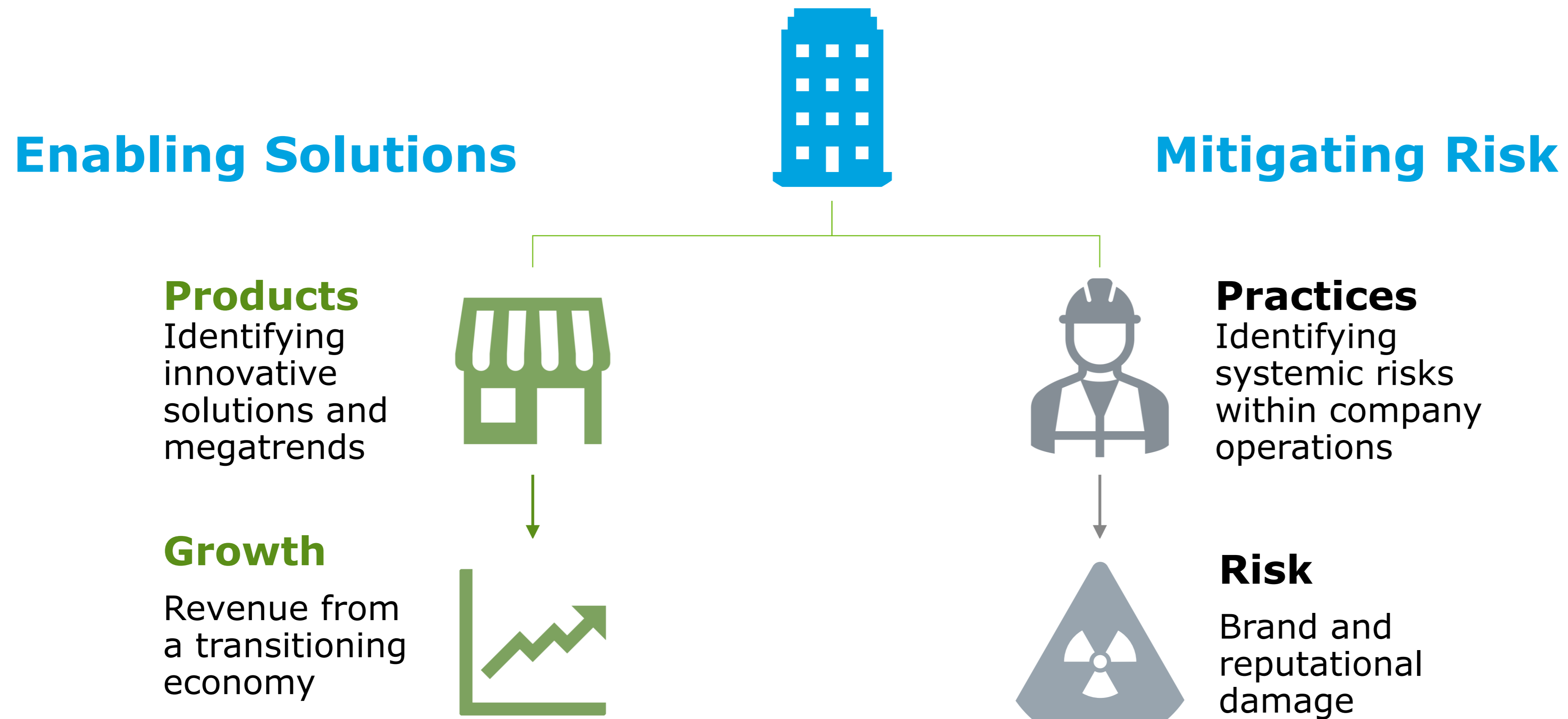
² Source: Federated Hermes, as of December 31, 2020.

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Business products & practices

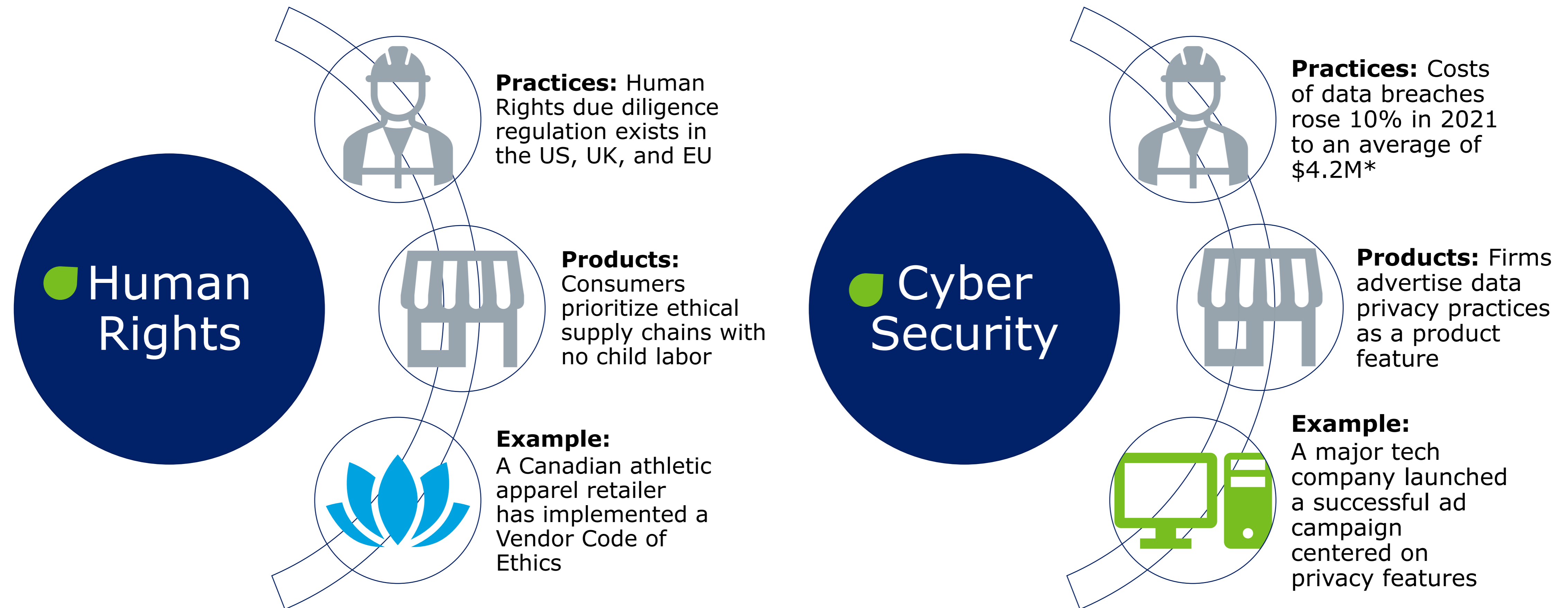
Mitigate risk and uncover investment opportunities

Sustainable Business Models



Real world social themes

Issues we can agree on



*Source: IBM Cost of Data Breach Report 2021.
For illustrative purposes only. The information provided should not be considered as a recommendation to purchase or sell a particular security.

Real world environmental themes

Issues we can agree on



*Source: Barclays research.
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Disclosures

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.

Investing involves risk, including possible loss of principal.

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.