

Federated Hermes Private Equity

PEC V: Sustainability Report 2023

January 2025

With over 30 years of experience in private equity investing, our commitment to sustainability continues to grow in response to global challenges. Through a holistic approach, sustainability is integrated into initial product design, with thorough ESG assessments conducted at the point of investment. Engagement with general partners (GPs) further enhances ESG integration, reporting, and value creation across portfolio holdings.

In response to feedback from our clients, we have expanded our ESG reporting capabilities, developed robust climate change risk frameworks, and established comprehensive engagement plans within our portfolio management. By embedding ESG considerations into every aspect of decision-making and engagement, Federated Hermes ensures that portfolio companies are well-positioned to mitigate risks and seize emerging opportunities in an evolving global landscape.

We are an established Private Equity team of specialist investors. With **\$6.1bn** assets under management, our investment strategy has focused on coinvestment, primary fund investment, secondaries and other specialist strategies, backing buyouts and growth businesses.

About PEC V

PEC V ("The Fund") represents the fifth generation of Federated Hermes Private Equity's PEC series co-investment vehicle. The Fund is a multi-asset global vehicle that aims to capture a mix of stable and growing mid-market companies, while also taking advantage of undervalued opportunities in the market.

PEC V focuses on mid-market buyouts that display both Core and Growth characteristics, along with satellite exposure to Value opportunities.

The Fund has invested in 30 co-investments, as at 31 December 2023, and is still in its investment period..

\$486.0m

total commitment (incl. GP)

\$299.4m

co-investment commitment

\$308.9m

portfolio NAV

1.1x

gross TVPI

Initiatives and organisations

We are pioneers in sustainable investment, and are signatories and/or active participants in several global initiatives and organisations including:

Initiatives

- One Planet Asset Managers (OPAM)
- ESG Data Convergence Initiative (EDCI)
- Initiative Climate International (iCI)
- Net Zero Asset Managers

Organisations

- Institutional Investors Group of Climate Change (IIGCC)
- British Private Equity and Venture Capital Association (BVCA)
- Invest Europe (IE)

Our process and approach to sustainability

Integrating sustainability: Product and strategy

We employ a thematic investment strategy that guides investments into areas featuring lower ESG risks. We focus on excluding investments that don't contribute positively to society (such as controversial weapons and fossil fuels), while targeting investment opportunities that are leveraging sustainability tailwinds (such as the net zero transition).

Investment selection: ESG assessment

ESG assessment is integral to our investment decisions. As part of a four-step assessment process, each opportunity is scored on an ESG risk matrix:

Process

Assessment & integration

Assessment of investment company ESG risks, review lead GP's ESG analysis and DD, undertake additional research if necessary



Scoring

E, S and G scored separately on 1-5 scale – lowest scoring deals are either rejected or an improvement plan is established



IC presentation

ESG Risk Matrix included in first stage IC paper, IC members can request additional research or analysis ahead of final approval



Update and approval

The ESG Risk Matrix may be subject to updates ahead of final IC approval and investment

ESG: risk matrix

1	Significant risk identified	Do not invest
2	Relevant risk identified, remediation plan required	Potential to invest - ESG watchlist
3	Relevant risk identified, to be monitored	
4	No core ESG risks identified	Potential to invest
5	ESG best practices identified across business	

Investment selection: Climate change

We assess climate change risk using a two-tiered framework:

- Sector-based risk assessment: Evaluates the potential materiality of climate change and deforestation risks
- In-depth assessment: For high-risk sectors, our team collaborates with ESG specialists to address sector-specific risks

Investment selection: GPs ESG practices

We aim to build long-term partnerships with GPs who share our belief in responsible investing. We recognise GPs will be at different stages of their ESG journeys, however, we believe ESG practices should reflect the maturity of the manager.

We assess managers across five dimensions and include the GPs assessment in the first stage Investment Committee (IC). IC members then have the opportunity to ask questions and/or flag areas to be addressed prior to investment.

Systematic approach to GPs ESG practices assessment



Analysis of ESG practices

- Approach to ESG integration systematically analysed across any fund investment strategy
- Information on standardised ESG practices gathered ahead of fund investments, leveraging the UNPRI ESG DDQ



GP scoring

- GPs receive a score for their ESG practices across five dimensions based on a framework
- ESG scores often reflect the maturity of the GP's general practices - emerging managers (excluding sustainability investors) tend to score lower on the matrix
- We are comfortable with this when we see the right approach to ESG and a willingness to build up processes



Investment Committee

- The ESG assessment is included in the first stage Investment Committee
- IC members have an opportunity to ask questions ahead of the final approval

Ownership and engagement

Our engagement programme leverages the influence we have as trusted partners of the GPs. Through regular meetings, we seek to build on best practices and ensure support for the GP or company in achieving their respective goals.

Climate change risk: In 2010, we implemented an informal engagement programme, which we formalised in 2024. Our formal engagement includes measuring GHG emissions and creating decarbonisation roadmaps.

Quarterly / annual reviews: For both funds and co-investments, we encourage the integration of ESG practices, and identify and address ESG risks through ongoing monitoring and periodic reviews.

Sustainability reporting: Federated Hermes Private Equity publishes a comprehensive set of sustainability-related reports.

The fund's co-investments at a glance

Federated Hermes Private Equity has engaged with the Fund's co-investments, emphasising the critical role of ESG data collection in guiding responsible investment decisions. This year's co-investments have delivered strong data, highlighting key positives such as growth in renewable energy initiatives, increased diversity in leadership, and reduced carbon footprints.

All data points are calculated based on available information provided by the reporting co-investments.

Key 2023 ESG co-investment highlights

27

reporting co-investments out of 30¹

21%

average annual turnover for FTEs

45%

companies with sustainability/ESG targets in place

50%

of companies have women on the board

13%

of companies using renewable energy

2

co-investments reported a decarbonisation strategy, short term or long-term goal in place to achieve net zero

28.8

median carbon footprint³ (tCO₂e) of co-investments

71%

of companies with sustainability/ESG initiatives or improvements during 2023²

A number of companies³ are integrating sustainability and ESG considerations into their business strategies with responsibility for ESG issues is distributed across leadership roles, including Boards of Directors and CEOs. In 2023, 71% of companies demonstrated progress through initiatives or improvements, showing strong and continued commitment to ESG.

¹ 27 co-investments provided ESG data, 24 of which provided an EDCI response. Deminimis rounding may occur.

² 21 companies provided initiative information.

³ All data points are calculated as a % of available information provided to Federated Hermes in ESG/EDCI responses.

Important Information

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.

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For more information, please read any relevant Offering Documents or contact Federated Hermes Private Equity.

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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, where possible, to contribute to positive outcomes that benefit the wider world.

Federated Hermes Private Markets

With a Private Markets track record spanning four decades, we have developed capabilities that bring investors closer to the companies, assets, communities and environments in which they invest.

Through a combination of heritage and innovation, we seek to connect investors to the industry's leading Private Markets opportunities in pursuit of delivering relevant, resilient investment returns over the long term.

Since our first Private Markets investment in 1983, our close connections, partnership mindset and deep understanding of client needs continue to define our client-focused approach across the asset classes and capabilities.

Private Equity | Private Credit | Real Estate | Infrastructure

Closely Connected

For enhanced outcomes

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