



Federated Hermes Impact Opportunities Fund

Quarterly Impact Report
Q4 2021

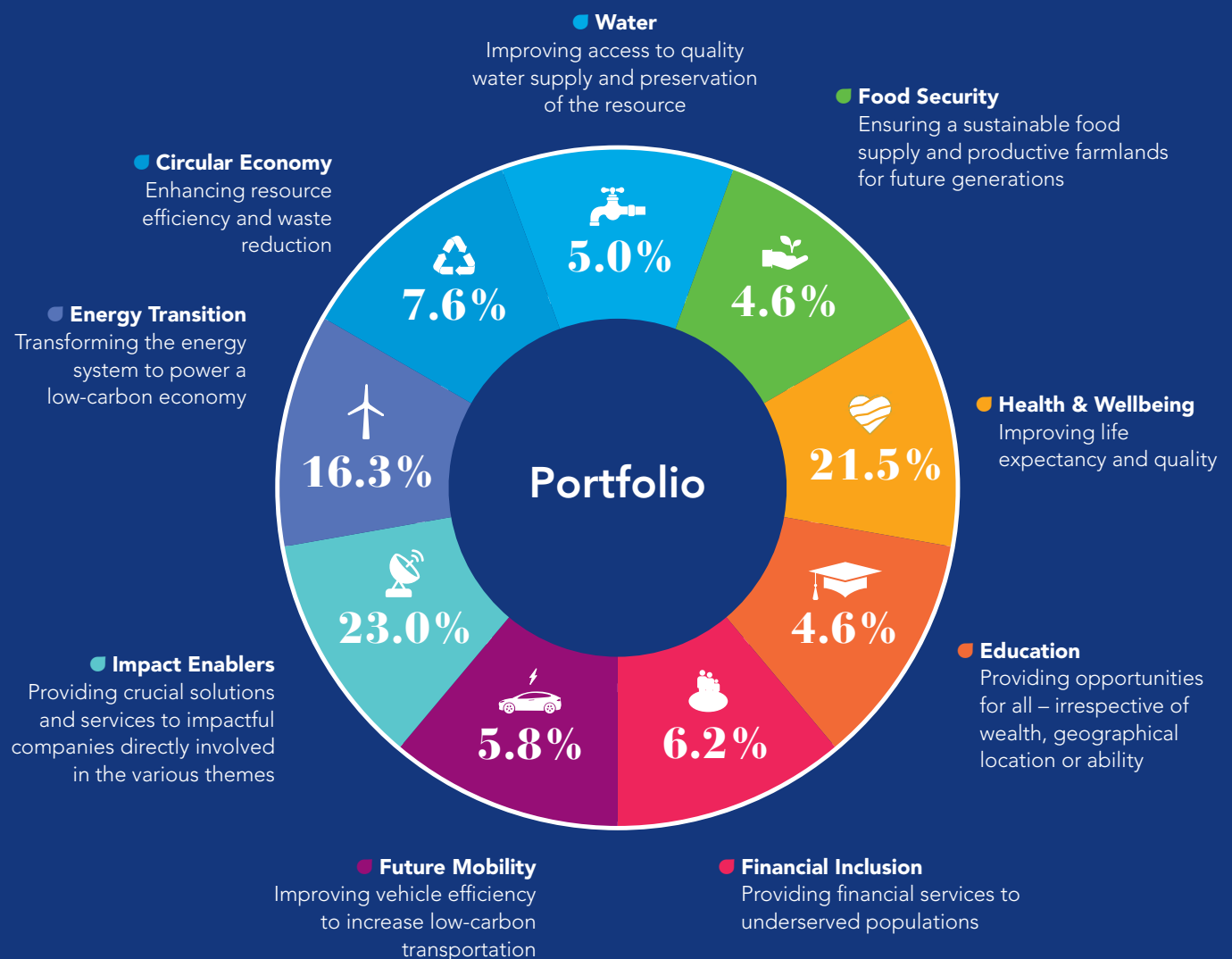
**Federated
Hermes** 
International

www.hermes-investment.com
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The Federated Hermes Impact Opportunities Fund is a high-conviction global equity strategy with a bold objective. It aims to generate long-term outperformance by investing in companies succeeding in their core purpose: to generate value by creating positive and sustainable change that addresses the underserved needs of society and the environment. In this way, it focuses on tomorrow's leading companies, today.

Exposure by impact theme

A thematic approach: our holdings fit into one or more of nine impact themes that are aligned with the SDGs.



Source: Federated Hermes, as at 30 September 2021. Note: as at 30 September 2021, 4.6% of our exposure was not directly related to any of our nine impact themes, while 0.8% was held as cash.

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THEMATIC FOCUS:
Circular Economy

Enhancing resource efficiency and waste reduction

SDG touchpoints:



What is the circular economy?

- The circular economy represents a model of production and consumption that optimises the earth’s scarce resources. Products are designed to last for as long as possible, with their creation, reuse and regeneration having a less adverse impact on the environment than a traditional, linear approach.
- We believe that better resource productivity ultimately leads to improved financial returns. When investing in this theme, we are looking for companies that provide innovative solutions to help reduce materials usage and promote recycling.

We believe that better resource productivity ultimately leads to improved financial returns.



Planet Earth is not limitless in its supply of natural resources. And yet it seems that this – coupled together with the demands of an ever-growing population – has not led to more frugal consumption. Across the world, waste generation continues unabated:

The global material footprint increased by **70%** between 2000 and 2017¹.

Estimates suggest annual waste generation could increase by **70%** from 2016 levels to 3.40bn tons in 2050².

Electronic waste is a particular concern: In 2019, it was estimated that

7.3kg of e-waste was generated per person, of which only **1.7kg** was recycled³.

Far-reaching implications

While it goes without saying that to protect our planet's natural resources, we need to change the way we produce and consume goods, this is not all that is at stake. After switching away from fossil fuels, protecting and restoring forests and other ecosystems is considered the second most effective solution to climate change. And with 50% of greenhouse gas (GHG) emissions estimated to come from resource extraction – as well as materials, fuels and food processing – the situation has never been more urgent.

We believe there is an opportunity here; in light of new regulation and growing awareness around pollution and material usage, companies whose solutions contribute to the circular economy look set to thrive. Those offering recycling services, for example, will naturally benefit from the pressure manufacturers now face to improve the recyclability of their products.

The economy of recycling

And although there has been a significant increase in recycling services and technologies over the last decade, uptake remains low. In the EU, it is estimated that only 38% of waste is recycled⁵, despite recycling being a far more energy efficient process than production from scratch. For example, it takes 70% less energy to recycle paper than it does to produce it from raw materials⁶, while recycling a single plastic bottle will save enough energy to power a lightbulb for upwards of three hours⁷.

There is an economy to recycling that goes beyond the financial.

It takes 70% less energy to recycle paper than it does to produce it from raw materials.



¹ See United Nations, [SDG 12: ensure sustainable consumption and production patterns](#) (2021).

² See The World Bank, [Solid Waste Management](#) (23 September 2019).

³ See United Nations, [SDG 12: ensure sustainable consumption and production patterns](#) (2021).

⁴ See Allen and Overy, [European Green Deal: roadmap to a climate neutral Europe](#) (17 December 2019).

⁵ See EU, [Waste and recycling overview](#).

⁶ See Recycling Bins UK, [Recycling facts](#).

⁷ See Recycling Bins UK, [Recycling facts](#).



Brambles

With a pool of over 300 million pallets, Brambles Limited is working with customers to optimise their entire supply chain, while reducing costs and improving operational efficiency.



Impact theme: Circular economy

Wooden pallets have long been regarded a supply chain staple, and yet they aren't exactly environmentally friendly. They require the felling of trees that might otherwise absorb carbon dioxide from the atmosphere, contribute to landfills and perpetuate a supply chain model in which everything is disposable.

It follows, then, that for the logistics sector to become more sustainable, timber consumption needs to be reduced. And it is in this area that our holding, Brambles Limited, is providing innovative solutions. Brambles owns a fleet of reusable pallets, crates and containers that it charges customers to use. What's more, the company operates an extensive network of service centres to repair, maintain and clean pallets, thus reducing unnecessary transportation. The upshot is greater customer satisfaction and a reduced carbon footprint.

At present, single-use, 'white wood' pallets have a market share of approximately 50%.

If this servicing network differentiates Brambles from competitors, so, too, does the company's commitment to sustainability. At present, single-use, 'white wood' pallets have a market share of approximately 50%. Against this backdrop, Brambles' pooled pallets saved at least 1.76 million trees from being felled in 2020, preserving 2.6k hectares of forest⁸. Brambles are now trialling recycled plastic pallets which, if successful, could prevent another 4.5k hectares of forest being felled per annum⁹.

Brambles also have clearly defined targets around sustainability, which they monitor and report against. This includes the company's Zero Harm Charter and 'Forest Positive' Pledge. The latter commits to planting two trees for every one felled, while increasing chain of custody (CoC) certification on timber from 68% to 100% by 2025¹⁰.

2020 impact measurement highlights:

1.4m MT
of CO₂ avoided with
234.6k MT
emitted



252.6k M³
of water saved vs.
202.2k
consumed

131.8k tons
of waste recycled (through product solutions) plus
a further
87.1k
through recycling programs in operations

31% female manager representation

2.5k hectares of forest restored or conserved

Source: Federated Hermes Impact Calculations, Net Purpose, as at 31 December 2020. We have chosen to highlight what we believe to be the largest impact metrics for each company; please note, not all impact metrics are relevant to all companies. Our calculation methodology is described in detail in our Q1 2021 report.

⁸ Brambles, 'FY20 Results Presentation'.

⁹ Brambles, 'FY20 Results Presentation'.

¹⁰ Brambles, '2025 Sustainability Targets'. Chain of custody (CoC) certification from forest to end-user ensures that materials and products have been checked at every stage of processing to ensure they are from a certified, sustainable source.



As a global leader in clean mobility materials and recycling, Umicore is powering the transition to electric vehicles, while also contributing to the circular economy.



Impact theme: Future mobility & circular economy

Over the next decade, the rapid uptake of electric vehicles (EVs) will be one of the most significant changes faced by the global energy sector. Already, global EV sales have seen a 40% year-on-year increase thanks to technological progress and ambitious policy announcements¹¹.

Our holding, Umicore, generates most of its revenue from future mobility products and services. The company has historically focused on emission control catalysts for gasoline and diesel vehicles, but is now moving into fuel

Please note, this stock is currently under review.

cell catalysts for zero emissions mobility. Umicore's innovation in the chemistry and capacity of cathodes and anodes – an integral component in EV batteries – will improve performance and address range anxiety.

Closing the loop on battery recycling

But Umicore's impact goes beyond future mobility solutions. While accounting for only 26% of revenues, the company's recycling division makes a marked contribution to the circular economy. There are three parts to Umicore's proposition here:

- **Precious metals refinery** – Umicore operate one of the most sophisticated recycling facilities in the world, capable of recovering 20 metals from more than 200 types of material. This enables the industrial by-products of everyday items such as old mobile phones, laptops and car catalytic converters to be repurposed.
- **Precious metals management** – Umicore offer clients delivery, hedging and trading solutions.
- **Metals production** – The company also produce materials containing gold, silver and platinum for application in glass production, electrics and electronics.

In 2019, the company announced an exciting joint venture with car manufacturer, Audi. The 'closed-loop' pilot sees Umicore recover cobalt and nickel from Audi cell modules to use in new batteries. More than 90% of the cobalt and nickel contained in Audi e tron batteries can be recycled in this way¹².

2020 impact measurement highlights:

3.2m MT
of CO₂ avoided with
747.9k MT
emitted



500.6k tons
of waste recycled (through product solutions) plus
a further
17.7k
through recycling programs in operations

Source: Federated Hermes Impact Calculations, Net Purpose, as at 31 December 2020. We have chosen to highlight what we believe to be the largest impact metrics for each company; please note, not all impact metrics are relevant to all companies. Our calculation methodology is described in detail in our Q1 2021 report.

¹¹ See International Energy Agency (IEA), 'Global EV Outlook 2020: Entering the decade of electric drive?' (June 2020).

¹² See Umicore, 'Battery recycling: Audi and Umicore start closed loop for cobalt and nickel' (17 December 2019).

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