



## SUSTAINABILITY AND ESG RISK POLICY

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## Objective

The objective of this policy is to reiterate our commitment to Sustainability and define our approach to integrating material Environmental, Social and Governance (ESG) risks and opportunities into Hermes GPE's activities and investment processes. Hermes GPE's approach is to assess the potential and actual impact of sustainability risk on the financial value of our investments through our investment decision making processes.

Hermes GPE is a signatory to the United Nations Principles for Responsible Investment ('PRI') and further underlines our commitment to invest responsibly.

## Scope

This policy covers the Private Equity and Infrastructure business of Hermes GPE.

We seek to improve and protect the financial value of investments through assessing, monitoring and seeking improvements to material ESG risk areas. Where Hermes GPE has control and / or the ability to influence decisions directly, it seeks to work closely with investee companies to monitor, challenge and improve ESG performance. Where Hermes GPE has limited control and / or ability to influence decisions directly (direct or indirect co-investments), it will work closely with the lead GPs to assess, monitor, and seek to improve ESG performance of the underlying investee companies.

Please note this policy will evolve as regulatory obligations change and we update our processes and documents accordingly.

## Sustainability and ESG risks

Sustainability and ESG risks relating to our investee companies and assets may emerge from internal sources (such as board effectiveness, lack of board diversity, health and safety management, human rights related processes, or environmental awareness and controls) or external sources (such as supply chain activity, regulatory change, or climate change). Inadequate risk mitigation by investee companies can lead to, among other things, inefficiencies, increased costs, lower productivity, operational disruption, litigation, and reputational damage. These factors have the potential to adversely affect the value of investments. Negative impacts on society and the environment caused by, but which do not directly affect, our investee companies can lead to broader detrimental outcomes for our ultimate beneficiaries.

## ESG opportunities

ESG and Sustainability opportunities may include (amongst other things) the potential to reduce costs by improving energy efficiency, to capitalise on new business lines arising from macro trends towards sustainability, improve customer relations via greater diversity in the workforce and improve brand loyalty via pro-active maintenance of a broader social license to operate. These factors have the potential to both positively affect the value of investments and contribute to positive holistic outcomes for our beneficiaries and the society.

## Approach

Hermes GPE is guided by the conviction set by our parent company, the international business of Federated Hermes ("Federated Hermes"). Our purpose is to create wealth sustainably – through investments that enrich investors, society and the environment in the long term. Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes in the wider world.

To achieve this, Hermes GPE takes a risk-based approach (using relevant materiality matrix') to effectively identify, monitor and manage ESG risks, opportunities and impacts identified across its portfolio. Federated Hermes has a firm-wide restriction on investment in core cluster munitions companies and companies involved in the production of anti-personnel mines and Hermes GPE are bound by this.

## ESG integration in the investment process

Hermes GPE does not see the integration of ESG and sustainability information into investment decisions as a separate category of investing. Rather, we believe that material ESG risks and opportunities should inform all investment decisions. That is why we integrate ESG and sustainability considerations into all of our products and across all parts of our investment process, from idea generation and portfolio construction to exit. The following table outlines our ESG integration across Private Equity and Infrastructure businesses, however differences in application may exist between asset classes due to the nature of investments.

Pre-investment and investment decision		
Initial screening	Due diligence	Investment decision
<p>Initial screening undertaken by investment teams to ensure the investment opportunity does not expose the firm to critical ESG / reputational risk, complies with the internal exclusions policy (specified above) and any client specific ethical or ESG exclusions. Investments that do not meet these characteristics, are rejected.</p>	<p>Investment teams identify and evaluate material ESG risks and opportunities associated with the investment through review of Due diligence reports and advice / independent research and consultation with internal subject matter experts.</p> <p>Where applicable for our Private Equity business, ESG risk assessment is conducted on lead GPs for all new co-investments and fund investments.</p>	<p>Material ESG risks and opportunities are presented (at a minimum) in the Investment Recommendation Paper (IRP), (for example, exposure to fossil fuel revenues, high climate impact sectors and external standards violations).</p> <p>For Private Equity, based on a risk-based approach, only investments which have risks within tolerable limits are progressed to investment. For these investments, material ESG issues and KPIs (Key Performance Indicators) are identified to be monitored post-investment.</p> <p>For Infrastructure, if an investment is to proceed, material ESG risks or opportunities are factored into transaction valuation or documentation where appropriate or flagged for priority post acquisition engagement.</p> <p>In cases where significant risks (including ESG) are identified which cannot be mitigated through reasonable action, Hermes GPE would reject these investments.</p>

**Post-investment**

**Management and Monitoring**

Based on any material ESG risks and opportunities identified in the pre-investment process, any material ESG issues are flagged for ongoing engagement and monitoring.

Where Hermes GPE has control and / or the ability to influence decisions directly, it undertakes an approach of active engagement and stewardship. This includes a post-acquisition ESG health check of policies, governance, and reporting practices (also called the 100-day plan), annual assessment of ESG risks, opportunities and impacts (based on EOS at Federated Hermes' engagement themes), annual engagement objectives setting and performance monitoring (via KPI reporting and the EOS at Federated Hermes' milestone tracking model).

Where Hermes GPE has limited control and / or ability to influence decisions directly, material ESG issues (and related KPIs) are tracked by investments teams through engagement with lead GPs and / or investee companies.

**Reporting**

Report any material ESG risks and opportunities, as well as progress against targets to the relevant governance committees on an annual basis at a minimum.

Report ESG performance to Investors on an annual basis at a minimum.

**Governance**

Hermes GPE's senior leadership (ExCo) provides ultimate oversight of its responsible investment efforts. Accountability for this work extends throughout the organisation with global and regional team members, supported by subject matter experts, collaborating to achieve strong outcomes.

Day to day operations is overseen by the respective Management Committees (ManCo) for Private Equity and Infrastructure. Investment decisions are overseen by the Investment Committees and investment professionals have the responsibility of monitoring and management of material ESG issues that have been identified in the investment process. A dedicated ESG function provides independent support and recommendations to the relevant Committees to ensure sustainability and ESG risks and opportunities are appropriately identified and managed and that investment teams stay true to their processes.

Material ESG risks and opportunities, alongside the progress, are reported to the relevant governance committees (ManCo and/or ExCo) on an annual basis at a minimum.

**Review and effective date**

This policy was reviewed and approved by the ExCo on 19<sup>th</sup> October 2021. This policy supersedes all previous ESG policies and frameworks for Hermes GPE.